



República Democrática de Timor-Leste

State Budget 2020

Budget Overview

Book 1



República Democrática de Timor-Leste
Ministério das Finanças
Gabinete do Ministro



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 2020 State Budget, following the approval of the Council of Ministers.

The documentation for the 2020 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 Planning and Budget 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 2020 State Budget.



Fernando Hanjam
Minister of Finance

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1 Prime Minister's Speech

2 Description and Analysis of the 2020 State Budget

2.1 Executive Summary

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. To help in achieving this goal, the Government is investing in infrastructure and key economic and social sectors including health, education and agriculture. Budget Book 1 for 2020 summarizes the plans on pursuing these policies for the current fiscal year.

Table 1: Combined Source Budget 2018-2024, \$million

	2018 Actual	2019 Budget	2020 Budget	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Combined Source Budget	1,366.7	1,681.2	1,681.1	2,200.5	2,140.1	1,857.6	1,739.3
Government Expenditures by Fund	1,195.5	1,482.0	1,497.1	2,083.0	2,080.4	1,845.6	1,730.5
CFTL (excl. loans)	1,141.8	1,375.0	1,426.4	1,991.7	2,014.9	1,787.6	1,684.2
HCDF	14.5	20.0	10.7	11.2	11.6	12.1	12.6
Borrowing/Loans (disbursements)	39.2	87.0	60.0	70.7	63.1	64.0	27.0
European Union & ILO* (Budget Support)	-	-	10.6	9.1	9.0	5.0	2.8
Development Partner Commitments	171.2	199.2	184.0	117.4	59.7	12.0	8.7

Source: General Directorate of Planning and Budgeting, and General Directorate of External Resource Management and Mobilization, Ministry of Finance, 2020. *International Labour Organization (ILO) contribution one-off payment of \$0.7m for 2020.

COVID-19 and State of Emergency

Timor-Leste recorded its first COVID-19 case on 21st March 2020. There has since been a total of 26 recorded cases in the country, all of which have so far recovered with no deaths. There has been no evidence of community transmission and the last active case was announced on 20th August.

Following the first confirmed case, Parliament declared a State of Emergency to run from 28th March to 27th April 2020. This was subsequently extended twice, firstly to 27th May and the 27th June. The country's first new case since 15th May was recorded on 3rd August and a new State of Emergency was reinstated on 6th August to run for another 30 days. The State of Emergency aimed to limit public movement through the suspension of public transport and banned large group meet-ups (5 or more people) including religious services, festivals, sporting events, cultural activities and the running of schools/universities. Non-resident foreigners were banned from entry and all returning Timorese had to complete a mandatory 14-day quarantine upon arrival in a government funded quarantine centre. Anyone experiencing COVID symptoms had to self-isolate and submit for testing. On 13th April, it was announced that the borders would close to all citizens, including Timorese, until further notice. International commercial flights were suspended.

The National Parliament approved a total amount of \$536.3 million extra-ordinary withdrawal from the Petroleum Fund, with \$219.5 million to be set aside for an autonomous COVID-19 Fund

where its planning and allocation is coordinated by the Integrated Crisis Management Centre (CIGC), while the Inter-ministerial Committee approved the measures to prevent and combat COVID-19 before it's proceed to final execution approval by the Council of Management for COVID-19. The bill set out broad spending programs and sub-programs level, including \$198.3 million for prevention and combating COVID-19. This was focused on the acquisition of essential medical equipment and goods, the creation and maintenance of isolation centres and training for key staff. \$4.95 million was used to improve sustainable production and productivity and \$17.0 million to provide access to food and non-food services. The remainder of the extra-ordinary withdrawal totalled \$316.8 million is used to reinforce the Treasury account during the duo-decimal.

On 17 April, the government announced a 19-measure economic stimulus and response package, including deferral tax payments; a universal cash transfer provided a monthly basic income of \$100 to households earning less than \$500/month for up to 2 months. So far, 298,495 families have been supported by the scheme; Private sector employees unable to work owing to the state of emergency still received 60% of their salary provided by the government; All electricity consumers (over 160,000 individuals) received a \$15 credit per month during the state of emergency; Payment of water bills; social security contributions (workers and employers) and rent of government properties was be suspended; over 4,200 Timorese students currently abroad, unable to return to the country, received a stipend and students unable to attend school in Timor received an internet subsidy to allow them to study online; a 3-month emergency supply of rice was be purchased; and movement of food supplies across the country was subsidized, especially to more remote areas. The package also included the creation of new credit opportunities and a reduction in interest payments. Businesses were provided access to emergency loans to prevent bankruptcy and those importing essential goods were given credit guarantees.

Impact on the Petroleum Fund

During the global economic downturn due to COVID-19 outbreak, the Petroleum Fund saw a significant fall in its valuation, with an estimated loss of \$844 million (-4.7%) in Q1. This was mainly due to the global developed market equities falling by over 21% and a decline in the global oil price of over 65%. However the losses were partly offset by the positive return posted by the fixed income portfolio (3.95%) as global investors moved from emerging markets and risky assets to safe-haven assets such as US Treasuries and other USD-denominated instruments. The yield of sovereign bonds fell across the globe as major Central Banks cut interest rates and reintroduced quantitative easing in response to global economic contraction. The Fund currently invests 35 % in equity and 55% in US government bonds, with the rest kept in cash and private debt placement in Timor GAP E.P. A fall in the Fund will lower the Estimated Sustainable Income – the amount that can be withdrawn from the Fund without lowering its asset value. This is a key component of total government revenue – usually double the size of domestic revenue. The Fund posted 7.3% (equivalent to \$1,230 million) in Q2, bringing the year-to-date return to +2.2%. The global developed market equities bounced back as economic activity started to improve with the easing of coronavirus lockdown restrictions. Sovereign bond yields saw little change.

There is still a high degree of uncertainty due to fear of second wave of COVID-19 as countries relaxing the lockdown measures and a bleak global economic outlook. The rapid decline in oil prices in March 2020 impacted expected 2020 Petroleum Revenues which are revised down to \$268.7million from the previous estimate of \$595.0, a fall of 55%. The internal studies in the Ministry of Finance show the calculated ESI is sensitive to changes in the oil price. However those impacts are minimal as it only affects to less than 2% of the Petroleum Wealth which is now mostly in the form of financial assets.

Economic Growth

Becoming an upper middle income country by 2030 requires strong, high-quality non-oil economic growth. Public investment seen from 2008 to 2018 through the frontloading fiscal policy has driven growth in the non-oil economy, averaging at 4.7% per year. This was aimed at providing necessary foundations for long-term sustainable private sector led development. The real non-oil GDP growth was -0.8% in 2018, improving from -3.8% in 2017. Despite Timor-Leste experiencing negative growth, household consumption continued to increase, suggesting that living standards were improving. Preliminary GDP projections for 2019 indicate that GDP was positive, recovering from the recent previous 2 years of contraction, indicating growth at around 2.7%. The combined effect of a delayed budget and political uncertainty with the COVID-19 pandemic and the State of Emergency will result in negative growth of around -6.0% in 2020.

Expenditure

Total expenditure in the 2020 budget is \$1,497.1 million (excluding donor funded activities of \$184.0 million). The total 2020 State Budget (excluding donor funded activities) is 1.0% higher than that allocated for 2019.

The effect of the duo-decimal regime on 2020 State Budget

Timor-Leste has been under duo-decimal DOT regime for the majority of 2020 as the budget was not passed on a regular schedule. Only up to 1/12 of the previous year's original budget can be distributed per month. This system means that the core functions of government can continue although some policies outside of normal annual activity will not be able to take place or restrict significant infrastructure projects. Allocations to Minor Capital and Capital Development will increase in the last few months of the non-DOT 2020 budget, after it is passed by Parliament. Timor-Leste has also instituted a \$220.2 million COVID-19 health response and economic recovery fund which is included in the 2020 State Budget.

Table 2: Fiscal Table, \$millions

	2018 Actual	2019 Budget	2020 Budget	2021	2022	2023	2024
Total Expenditure (incl. loans)	1,195.5	1,482.0	1,497.1	2,083.0	2,080.4	1,845.6	1,730.5
Total Expenditure (excl. loans)	1,156.3	1,395.0	1,437.1	2,002.8	2,026.5	1,799.7	1,696.7
<i>Recurrent</i>	<i>812.4</i>	<i>1,049.8</i>	<i>1,274.8</i>	<i>1,325.8</i>	<i>1,378.8</i>	<i>1,433.9</i>	<i>1,491.3</i>
Salary and Wages	197.2	214.2	206.7	215.0	223.6	232.5	241.8
Goods and Services (incl. HCDF)	302.7	472.9	499.3	519.3	540.1	561.7	584.2
Public Transfers	312.5	362.7	568.7	591.5	615.1	639.7	665.3
<i>Capital</i>	<i>383.1</i>	<i>432.2</i>	<i>222.3</i>	<i>757.3</i>	<i>701.6</i>	<i>411.7</i>	<i>239.2</i>
Minor Capital	7.8	31.5	8.9	9.3	9.7	10.0	10.5
Capital and Development (including loans)	375.3	400.7	213.4	748.0	691.9	401.6	228.8
Revenue	741.1	727.6	716.7	719.0	691.1	662.6	639.7
Domestic Revenue	190.8	198.6	172.3	183.5	190.8	198.8	206.6

	2018 Actual	2019 Budget	2020 Budget	2021	2022	2023	2024
Estimated Sustainable Income (ESI)	550.4	529.0	544.4	535.6	500.3	463.7	433.1
Fiscal Balance	(454.4)	(754.4)	(780.4)	(1,364.0)	(1,389.2)	(1,183.0)	(1,090.8)
Financing	454.4	754.4	780.4	1,364.0	1,389.2	1,183.0	1,090.8
Excess Withdrawals from the PF	432.1	667.4	419.5	1,284.2	1,317.1	1,114.0	1,061.0
Use of Cash Balance	(16.9)	-	290.2	-	-	-	-
<i>Cash Balance of Treasury</i>	(16.9)	-	214.2	-	-	-	-
<i>Cash Balance of RAEQA/ZEESM</i>	-	-	76.0	-	-	-	-
Borrowing/Loans (disbursements)	39.2	87.0	60.0	70.7	63.1	64.0	27.0
European Union & ILO* (DBS)	-	-	10.6	9.1	9.0	5.0	2.8

Sources: Ministry of Finance, 2020.*ILO contribution one-off payment of \$0.7m for 2020.

Fiscal Rules

Government wants to ensure fiscal sustainability and macroeconomic stability over the long run. Thereby the Ministry of Finance has undertaken a comprehensive study on fiscal rules and the study recommends numbers of fiscal rules for the Government to be adopted.

The existing fiscal guidance are 3% ESI and the cost of borrowing should be lower than the long-term Petroleum Fund investment return (average 3%). New fiscal rules that the Government could consider include: limiting total expenditure to GDP, limiting the growth of budget categories, limiting fiscal deficit, increasing domestic revenue to GDP to 15%, and limiting public debt to GDP.¹

Fiscal Sustainability

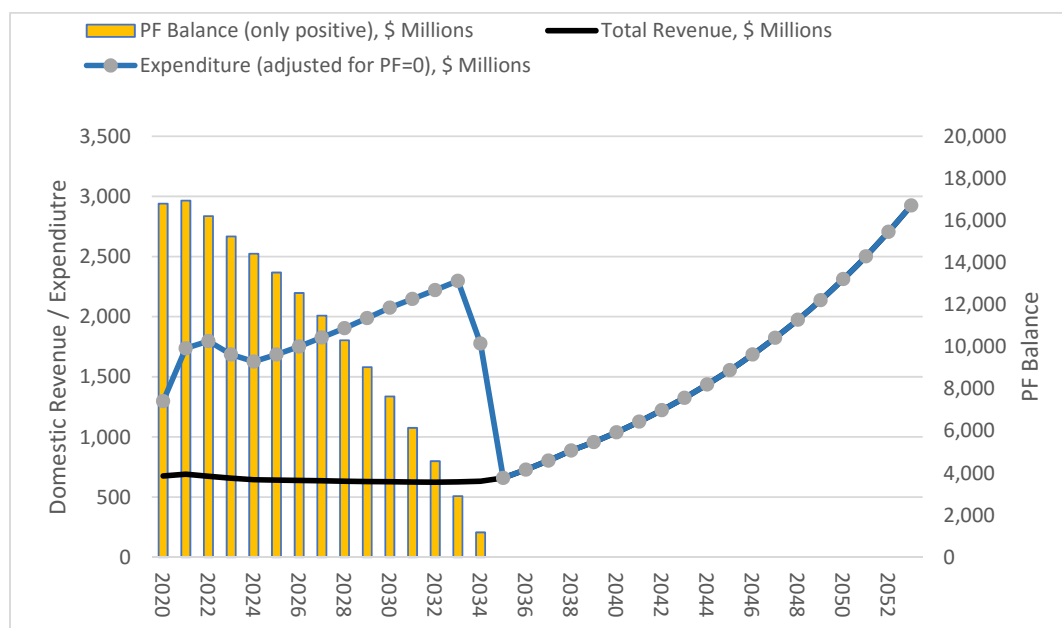
Government expenditure is currently highly dependent on the Petroleum Fund. The current government policy is one of front-loading expenditure, running high government budgets in the short run to finance human resource development and capital spending for key infrastructure, with the aim to encourage development of the private sector, increase diversification and grow the overall economy. A stronger non-government Timorese economy would require less funding from the Petroleum Fund in the future as the fiscal deficit would be smaller due to higher non-oil domestic revenues and a lower need for government spending to boost the economy in normal times.

The Ministry of Finance conducts a fiscal sustainability analysis for the budget ceiling chosen each budget cycle. Through the use of modelling, the impact of the selected budget ceiling on the long term sustainability of Timor-Leste can be estimated, specifically the overall balance of the Petroleum Fund. The model used mainly focuses on the impact of capital spending on longer-term GDP and domestic revenues and their bearing on the Petroleum Fund reserves.

¹ Fiscal rules paper is accessible in the Ministry of Finance website.

Due to uncertainty of future variables in the model, e.g. the budget of future years, the model uses a number of assumptions. Firstly, it makes assumptions about the growth rates of the ceilings for all appropriation categories, while the growth of Capital and Development is estimated to follow the requested amounts set out by the Infrastructure Fund in the years 2021-2024 and a long term growth rate. Short term GDP and inflation figures are based on forecasts by the National Directorate of Economic Policy in the Ministry of Finance. The long run growth rate of GDP, inflation and domestic revenue growth and the long term return on the Petroleum Fund are constructed using set base line levels. Changes to any of these assumptions will have significant changes on the forecasted end date of the Petroleum Fund. For example, if the rate of expenditure growth were to increase more than that assumed in the model, then the Petroleum Fund would finish quicker than forecasted.

Figure 1: Expenditures, Revenues and Petroleum Fund Balance Forecasts 2020-2053, \$millions



Source: National Directorate of Economic Policy, Ministry of Finance, 2020.

Under this fiscal ceiling, as well as the selected assumptions, the model estimates that the Petroleum Fund would run out in 2035, 15 years away.

As the Fund begins to get close to zero, expenditure would have to fall rapidly in order to match domestic revenues as that would be the only source of income (excluding public debt). The model estimates this would mean a 71% fall in expenditure in two years (2033-2035), falling from \$2.3 billion to \$659 million (when expenditure must equal domestic revenue). If revenues do not rise as quickly as the model forecasts, the fall in expenditure would have to be even greater. Therefore domestic resource mobilization is the priority of the Government through the implementation of Fiscal and Public Financial Management Reform.

Domestic revenues

In 2020, domestic revenues are forecasted to be \$172.3 million including RAEOA-ZEESM taxes and \$169.2 million excluding RAEOA-ZEESM taxes. This is around a 9.5% fall compared to collections in 2019. The fall is due contraction in public spending and the impact of COVID-19 to the economy

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 the maintenance of fiscal sustainability, ESI is considered a component of total revenue. The ESI for 2020 is calculated at \$544.4 million.

Financing

The fiscal deficit is equal to revenue minus expenditure. The Government uses excess withdrawals from the Petroleum Fund (PF), loans, the cash balance of Treasury and RAEOA/ZEESM and Budget Support for European Union to finance the deficit in 2020. The total amount of excess withdrawals to be taken from the PF (i.e. the amount withdrawn exceeding the ESI) in 2020 is \$419.5 million.

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 2020 is \$60.0 million.

The total use of the cash balance for 2020 State Budget is \$290.2 million, of which from the Consolidated Fund of Timor-Leste (CFTL) is \$214.2 million and from RAEOA/ZEESM is \$76 million.

Total Budget Support from European Union for 2020 State Budget is \$9.9 million. This is a new source of financing that is introduced in 2020 budget. It is included in this budget as its own line item as the support will be used directly by Government's institutions. An additional \$0.7 million in has been given by the International Labour Organization (ILO) as a one-off payment to support the operational costs associated with the payment of the family subsidies during the State of Emergency.

2.2 Economic Overview

2.2.1 Summary

Table 3: Economic Indicators, 2019-2021, (%)

Summary	Forecast		
	2019	2020	2021
Real GDP (non-oil)	2.7%	-6.0%	3.2%
Inflation CPI	0.9%	0.9%	2.1%

Source: National Directorate of Economic Policy, Ministry of Finance, 2020.

- Real non-oil GDP growth is expected to contract by 6% in 2020 due the combined effect of the Budget being delayed, political uncertainty, COVID -19 and the State of Emergency.
- Inflation is expected to remain low and stable at 0.9% in 2020. This will positively contribute to increasing Timor-Leste competitiveness, with inflation expected to be lower than the regional average.
- Between May 2019 and May 2020 the US dollar appreciated by 4.6% against a weighted basket of currencies of Timor-Leste's trading partners (the nominal effective exchange rate, NEER). There has been a small overall appreciation in the last few years which has reduced the price of imports, placing downward pressure on domestic inflation, benefiting Timorese consumers. However, this appreciation also makes Timorese non-oil exports more expensive in international markets constraining the development of the country's exports.

2.2.2 Macroeconomic Trends

2.2.2.1 Growth

Table 4: Real GDP 2010 - 2019

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019*
Real GDP (\$m)	1,294.8	1,370.0	1,452.4	1,483.3	1,549.3	1,596.7	1,653.3	1,590.5	1,578.1	1,620.0
Real GDP Growth (%)	9.5	5.8	6.0	2.1	4.5	3.1	3.6	-3.8	-0.8	2.7

Source: General Directorate of Statistics, Ministry of Finance, 2020. * is preliminary forecast.

Timor-Leste

Timor-Leste experienced GDP growth, averaging 4.7% per year over 2008-2018. 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 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. Government investment has enabled a significant upgrade to road and electricity coverage throughout Timor-Leste, which has helped to improve both living standards and the business environment.

Non-oil GDP growth in 2019 shows signs of recovery from the recent episodes of negative growth (-3.8% in 2017 and -0.8% in 2018). The contraction was a consequence of declines in government expenditure, private sector investment, and lower exports. The preliminary forecast for 2019 indicates a return to growth of around 2.7%. This is largely due to political stability, boosting business activity and household consumption.

International

Table 5: Economic Growth, 2018-2021, %

Country	Actual		Forecast	
	2018	2019	2020	2021
World	3.6%	2.9%	-3.0%	5.8%
Advanced Economies	2.2%	1.7%	-6.1%	4.5%
Emerging and Developing Economies	4.5%	3.7%	-1.1%	6.6%
Emerging and Developing Asia	6.3%	5.5%	1.0%	8.5%
China	6.8%	6.1%	1.2%	9.2%

Source: IMF World Economic Outlook, April 2020.

Global growth outlook is projected to contract by -3.0% in 2020. Advanced economies are forecast to shrink the most by -6.1%, while growth for emerging markets and developing economies is forecast to fall -1.1%. The fall in global growth was driven mostly by the outbreak of COVID-19. The U.S. economy is projected to contract this year by 5.9%. However, China will maintain positive growth of 1.2% in 2020.

Global growth is expected to rebound to 5.8% in 2021, the advanced economy group is forecast to grow at 4.5%, while growth for the emerging market and developing economy group is forecast at 6.6%. However, the rebound in 2021 is uncertain and depends on how fast the pandemic will fade. A lot of effort have been done in accommodating the public health requirements around the

world to prevent the spread of the virus, nonetheless this policy limited the economic activity and the financial system which is contributed to the decline in growth in 2020. Nevertheless high levels of growth, especially in Asia, still provides a solid foundation for Timorese exporters and economic development. The international environment provides favourable conditions for Timor-Leste to take advantage of in 2020 and beyond.

2.2.2.2 Prices and Inflation

Table 6: Global and Regional Inflation Rates (%)

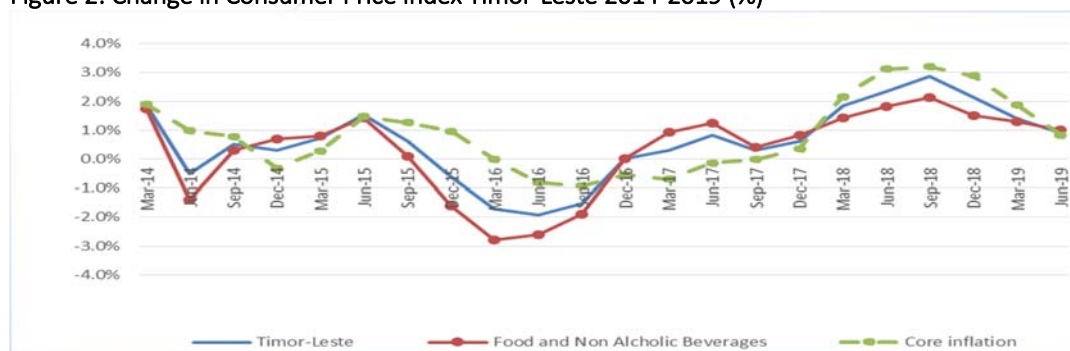
Country	Actual		Forecast	
	2018	2019	2020	2021
World	3.6%	3.6%	3.0%	3.3%
Advanced Economies	2.0%	1.4%	0.5%	1.5%
Emerging and Developing Economies	4.8%	5.0%	4.6%	4.5%
Emerging and Developing Asia	2.6%	3.2%	3.0%	2.9%
Timor-Leste*	2.3%	0.9%	0.9%	2.1%

Source: IMF World Economic Outlook April 2020. *Ministry of Finance forecast.

Timor-Leste

With average inflation in 2019 of 0.9%, Timor-Leste still enjoys a low level of inflation. 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 MoF continues to monitor price levels. The World Bank (WB) food price index has remained stable between May 2019 and May 2020 increasing just 0.5%. Domestic food prices have also been muted seeing a small increase of just 0.8% in the same timeframe. It is expected that the current world food prices will fall slightly in 2020 and then experience a small uptick in 2021 but remain stable. Rice specifically is a staple part of the Timorese diet. The benchmark Thai 5% rice is expected to increase 8% in between 2019 and 2020, this will have a negative effect on poorer households where basic foods make up the majority of their spending and this will leave them with less disposable income. Coffee prices (both Arabica and Robusta) are expected to decrease 3% and 7% respectively in 2020. This will negatively affect those families who rely on coffee production in Timor-Leste.

Figure 2: Change in Consumer Price Index Timor-Leste 2014-2019 (%)



Source: National Directorate of Economic Policy and General Directorate of Statistics, Ministry of Finance, 2020.

International

Global inflation forecast at 3.0% by the IMF in 2020. The decline in the commodity prices especially lower oil prices have contributed to the sharp falls in consumer price inflation in the advanced

economies. However, the inflation is projected to soften in the coming years. For the emerging market economies, inflation has been rising reflecting the impact of currency depreciation and higher commodity prices, but it is projected to moderate as the impact of tighter monetary policy and recent declines in oil prices. Low inflation in Timor-Leste in this context will tend to help improve competitiveness.

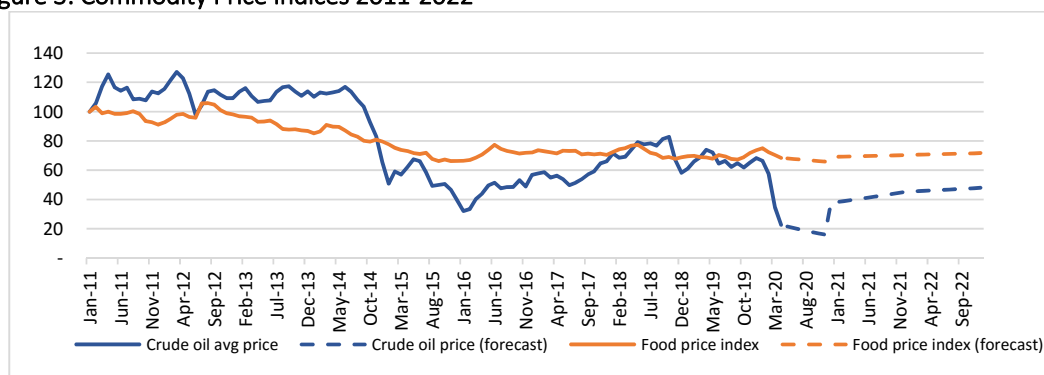
Oil prices

Oil prices are important to Timor-Leste both for consumers, through consumer prices, and as an oil exporting country. The average international price of crude oil has witnessed dramatic declines since June 2014 from highs of \$108.4 per barrel to lows of \$29.8 per barrel in January 2016. The decline in oil prices was driven by the increased global supply during a period of low global demand. Following this prices had started to recover with oil prices for 2019 averaging at \$64 per barrel. However, global demand for oil has drastically declined since the onset of the COVID-19 pandemic. Since the beginning of January 2020, many governments' around the world imposed restrictions on travel and temporary business closures to stem outbreak. Oil prices fell to \$21/barrel in April 2020, however, the average is expected to be slightly above \$40/barrel for 2020, down 33% from 2019. Prices are expected to rise to \$50/b in 2021.

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 Price Index (2011=100), international food prices have continued to decline from a high of 105.8 in August 2012, though prices had been stable averaging at 73 and 70 in 2018 and 2019 respectively. The World Bank is forecasting that food prices will fall marginally in 2020 and then recover in 2021 and 2022, however the increase is small, and overall food prices are expected to remain stable. Rice specifically is a staple part of the Timorese diet. The benchmark Thai 5% rice is expected to increase 8% in between 2019 and 2020, this will have a negative effect on poorer households where basic foods make up the majority of their spending and this will leave them with less disposable income. Coffee prices (both Arabica and Robusta) are expected to decrease 3% and 7% respectively in 2020. This will negatively affect those families who rely on coffee production in Timor-Leste.

Figure 3: Commodity Price Indices 2011-2022



Source: National Directorate of Economic Policy and General Directorate of Statistics, Ministry of Finance, 2020.

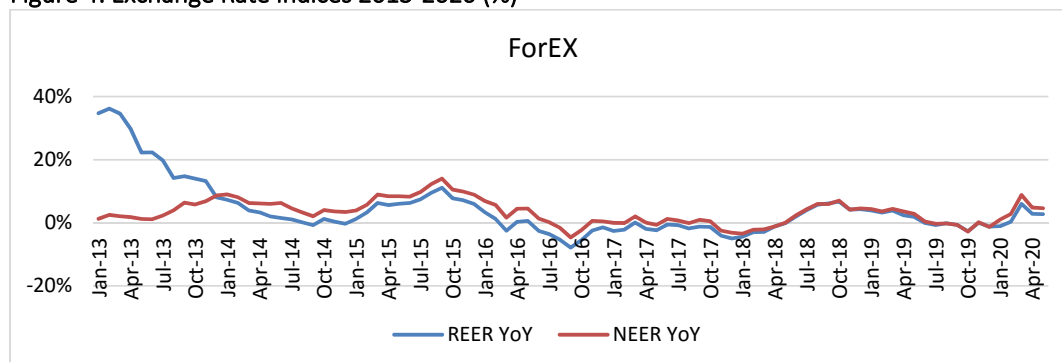
2.2.2.3 Exchange Rates and Competitiveness

Between May 2019 and May 2020 the US dollar appreciated by 4.6% against a weighted basket of currencies of Timor-Leste's trading partners (the nominal effective exchange rate, NEER). There has been a small overall appreciation in the last few years which 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.

An inflation-adjusted measure of the exchange rate, the real effective exchange rate (REER), is a better measure of competitiveness. If inflation in Timor-Leste is lower than in other countries, this can help mitigate exchange rate appreciation. The REER has appreciated slightly less than the NEER, the former appreciated by 2.8% between (May) 2019 and (May) 2020, this difference is driven by the exchange rate changes captured in the NEER and lower inflation in Timor-Leste compared to its neighbours over the last year.

The inflation rate in Timor-Leste is expected to be lower than its neighbours in the near future as Southeast Asia is expected to have an average inflation rate of 1.8% in 2020, and so Timor-Leste can expect an improvement in competitiveness. This will help the Timorese export market be well-placed in the international market. While this is to be welcomed, the government is not complacent about the issue of competitiveness. A key priority is improving the business environment to encourage improved competitiveness, and the inflation target policy is a part of meeting the priority.

Figure 4: Exchange Rate Indices 2013-2020 (%)



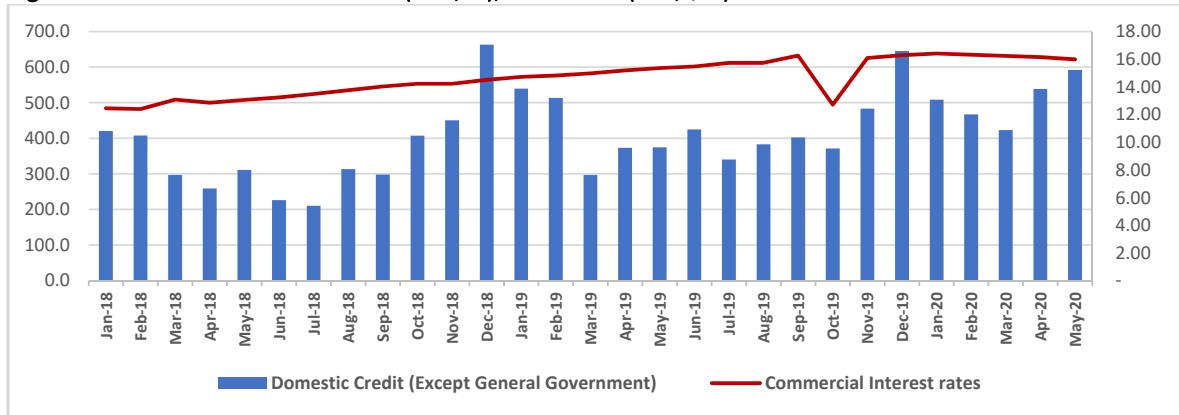
Source: National Directorate of Economic Policy & General Directorate of Statistics, Ministry of Finance, 2020

2.2.3 Financial Sector Trends

Commercial Interest Rates and Credit

The amount and cost of credit to the private sector is an important indicator for private sector development. Loans to the private sector were at an average interest rate of 16% in May 2020, these have been stable with a slight increase over the last year (15.36% in May 2019). Total domestic credit, excluding general government, was \$592 million in May 2020, with an average of \$458 million over the prior 12 months.

Figure 5: Commercial Interest Rates (RHS, %), and Credit (LHS, \$m)



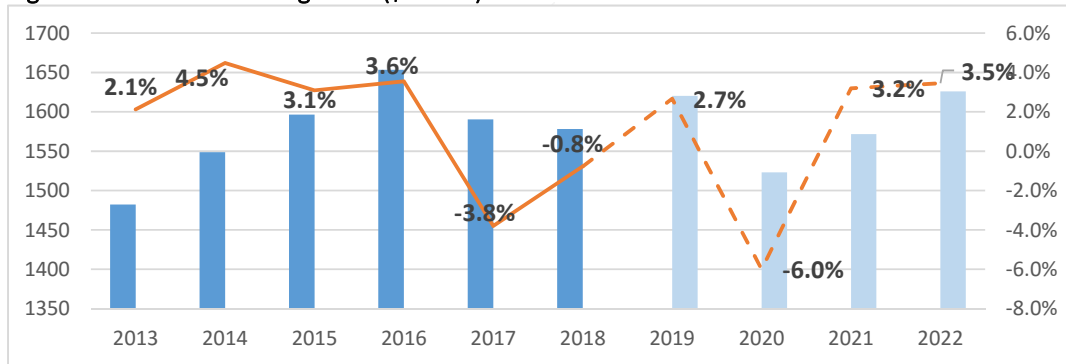
Source: Banco Central de Timor-Leste, 2020.

2.2.4 Economic Outlook

The Ministry of Finance is forecasting non-oil GDP growth to be 2.7% for 2019. Given the delayed Budget approval which restrains public spending and political uncertainty which has a negative impact on the private sector along with the impact of the COVID crisis and associated state of emergency, the forecast for 2020 is -6.0%.

Over the medium term, Ministry of Finance expects return to positive sustainable growth based on political stability and private sector investment.

Figure 6: Real non-oil GDP growth (\$m & %)



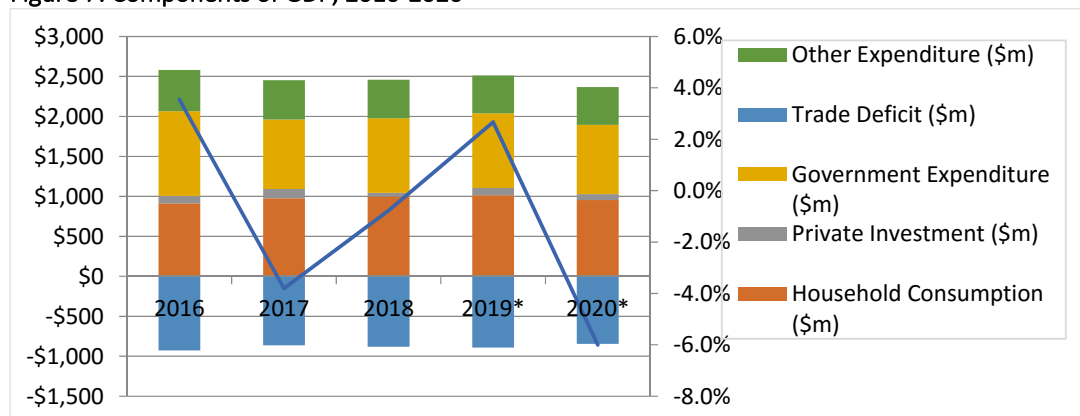
Source: Timor-Leste National Accounts 2000-2018, Economic forecast, General Directorate of Statistics and National Directorate of Economic Policy, Ministry of Finance, 2020.

The negative impact of COVID-19 and the state of emergency on living standards will be lessened due to the various Government policies aimed at assisting the most vulnerable during the crisis including the payment of 60% for the employment salary and stabilising credit line to maintain the purchase power and capacity of the private sector. Consumption is likely to fall during 2020 particularly during the months of the State of Emergency. A low inflationary environment due to the fall in world oil prices will ease consumption to some extent, but the increase in the cost of rice and fall in the price of coffee will hit the poorest and rural households the most.

Public sector investment in 2020 was somewhat constrained by the duo-decimal system. Public expenditure constraint should be addressed for providing greater investment in public infrastructure projects, especially in education, health, and water and sanitation. These projects

will also provide jobs for Timorese people. The infrastructure assets resulting from this public investment as well as legal reform will create an environment conducive to strong growth in the private sector, boosting growth into the future.

Figure 7: Components of GDP, 2016-2020



Source: Timor-Leste National Accounts 2000-2018, General Directorate of Statistics and National Directorate of Economic Policy, Ministry of Finance, 2020. *indicates forecast

Table 7: Real GDP, 2016-2022, \$million

COMPONENTS	2016	2017	2018	2019p	2020f	2021f	2022f
Private Consumption	976	1,011	1,037	1,040	981	1,026	1,021
Public Consumption	927	873	864	946	948	1,055	1,090
Total Consumption	1,903	1,884	1,901	1,986	1,929	2,081	2,111
Private Investment	126	143	70	115	100	135	140
Public Investment	527	401	465	398	334	281	252
Total Investment	653	544	535	513	434	416	391
Other	26	26	23	12	6	3	1
Total National Expenditure	2,582	2,454	2,459	2,511	2,369	2,500	2,504
Exports	53	32	35	41	30	41	44
Imports	(981)	(896)	(916)	(932)	(875)	(968)	(922)
Non-oil GDP	1,654	1,590	1,578	1,620	1,523	1,572	1,626

Source: Timor-Leste National Accounts 2000-2018 and Economic Forecasts, General Directorate of Statistics and National Directorate of Economic Policy, p (preliminary), f (forecast), Ministry of Finance, 2020.

Risk, Uncertainty and Assumptions

Economic forecasts or projections aim to predict annual GDP growth rates and high level macroeconomic figures. Making forecasts about what macroeconomic variables may be in the future is important to help governments and businesses make decisions with regard to policies, planning and investment. However, it is important to understand that in order to make these predictions we have to make some assumptions about future conditions. Therefore all projections always include an element of uncertainty. The main uncertainties in the forecast come from imports and government budget execution. If government spending is particularly import-dependent, meaning that much of the new spending goes to goods and services from outside Timor-Leste, the GDP forecasts for future years may be reduced downwards as imports have a negative effect on final GDP. In addition, if there is a large change in execution rates this may have a noticeable impact on the economy, especially given that the state budget makes up a large portion of Timor's GDP. Execution rates differ each year for different reasons and also depend on the absorptive capacity of the Timor-Leste economy.

2.3 National Development and Priorities

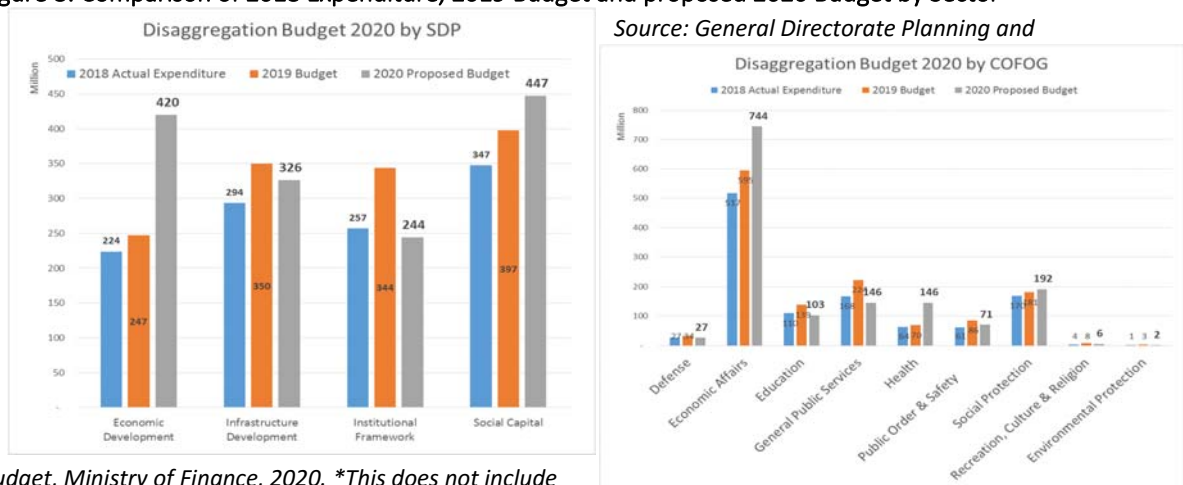
In June 2019, the VIII Government set the objectives and priorities for 2020 through to 2023. These objectives and priorities are aligned with the Government five-year programme, the Strategic Development Plan, and take into consideration the findings from the UN Voluntary National Review (VNR) on Sustainable Development Goals implementation in Timor-Leste. The full set of priorities can be found in the “*Guidelines for the preparation of the Budgeting Proposals 2020-2023 of His Excellency, The Prime Minister, June 2019*”. The Government has set overarching objectives for 2020-2023 focussing on increasing economic growth, reducing poverty and improving employment opportunities for all. These objectives will be adjusted each year based on immediate needs of the country, Section 2.3.2 describes government priorities for 2020.

2.3.1 Analysis of the 2020 Proposed General State Budget by Sector

Timor-Leste’s Strategic Development Plan is organized around four pillars: Institutional Framework, Social Capital, Economic Development and Infrastructure Development, where the last three have been designed as priority in the VIII Constitutional Government’s mandate. The proposed 2020 Budget allocates the largest share to the Social Capital Sector, followed by Economic Development, Infrastructure Development and Institutional Framework. However this is excluding loan disbursements. Social Capital and Economic Development sectors get a boost in the 2020 State budget due to the creation of a COVID-19 \$220.2 million economic recovery and health response fund.

Following instead the international sectorial and more detailed classification COFOG (see Figure 8), it can be observed that the Economic Affairs sector remains the largest, in line with previous year, followed by Social Protection, Public Order and Safety, General Public Services, Health and Education. However it should be noted that the COFOG classification breaks down the SDP Social Capital sector into Social Protection, Health, Education and Recreation, Culture and Religion.

Figure 8: Comparison of 2018 Expenditure, 2019 Budget and proposed 2020 Budget by Sector



Budget, Ministry of Finance, 2020. *This does not include loans and development partner planned disbursements, but it includes all capital development measures, including allocations through the Infrastructure Fund.

2.3.2 Government Priorities for 2020

The approved draft General State Budget aims to finance the VIII Constitutional Government's Program for the 2020 fiscal year. Three sectors are defined as priority for the 2020 Budget:

Table 8: Priorities of the VIII Government, 2020

No.	Priority
1	Stabilisation of the Social Sector
2	Stabilisation of the Economic Sector
3	Reform of important pillars: Public Administration, Economic Reform, Judicial Reform and Fiscal & Public Finance Management Reform

The proposed General State Budget allocations aim to reflect such priorities. The respective new measures for each priority are described below:

Stabilisation of the Social Sector

- Continue to prepare the health sector in terms of quality and service delivery especially in response to the COVID-19 pandemic.
- Create education and training opportunities which are of quality, inclusive and which respond to the needs of the economy.
- Improve drinking water and sanitation infrastructure to ensure quality of life, health and prevention of disease.

31.9% of the proposed 2020 proposed budget will be allocated to the Social Capital Sector's Ministries and Agencies, with 7% going to Education, 14% to Social Protection and 10% to Health.

Highlight Information: Allocation to the Covid-19 health response (\$80.4 million), Acquisition of medicines by SAMES (\$5.5 million), allocation to Ministry of Public Works for water and sanitation (\$3.0 million), allocation to Ministry of Public Works for design of water and sanitation master plan (\$10.0 million), allocation to Ministry of Education, Youth and Sport for private, public and CAFÉ schools (\$4.0 million).

Stabilisation of the Economic Sector

- Facilitate investment in the private sector and prioritise small and medium size enterprises.
- Create employment opportunities to increase national productivity and opportunity for all.
- Increase agricultural productivity and food security by improving and creating new infrastructure, distribution channels and storage of agricultural products.
- Diversify the economy and increase the growth rate in an inclusive and sustainable manner, following government priorities.

51% of the proposed 2020 proposed budget will be allocated to the Economic Affairs sector, with 27.5% going to Economic Development and 23.3% going to Infrastructure Development.

Highlight Information: Allocation to the Covid-19 for health response and economic recoveries (\$139.8 million), allocation the Ministry of Tourism, Commerce and Industry for the preparation and installation phase for the Dubai Expo (\$200,000), allocation to SEFOPE and Secretariat of Cooperative Sector for self-employed and cooperative groups (\$1.3 million).

Reform of important pillars

- Make improvements in the following sectors: Public Administration, Economic Reform, Judicial Reform and Public Finance Management Reform.

Highlight Information: Allocation the Ministry of Justice for cadastral reform, passport and identity card programme (\$3.8 million), pay scale reform for civil servants (\$730,000).

2.3.3 Sustainable Development Goals Voluntary National Review

The Sustainable Development Goals are a collection of 17 global goals set by the United Nations General Assembly in 2015 with the aim of achievement by the year 2030. These goals relate to improving a country's poverty, inequality, climate, environmental conditions, prosperity, and peace and justice. In 2019, Timor-Leste conducted a Voluntary National Review to determine its progress against these goals and recommendations for next steps. The below conclusions were published in June 2019:

- Timor-Leste's achievements as the newest country in Asia are underpinned by its commitment to reconciliation, inclusion and democracy. The country has made the journey from a period of conflict to become a democratic nation focused on state-building and accelerating progress on sustainable development.
- More effort is now required to tackle health and education disparities between municipalities, focus on quality education, and ensure vulnerable women and persons with disabilities are not left behind.
- With one of the youngest populations in the world, and a nascent private sector, making sure there are enough jobs for the large number of young people entering the labour market will require investment in education, skills and the generation of decent jobs. Economic diversification and creating jobs in productive sectors, such as labour-intensive manufacturing, tourism and agriculture, will help grow the non-oil economy.
- Tackling high rates of child malnutrition and food insecurity and improving access to clean water and sanitation are vital and require sustained investment. While the number of stunted children (low height for age) is declining, it's still very high. Accelerating improvements in nutrition will make a huge difference to child learning outcomes and productivity. Progress in improving water and sanitation, a key driver of malnutrition, has been made, however more needs to be done to sustain and scale up these efforts.
- Securing improvements in the justice sector is important for maintaining and achieving progress on all SDGs. Like many countries emerging from conflict, the country is still grappling with how to strengthen the justice sector. The importance of ensuring access for all vulnerable citizens and addressing capacity gaps within the sector was identified as a key priority in all the consultations organised to feed into this VNR report.
- With low levels of public revenue, new forms of financing, technology and technical support are required. One of the key recommendations of the assessment is for the country to develop

an integrated financing strategy. This would involve estimating the scale of investments required in public and private financing and form a basis for targets for mobilising resources for the SDP.

2.4 Revenue

2.4.1 Overview of Revenue Projections

Non-oil domestic revenues are expected to fall significantly in 2020, largely due to the State of Emergency during the second quarter of the year enacted to prevent the spread of COVID-19. The state of emergency aimed to limit the movement of people within the country, as well as the movement of goods and services across the border. This has a significant knock-on effect on consumer and private sector spending, creating a significant downward pressure to revenues. A number of government revenue streams were affected directly. Many were suspended during the state of emergency, including deferral tax payment, all social security contributions for both employers and employees, rent on government buildings and the payment of water fees. All electricity consumers in the country received a \$15 per month electricity credit, therefore reducing collections on electricity during that period. In 2019, electricity fees and charges made up nearly a fifth of total domestic revenues (17%). The political uncertainty surrounding the delayed passing of the national budget at the end of 2019 also reduced private sector confidence in the economy, further reducing overall spending. Due to these factors, revenues in 2020 are forecast to fall by 9.5% compared to those in 2019.

Domestic revenues had been expected to recover in 2019, following periods of stagnation in 2017 and 2018 driven by constrained budgetary spending and a weak macroeconomic performance. However overall 2019 revenues failed to exceed those in collected in 2018, seeing a slight fall of around 0.1%. A fall in tax collections was the main factor in the overall decline.

Future projections of non-oil domestic revenues are expected to grow positively year-on-year from 2021. 2021 is expected to see a larger increase of 6.5% as the economy bounces back from the COVID-19 induced recession. Greater private sector activity, political stability and the continuation of government capital projects will also help to promote revenue growth. The positive trend is expected to continue until 2024, given current macro-economic growth expectations.

Timor-Leste is highly dependent on oil revenue which represents over 80% of total revenue. However, petroleum revenues are expected to decline as production from existing field draws to a close. This makes Fiscal and Public Financial Management reforms a priority for the country going forward. Overcoming the tax base issue, improving revenue collection capacity, introducing new fiscal instruments as well as reviewing the existing ones, revisiting tax policies and legislation that promotes investments could help lead to increased revenue collection, considerably improving both fiscal and non-fiscal revenues. It is important to note that the forecasts do not include additional revenue from the aforementioned reforms, as these are still to receive Parliamentary approval and the implementation of Fiscal and Public Financial Management reform agenda.

Table 9: Total Revenue, 2018 – 2024, \$million

	2018 Actual	2019 Actual	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Total Revenues	637.5	947.9	441.1	251.4	223.6	307.5	206.6
Domestic Revenues (including RAEOA-ZEESM)	190.8	191.7	172.3	183.5	190.8	198.8	206.6
Petroleum Revenues (excl investment return)	446.7	756.3	268.7	68.0	32.7	108.7	-

Source: National Directorate of Economic Policy and Petroleum Fund Policy and Management Office, Ministry of Finance, 2020.

2.4.1.1 Domestic Revenues

Domestic revenues in Timor-Leste are composed of tax revenues in both RAEOA-ZEESM and the rest of the country, fees and charges, interest on cash balances and revenues from autonomous agencies and special administrative regions. Table 10 breaks down domestic revenues into these categories showing actual and forecasted amounts between 2018 and 2024.

Table 10: Domestic Revenue 2018 – 2024, \$million

	2018 Actual	2019 Actual	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Total Domestic Revenue	190.8	191.7	172.3	183.5	190.8	198.9	206.6
Taxes (excluding RAEOA-ZEESM)	124.7	122.3	110.5	117.8	121.7	126.4	131.2
RAEOA-ZEESM Taxes	3.0	3.9	3.2	3.3	4.2	4.2	4.5
Fees and Charges	54.7	56.4	51.3	53.8	56.1	59.1	61.4
Interest	0.6	0.7	0.5	0.6	0.6	0.6	0.6
Autonomous Agencies and Special Administrative Regions	7.7	8.4	6.8	8.0	8.2	8.6	8.9

Source: National Directorate of Economic Policy, Ministry of Finance, 2020.

2.4.1.2 Tax Revenues

Tax revenues consistently comprise the largest source of domestic revenues in Timor-Leste, totalling 65% of total domestic revenues in 2019. This is estimated to continue in 2020, with total tax revenues (including RAEOA-ZEESM taxes) making up 66% of total domestic revenues based on the current forecasts. Tax projections are summarized in Table 11 and are divided into Direct Taxes and Indirect Taxes. The table does not include RAEOA-ZEESM taxes as those have not been forecast at the line item level.

2019 tax collection fell with respect to 2018. This trend is mainly driven by lower expected withholding tax. However, it should be noted however that 2018 was an exceptionally high year in for withholding tax, as several pending payments from the Government to private contractors were settled. The delay in payments was partly due to duo-decimal budgetary constraints in 2017. Considering this, 2019 performance of withholding tax is less negative than it first appears. Import duties fell by nearly a third, due to low levels of imports of goods and services in the first half on 2019. Other category of taxes remained almost flat with respect to 2018, or with small increases.

Forecasts for 2020 see a significant fall in tax revenues, largely due to the State of Emergency to prevent the spread to COVID-19. Tax revenues for Q2 2020 were down 30% compared to the same quarter in 2019. This is likely to be lost revenues as those payments will not be postponed to later in the year. Indirect taxes, those levied on goods and services, are effected the most. Excise tax, the largest single contributor to domestic revenues, is estimated to fall by around a fifth compared

to collections in 2019. Sales tax and import duties are expected to fall by 13% and 10% respectively. Withholding tax, the second largest tax contribution, is forecast to rise slightly in comparison to 2019. This is due to an extremely high collection in January 2020, 2.5 times collections in January 2019, due to delayed payments at the end of 2019. Corporate taxes are also forecast to increase due to high collections during the first half of the year, particularly in Q1.

Future years are expected to see a rise in tax revenues, driven by a stable macroeconomic and political environment. Additionally reforms in the tax collection systems, with the shift to SIGTAS (Standard Integrated Government Tax Administration System) 3.0, should enhance the Tax Authority's capacity to enforce greater tax compliance. The positive trend is expected to continue through 2024. However it is important that other tax instruments are explored during this time period, to increase the tax base of the country and help ensure fiscal sustainability in the medium and long term.

Table 11: Total Tax Revenue, Actuals and Projections 2018 – 2024, \$million

	2018 Actual	2019 Actual	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Total Tax (excluding RAEOA-ZEESM)	124.7	122.3	110.5	117.8	121.7	126.4	131.2
Direct Taxes	52.8	51.2	50.7	50.5	52.0	54.1	56.1
Income Tax	17.4	20.5	18.6	20.1	20.7	21.5	22.3
Individual Income (Public Sector)	5.2	7.2	7.4	7.2	7.5	7.7	8.0
Individual Income Other	12.2	13.2	11.2	12.9	13.2	13.8	14.3
Corporate Tax	9.1	8.7	9.7	8.9	9.1	9.5	9.8
Withholding Tax	26.3	22.0	22.4	21.5	22.2	23.1	23.9
Indirect Taxes	71.9	71.1	59.8	67.3	69.7	72.3	75.1
Service Tax	3.8	3.7	3.6	3.6	3.7	3.9	4.0
Sales Tax	14.3	15.3	13.4	14.9	15.3	15.9	16.5
Excise Tax	34.3	38.3	30.3	35.3	36.8	38.1	39.6
Import Duties	19.5	13.9	12.5	13.5	13.9	14.4	15.0

Source: National Directorate of Economic Policy, Ministry of Finance, 2020.

2.4.1.3 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. Fees and charges historically make up around 30% of total non-oil domestic revenues. In 2020, they are forecast to make up 30% exactly.

Total fees and charges for 2019 were 4% higher than those collected to 2018. This increase was largely due to a significant dividend from BCTL. Mining and quarrying revenues also nearly doubled between 2018 and 2019. This trend is likely to continue from 2021, following infrastructural developments on the south coast and in land. These forecasts only account for existing agreements. Any new developments would be likely push revenue expectations higher.

Fees and Charges in 2020 are estimated to fall 10% compared to those collected in 2019. This is because of the impact on electricity payments, the largest contributor to Fees and charges revenues and often making up around 60% of the total. Electricity collections were heavily hit during Q2 2020, the introduction of the subsidy during the state of emergency, decreasing 30% compared to the previous year. Due to this overall collections for electricity are expected to fall around a quarter in 2020 compared to the total for 2019. Other significant drivers, such as

property rentals, visa fees and social games receipts, are also expected to fall. A large dividend from BCTL is one of the few line items expected to rise, with a 50% increase from the amount collected in 2019.

Projections for outer years are expected to see a positive trend given the current forecasts of GDP growth in 2021 and beyond. Growing decentralization of collections has also seen the introduction of non-fiscal instruments in the municipalities through advertising and parking services. Further decentralization, improvements and reinforcement of collection mechanisms in line ministries and the introduction of new non-tax instruments are expected to boost collections. Electricity collections, as well as other significant contributors from transport, property rentals, dividends and social games fees and charges are forecast to return to a stable growth path from 2021.

Table 12: Fees and Charges, Actuals and Projections 2018 – 2024, \$thousands

		2018 Actual	2019 Actual	Proj 2020	Proj 2021	Proj 2022	Proj 2023	Proj 2024
Collecting Ministries	Total Fees and Charges	54,738.2	56,443.0	51,307.9	53,803.4	56,130.3	59,126.1	61,406.9
MoF	Other Non-Tax Revenues of Customs	481.8	479.3	717.0	497.7	513.0	532.7	553.3
MoF	Customs Service Fees	-	4.4	3.3	2.8	2.9	3.0	3.1
MoF	Customs Penalties	-	5.3	3.9	3.3	3.4	3.6	3.7
MoF	Late Payment Interest Sales	-	5.2	3.9	3.3	3.4	3.5	3.7
MTCI	Commercial License Fees	91.9	22.8	5.0	21.1	22.8	23.7	24.6
MTC	Postage Fees	38.9	25.8	21.6	25.1	25.8	26.8	27.8
MJ	Property rentals	3,361.2	4,249.3	2,691.2	3,751.8	4,279.3	4,443.5	4,614.2
MOP	Water Fees	135.5	145.8	135.1	141.7	146.1	151.7	157.5
MTC	Vehicle Registration Fees	1,215.2	1,408.3	1,178.8	1,369.4	1,411.4	1,465.7	1,522.0
MTC	Vehicle Inspection fees	925.2	781.7	648.7	760.1	783.4	813.5	844.8
MTC	Driver License Fees	379.7	523.4	288.0	508.9	524.5	544.7	565.6
MTC	Franchising Public Transportation Fees	264.5	227.4	190.3	221.2	227.9	236.7	245.8
MTC	Transport Penalties/Trajectory	143.0	133.5	97.7	129.9	133.8	139.0	144.3
MTC	Other Transport Fees	27.8	51.8	158.0	95.5	98.4	102.2	106.1
MJ	Passport & ID	1,688.4	1,658.1	898.1	1,612.2	1,661.7	1,725.5	1,791.8
MI	Visa Fees	3,181.7	3,041.2	1,439.1	2,887.4	2,976.0	3,090.4	3,209.1

		2018 Actual	2019 Actual	Proj 2020	Proj 2021	Proj 2022	Proj 2023	Proj 2024
Courts	Tribunals - Fines & Penalties	39.2	435.7	496.6	423.6	436.6	453.4	470.8
MTC	Vehicle Inspection Imported	83.1	62.7	51.3	61.0	62.9	65.3	67.8
MOP	Electricity Fees & Charges	32,960.5	32,674.0	23,998.7	30,757.0	31,951.8	34,009.9	35,316.4
MTC	TL Internet Domain Revenue	75.5	281.8	180.9	269.7	278.0	288.7	299.8
MoF	Dividends, Profits & Gains	4,186.5	-	-	-	-	-	-
SEFoPE	Fines & Forfeits	107.9	451.2	229.3	438.7	452.1	469.5	487.5
MPM	Mining & Quarry Ops. Royalty	1,668.7	2,401.7	1,802.2	2,335.3	2,407.0	2,499.4	2,595.5
MH	Fines-Health Professionals	13.0	0.0	0.0	0.0	0.0	0.0	0.0
MoF	Bid Document Receipts - Ministries	35.8	147.4	26.7	147.3	151.8	157.7	163.7
MoF	Auctions	45.4	468.0	16.8	454.3	468.3	486.3	504.9
MTCI	Social Games Receipts	1,886.0	1,626.8	880.5	1,602.1	1,651.2	1,714.5	1,780.3
MTCI	Rent of Government Property	51.4	51.1	68.6	49.6	51.2	53.1	55.2
MAF	Forestry Products	82.0	93.4	80.9	90.8	93.6	97.2	100.9
MOP	Sanitation Services Fee	15.6	9.9	9.8	9.6	9.9	10.3	10.7
MH	Registration of Health Professionals	23.6	22.3	15.3	21.7	22.3	23.2	24.1
ME	Polytechnic Institute of Betano	42.4	65.6	74.7	63.8	65.7	68.3	70.9
PCM	Printing Fee - PCM	418.6	147.0	162.1	143.0	147.3	153.0	158.9
MH	Pharmaceutica l Fee	445.5	45.9	39.7	44.1	45.5	47.2	49.0
MoF	BCTL Dividends	-	4,342.1	6,549.8	4,583.7	4,733.0	4,923.9	5,122.6
MoF	Returned TPOs from Prior Years	-	-	55.0	8.1	8.3	8.6	9.0
MoF	Other Non-Tax Revenue	387.8	157.2	134.1	94.5	97.4	101.1	105.0
MoF	Grants & Contributions	-	-	7,594.4	-	-	-	-

		2018 Actual	2019 Actual	Proj 2020	Proj 2021	Proj 2022	Proj 2023	Proj 2024
MAE	Dili Municipality - Advertising Revenue	203.9	123.8	148.0	117.4	124.1	128.9	133.8
MAE	Ainaro Municipality - Advertising Revenue	-	2.5	3.0	2.4	2.5	2.6	2.7
MAE	Covalima Municipality - Advertising Revenue	0.5	6.5	1.4	6.3	6.5	6.8	7.1
MAE	Baucau Municipality - Advertising Revenue	-	4.1	1.2	4.0	4.1	4.3	4.5
MAE	Ermera - Advertising Revenue	-	4.5	8.9	4.4	4.5	4.7	4.9
MAE	Aileu Municipality - Advertising Revenue	-	1.1	1.4	1.1	1.1	1.2	1.2
MAE	Dili Municipality - Parking Fee	25.6	22.2	21.9	21.6	22.3	23.1	24.0
MAE	Administrative Sanctions and Fines	5.0	2.5	1.7	2.4	2.5	2.6	2.7
EDTL-EP	EDTL Receipts - New Installation	-	28.6	173.1	14.2	14.7	15.2	15.8

Source: National Directorate of Economic Policy, Ministry of Finance, 2020.

2.4.1.4 Interest

Interest reflects interest payments received from cash held in Government funds. 2019 saw a growth in interest rates and cash balances held by the government, meaning interest reached a high of \$0.662m. Collections from interest are expected to remain relatively stable over the next 5 years.

Table 13: Interest Receipts, Actuals and Projections 2018 – 2024, \$thousands

	2018 Actual	2019 Actual	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Interest Receipts	565.5	626.7	528.9	584.8	592.4	569.4	582.3

Source: Directorate General of Treasury, Ministry of Finance, 2020.

2.4.1.5 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 to improve their efficiency. Total collections constitute around 4% of total domestic revenues. This is the amount they are forecast to make up in 2020.

In 2018 and 2019, a number of new Autonomous Agencies have started collecting revenue, including IADE, AIFAESA, SENAI and SERVE. The Port of Dili currently generates the majority of revenues, 45% in 2019. However its collection for outer years is however uncertain and might decline once the Tibar Port becomes operational. Other significant contributions are expected to derive from the National Communication Authority (ANC), whose receipts will grow thanks to a larger base for collection and new revenues following the activation of the spectrum fee; the National University; ZEESM fees and charges and the National Logistic Centre.

Autonomous Agency collections are expected to fall 10% in 2020, in comparison to collections in 2019. This is largely due to a fall in Port charges due to restrictions on goods movement during the state of emergency. Revenues from of National University Fees by UNTL expected to fall slightly, as well as receipts from IGE. These reductions are forecast to be off-set by increased collections by CLN from sale of local product and rice and Licensing Fees from ANC.

Future years expect to see a growth in revenues again as the economy recovers from lockdown and the global effects of COVID-19.

Table 14: Autonomous Agencies and Special Administrative Region, Actuals and Projections 2018-2024, \$000

	2018 Actual	2019 Actual	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Total Autonomous Agencies Revenues	7,735.8	8,405.1	6,809.8	7,951.7	8,220.5	8,550.4	8,893.2
TRADEINVEST – Investment Registration Fees	20.0	-	-	-	-	-	-
CLN - Sale of Local Product	79.0	360.2	107.9	109.2	112.8	117.3	122.1
ANC - Licensing Fee	-	1,462.4	1,389.7	1,411.2	1,468.4	1,527.6	1,589.1
APORTIL - Port Charges & Fees	4,091.9	3,517.0	2,657.9	3,398.1	3,508.7	3,650.3	3,797.2
ANATL – Aviation Service Fees	-	-	-	-	-	-	-
IGE - Receipts	287.2	407.4	222.1	395.2	408.1	424.5	441.6
SAMES - Receipts	218.6	-	27.7	32.6	33.8	35.1	36.5
UNTL - National University Fees	1,160.4	1,213.	1,153.1	1,256.1	1,296.5	1,349.6	1,403.5
HNGV - Hospital & Medical fees	264.8	249.7	278.0	242.8	250.7	260.8	271.3
Tribunals - Administrative Fees	-	-	-	-	-	-	-
Bamboo Center Tibar – Revenue	11.6	-	0.5	0.5	0.5	0.6	0.6
AMRT - Fees	2.3	3.6	3.9	3.5	3.6	3.8	3.9
IADE Service Fees	53.8	3.0	2.4	2.9	3.0	3.1	3.3
AIFAESA Fees	150.1	87.0	52.0	84.1	87.3	90.8	94.5

	2018 Actual	2019 Actual	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
SENAI Centre – Revenue	6.4	-	1.5	1.9	2.0	2.1	2.3
SERVE IP - Revenue	214.9	-	61.6	64.8	66.9	69.6	72.3
CLN - Sale of Rice	413.0	365.1	180.4	191.5	197.8	205.7	214.0
ZEESM - Fees and Charges	761.7	736.9	671.2	756.7	780.0	809.7	841.0

Source: National Directorate of Economic Policy, Ministry of Finance, 2020. *ZEESM revenue includes fees and charges only, tax revenue is presented separately in table 10.

2.4.2 Petroleum Revenues and the Petroleum Fund

The Petroleum Fund remains the principal source of financing 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% 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 for all future years.

2.4.2.1 Recalculating Petroleum Wealth and the ESI for 2020

The Petroleum Wealth (PW) and the Estimated Sustainable Income (ESI) are only updated once a year as part of the main budget process. However, the Budget 2020 proposal presented in January 2020 was not passed and the Government has been operating under the DOT regime.

The ESI 2020 was calculated in September 2019. Some of the key assumptions such as opening balance of the PF, production, costs and oil price have changed significantly since it was calculated last year. Therefore, the current Budget 2020 revisits the PW and ESI for 2020 calculation taking into account these changes.

Compared to the previous Budget 2020 submission, the Petroleum Wealth in this revised calculation is slightly higher than the previous estimated figure. This is caused primarily by the higher actual Fund's opening balance at 01 January 2020 than the estimated figure due to higher PF's investment return, petroleum receipts and lower withdrawal in 2019. More than 98% of the PW is now in the form of financial asset i.e. the Petroleum Fund. On the other hand, the oil price projection from 2020 and onwards was lower compared to the projection used in early version of 2020 Budget, production and costs were slightly higher, however, these impacted on less than 2% of the calculation.

Total Petroleum Wealth on a Net Present Value basis is estimated to be \$18,145.1 million on 1 January 2020. This is \$253.3 million higher than the figure calculated in September 2019. Therefore, the estimated sustainable income has risen correspondingly from \$536.8 million per annum to \$544.4 million for 2020. This change, however, is not material, making around a 1.4% (or \$7.6 million) increase in the ESI compared to the previous calculated. The difference as shown below:

Table 15: Changes in the Petroleum Wealth and the Estimated Sustainable Income (ESI) 2020

	ESI 2020 Calculated in September 2019	ESI 2020 Calculated in August 2020	% Change
Estimated Sustainable Income (PWx3%)	536.8	544.4	1.4%
Total Petroleum Wealth (PW)	17,891.8	18,145.1	1.4%
Opening PF Balance	17,067.9	17,691.8	3.7%
Net Present Value of Future Revenues	823.9	453.2	-45.0%

Source: Petroleum Fund Policy and Management Office, Ministry of Finance, 2020.

Table 16 shows the estimated Petroleum Wealth and the ESI from 2019 and onwards, assuming that withdrawals from the Fund are equal to the projected withdrawals in this budget book.

Table 16: Petroleum Wealth and the Estimated Sustainable Income (ESI)

	2019*	2020 Budget	2021	2022	2023	2024
Estimated Sustainable Income (PWx3%)	529.0	544.4	535.6	500.3	463.7	433.1
Total Petroleum Wealth (PW)	16,947.6	18,145.1	17,852.4	16,676.4	15,458.2	14,437.8
Opening PF Balance	15,803.6	17,691.8	17,655.7	16,541.5	15,351.5	14,437.8
Net Present Value of Future Revenues	1,144.0	453.2	196.7	134.9	106.7	0.0

Source: Petroleum Fund Policy and Management Office, Ministry of Finance, 2020. *ESI for 2019 figure as estimated in Budget 2019.

The key assumptions behind the calculations and the differences with Budget 2019's estimate are discussed below.

Table 17: Key Assumptions behind the ESI Calculation

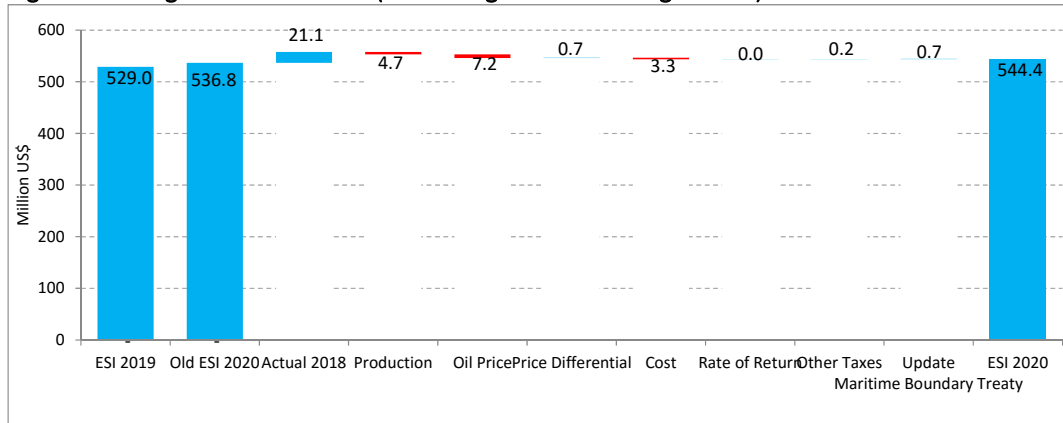
Asset recognition	Forecast petroleum revenues are included only for projects with approved development plans. Bayu-Undan (BU) is the only operating field.
Petroleum Reserves and Production Forecasts	Project operators provide production estimates. The Operator provided 3 forecasts scenarios; low, base, and high in August 2020. Average Low-Base case production is used for ESI 2020.
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 2020 is prepared using the average of Energy Information Agency (EIA) low case and reference case for Brent in its Annual Energy Outlook (AEO) for 2020, released in January 2020.
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 5% cash, 55% bonds, 35% equities and 5% in alternative asset.

Source: Petroleum Fund Policy and Management Office, Ministry of Finance, 2020.

Changes in the ESI from 2019 to 2020

Figure 9 shows the key incremental changes in the current estimate of the 2020 ESI relative to the previous estimated figure. A higher actual results in 2019 is the main driver of the increase in the 2020 ESI, along with changes to the oil price forecast and the expected revenues as the result of the settlement of the maritime boundaries.

Figure 9: Changes in the 2020 ESI (from Budget 2019 to Budget 2020)



Source: Petroleum Fund Policy and Management Office, Ministry of Finance, 2020.

Actual 2019 data

The 2020 ESI that was estimated in September 2019 was based on actual results in 2018 and forecasted data for the remainder of 2019. Actual history is now available for all of 2019 and it can be used in the current forecast of 2020 ESI. The actual net petroleum revenues collected in 2019 was \$756 million, 94% higher than the estimated \$389.4 million. The actual withdrawal in 2019 was \$969.0 million, lower than the approved withdrawal of \$1,196.8 million. The realised investment returns in 2019 of 13.3% or equivalent to \$2,100.9m, which is much higher compared to the estimated return of 11.7% or equivalent to \$1,724.3 million. As a result, the actual closing balance of the Fund at the end of 2019 was \$17,691.8 million compared to the estimated \$17,067.9 million. As the result of this change, the ESI 2020 is increased by \$21.1 million.

Production

The latest Bayu-Undan's production forecast for both liquids and gas used in this calculation. Following the previous year, the average of the low and the base forecasts was adopted for petroleum production.

Figure 10A and 10B show the latest available Operator's revised petroleum production forecasts in three scenarios; low, base and high. Figure 10C and 10D compare the liquid (condensate and LPG) and gas (LNG) production forecast used in the current Budget 2020 estimate with the forecast used for the Budget 2017 until 2019. For period 2019-2022, the liquids (condensate and LPG) and the LNG production forecasts are approximately around 16% lower compared to the forecast used in Budget 2019. The BU field is a mature field and its productivity has gradually declined since its peak in 2012. The production from its existing wells has decreased with increasing water and declining pressure. Despite this, the Bayu-Undan Infil Well (BUIW) project in mid-2018 has helped to maintain the production level and new drilling program plan has been put forward by the operator for approval. The lower production forecast results in a US\$4.7 million decrease in ESI for 2020.

Figure 10: Bayu-Undan Production Forecast in the 2020 ESI

Figure A. BU Liquids Forecasts for B2020

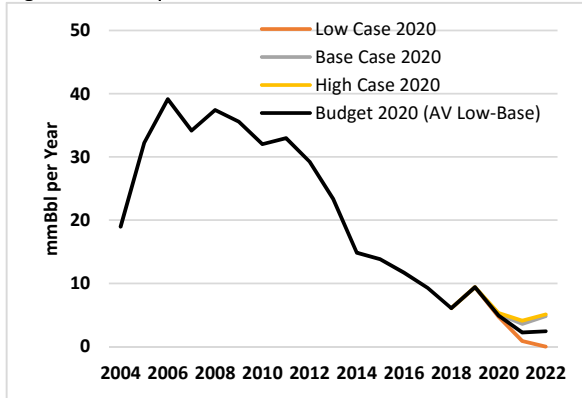


Figure B. BU Gas Forecasts for B2020

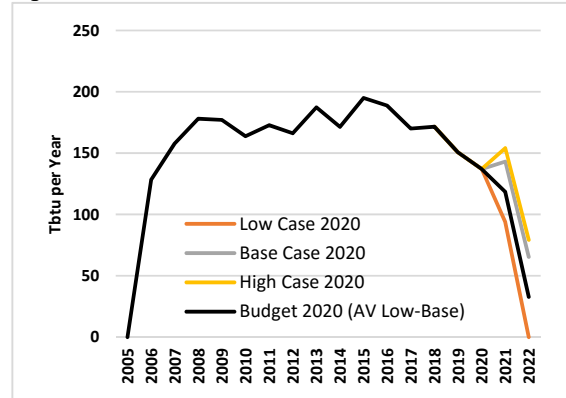


Figure C. BU Liquids, B2017-19 vs. B 2020

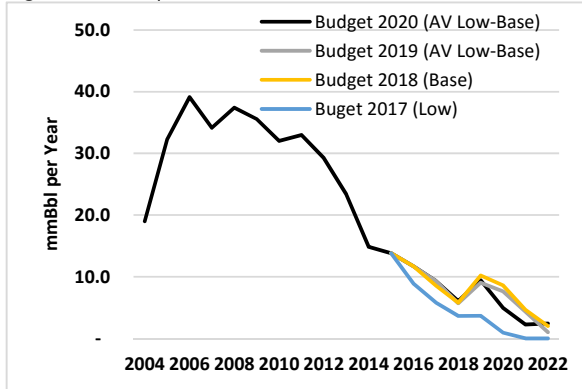
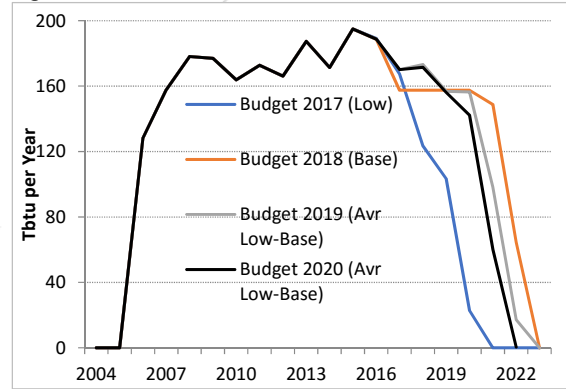


Figure D. BU Gas, B2017-19 vs. B2020



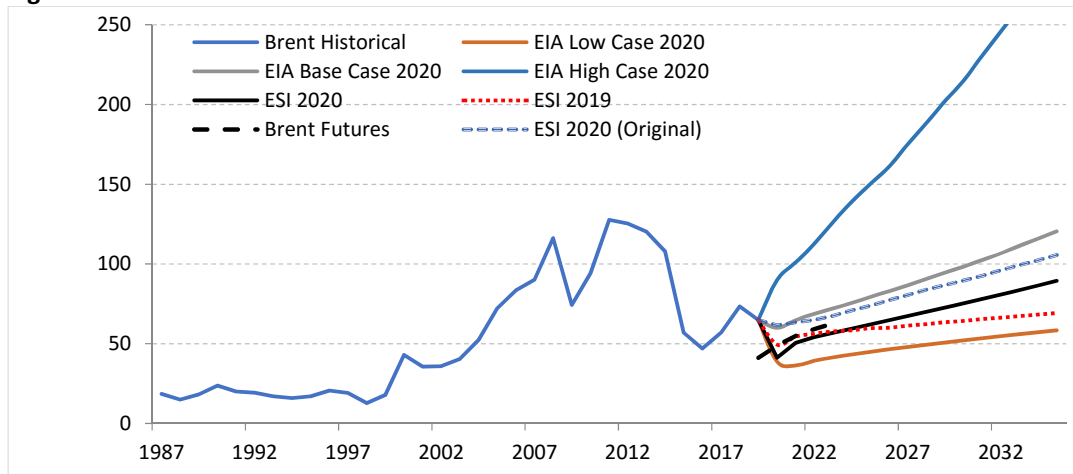
Source: Petroleum Fund Policy and Management Office, Ministry of Finance, 2020.

Oil prices

The methodology for projecting future oil prices is based on the average low –base price case of the Brent oil prices forecast by the US Government’s Energy Information Administration (EIA). Figure 11 shows that the oil benchmark forecast used for ESI 2020 is now lower for the period 2020-2021 compared to the forecast used in the previous ESI 2020 calculation. The actual average Brent benchmark price from January to June 2020 was \$40.3 per barrel. Applying the weighted average of the actual price and the average EIA low-base prices for the remainder of the year, the 2020 price is \$41.2/barrel, revised down from \$60.2/barrel used in the previous calculation.² The prices for the remainder of the forecasting period until production ceases in 2022 is averaging about 18% lower than the prices previously used in ESI 2020 calculation. The change in Brent benchmark forecast results in a US\$ 7.2 million decrease in the ESI 2020.

² The EIA’s Short-term Energy Outlook released in August shows its reference (base) scenario where the expected average Brent price for 2020 is \$41.42/b and \$49.5/b in 2021.

Figure 11: Oil Price Forecast in the 2020 ESI



Source: Petroleum Fund Policy and Management Office, Ministry of Finance, 2020.

Production price differentials (liquids and LNG)

There are several petroleum products (condensate, Liquefied Petroleum Gas (LPG) and Liquefied Natural Gas (LNG)) which come from the Bayu-Undan project. As in previous years, the prices for liquids products (condensate and LPG) are forecast by applying a differential to the forecasted Brent benchmark price based on the historical relationship between the benchmark and the Bayu-Undan products price. The relationship between liquids product prices and the Brent benchmark price has been relatively stable, with condensate averaging about 95% and the LPG averaging about 71% of the benchmark between 2008 and 2017. The result of these new price differentials is an increase in ESI of US\$ 0.7 million.

Production costs

Forecasts of production costs from the operator for period 2019-2022 are around 9% higher than last year forecast, which has included the proposed drilling and higher decommissioning cost provisions. The result of these new costs projection is a decrease in ESI of US\$3.3 million.

Rates of return and discount rate

Under Annex 1 of the Petroleum Law Fund, the discount rate used in the NPV calculation of future petroleum revenues must be the expected rate of return of the Petroleum Fund portfolio. The expected long-term nominal return on the portfolio is now 3.8% for period 2020 onwards. This is slightly lower than previous year's ESI assumption of expected return at 3.9% and will slightly increase the NPV of future petroleum revenues.

The Fund's year to date performance as at 30 June showed a positive return of 2.23%. The weighted average of Fund's return for 2020 is calculated at 4.15%. However, considering the market outlook and second wave of COVID-19, the expected return in 2020 is maintained at 3.8%, the expected long-term nominal return. The end year return will depend on the market movements in the second half of the year. Therefore, there is no change in the ESI 2020.

Other Taxes

Other taxes include wage taxes and tax collections from subcontractors and exploration drilling i.e. for research and drilling, has been awarded both in the Former Joint Petroleum Development Area - JPDA (e.g. JPDA 11-106) and in on/offshore of Timor-Leste Exclusive Area-TLEA (e.g. PSC TL-S0-15-01, PSC TL-OT-17-08 and PSC TL-OT-17-09). These taxes are forecast for Budget 2020 based

on an analysis of recent collections and taking into account exploration work commitments. This has increased ESI 2020 by \$0.2 million.

Update on the Maritime Boundary between Timor-Leste and Australia

The new treaty establishing permanent maritime boundaries in the Timor Sea between Timor-Leste and Australia which was signed on 6 March 2018 and then ratified by both Parliaments of each country in August 2019. The Maritime Boundaries Treaties (MBT) entered into effect on 30 August 2019 when both governments agreed and exchanged the diplomatic notes in Dili. Under the MBT all related petroleum titles and activities in the area formerly known as the Joint Petroleum Development Area (JPDA) will now mostly fall within TL's sovereign waters. Under the key principle of *Conditions Equivalent* term, a Transitional Arrangement process took place between the States (TL and Australia) including the contractors whose business were affected, with the objective to transpose all existing contracts under the former JPDA Fiscal Regime and those partially under the Australian Petroleum Fiscal Regime to 100% Timor-Leste Fiscal Regime.

Australia's former petroleum entitlement of a 10% revenue share under TST framework will be paid to Timor-Leste as of September 2019 onwards. During the Transitional Arrangement, all contractors' direct taxes (eg corporate income taxes, withholding taxes, wage taxes, and so forth) will be 100% subjected to Timor-Leste's Taxation Act with the relevant adjustments made to the specific areas of operations and specific phases of activities, including as referred to in each Production Sharing Contracts (PSCs) and fields.^[1] The ESI model is adjusted for these changes accordingly. This resulted in the ESI 2020 increasing by \$0.7 million.

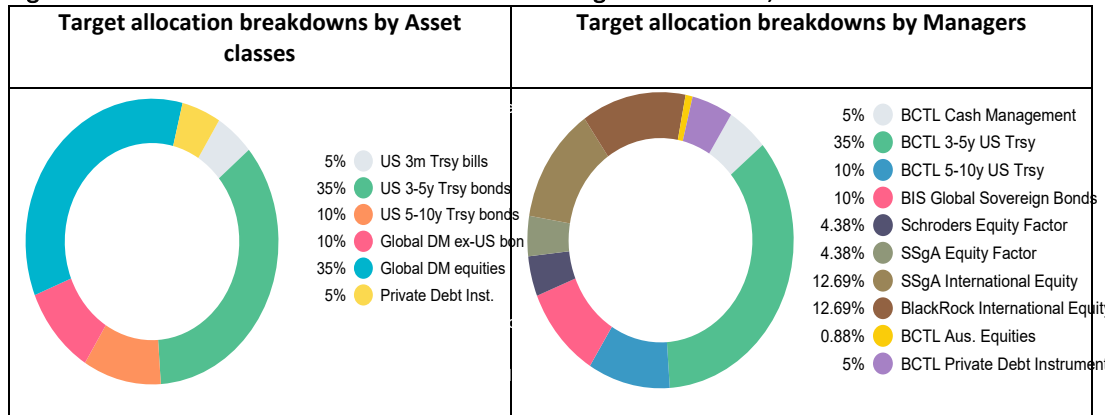
2.4.2.2 Petroleum Fund Management and Projections

The Petroleum Fund Law sets out the Fund's eligible investments, the guidelines for its asset allocation and the risk limits. Since January 2019, the Petroleum Fund Law is to be read in conjunction with the First Amendment of the Law No 13/2005, the Petroleum Activities Law, which was modified to allow investments in petroleum operations.

The Petroleum Fund is currently invested 5% in cash, 55% in Government bonds, 35% in equities and 5% in petroleum related operations through a private debt placement in Timor GAP E.P. The breakdown target allocation by asset classes and by managers as shown in Figure 12 below.

^[1] Eg for Bayu-Undan field the applicable taxation law is the Taxation of Bayu-Undan Contractors Act (ToBUCA) which regulates the taxation matter of the petroleum activities carried out by contractors and subcontractors in connection with the Bayu-Undan project falling within the former JPDA PSCs 03-12 and 03-13. During the Transitional Arrangement processes a few amendments were made to the ToBUCA and Tax Stabilization Act and Taxes and Duties Act, for example all direct taxes will be 100% subject to TL's taxation act, however, the Additional Profit Tax (APT) rate is reduced from 22.5% to 21.5% to provide *conditions equivalent* taking into consideration that the 10% share from Australia was not subject to APT and all indirect taxes related to services provided by sub-contractors to BU field will be maintained at 90% TST framework as agreed under fiscal package for BU project. For other areas of operations such as Kitan and Kanase, the application of 90% indirect taxes would be changed or lapsed after Decommissioning and the commencement of first production, respectively. This means that after the decommissioning phase and possibly entering into a redevelopment phase, Kitan's indirect taxes will be levied at 100% and the same rate will also be applied to Kanase once the first production starts.

Figure 12: Petroleum Fund Asset Allocation and Managers Breakdown, as of June 2020



Source: Petroleum Fund Policy and Management Office, Ministry of Finance, 2020.

The investment in equities was progressively implemented and completed in June 2014. The Fund’s return since inception to June 2020 is 4.45% per annum, which is 2.2% in real terms after accounting for US inflation. Equities have fulfilled their growth role. Figure 13 shows the equity portfolio has boosted the Fund’s performance by returning 8.8% per annum since the first investment in stocks in 2010. This compares to the bond portfolio’s average annual return of 2.8% over the corresponding period³.

The ESI framework is designed to preserve real wealth but is challenged when withdrawals are persistently in excess of the ESI. In addition, investment returns over the next decade are likely to be lower than previously projected. That expectation is primarily driven by lower 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 1.8% over the next 10 years. It is unlikely that the Fund’s current asset allocation will provide a real return of 3%.

The Fund’s existing asset allocation is maintained. The expected return from bonds is very low by historical standards and equities are required for the Fund to earn a suitable return over the long-term. However, targeting a 3% real return would require a significantly higher equity allocation and the additional risk did not appear suitable for Timor-Leste, at least for the time being. The Fund’s asset allocation reviewed each year to account for any new information, including expectations about withdrawals and future oil revenues.

Updated projections for the Petroleum Fund

Table 18 shows an update of petroleum revenues. The revenues in 2018 and 2019 amounted to \$446.7 million and 756 million, respectively. As of June 2020, petroleum revenue is \$246.8 million. Oil prices were lower than estimated, averaging about \$40.3 per barrel from January to June. There is a possibility of revenue adjustment due to COVID-19’s impact to the petroleum sector activities. Accounting for these and actual revenues received, the expected total revenue for 2020 is revised down to \$268.7 million from previously estimated of \$595.0 million.

Under the current assumptions, the revenue is projected to continue to decline from \$268.7 million in 2020 to \$108.7 million in 2023 which is mostly related to the VAT on decommissioning.

³ Please see the Petroleum Fund Annual Report for 2019 for more detailed discussion on the performance of the Fund.

Table 18: Petroleum Fund Revenues 2018-2024, \$million

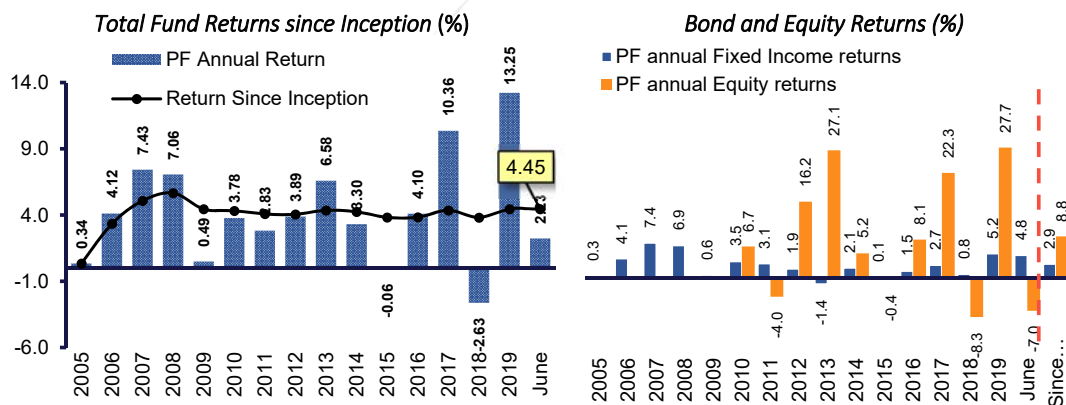
	2018 Actual	2019 Actual	2020 Budget	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Total Petroleum Fund Revenue	-13.2	2,857.2	927.8	705.6	627.4	664.1	520.2
Petroleum Fund Investment Return	-459.9	2,100.9	659.1	637.6	594.7	555.4	520.2
Total Petroleum Revenue	446.7	756.3	268.7	68.0	32.7	108.7	0.0
FTP/Royalties	190.6	331.8	138.5	20.4	6.1	0.0	0.0
Profit oil	53.4	97.1	30.8	17.5	0.0	0.0	0.0
Income Tax	113.2	120.3	13.4	2.2	0.0	22.1	0.0
Additional Profit Tax	117.4	181.6	54.7	0.5	0.0	0.0	0.0
Value Added Tax	9.6	6.7	10.2	8.6	8.1	86.6	0.0
Other Tax Payments	-37.4	18.7	21.2	18.8	18.5	0.0	0.0

Source: Petroleum Fund Policy and Management Office, Ministry of Finance, 2020.

The new Maritime Boundaries Treaty and with the acquisition of a 56.56% of participating interest in the Greater Sunrise JV through the Timor GAP E.P will allow Timor-Leste to influence the decision on the upstream and downstream development of the GS. This potential revenue will be included in the estimate of the present value of the petroleum revenues when the fields are declared proven and approved for development.

The Petroleum Fund's investment returned \$2,100.9 million (\$2.1 billion) in 2019, which is equivalent to a return of 13.3%. The equity allocation (35% of the Fund) returned 27.7%, Bonds (60%) returned 5.2% and the Alternatives instrument (5%) posted a return of 1.1%. The record annual return in 2019 was driven by equity's strong performance, while bonds also delivered healthy returns. The stock market rally was despite uncertainty over global economic growth, the US-China trade disputes and the UK's departure from the European Union.

Figure 13: Petroleum Fund Investment Returns



Source: Petroleum Fund Policy and Management Office, Ministry of Finance, 2020.

As of June, the Fund's Year-to-Date return is +2.23%, which translates to net income of \$385.7 million. The equity portfolio posted a return of -7.01%, while the fixed income allocation posted a return of +4.83%. Stock markets fell sharply in the first quarter as economic activity slumped with the coronavirus shutdowns. The mark to market loss in equities was partly offset by capital gains in the government bond portfolio, which rose in value because yields declined. Equity markets rebounded in the second quarter. Investor sentiment was boosted by the monetary and fiscal policy stimulus to offset the slowdown, as well as early signs of a recovery in activity as

COVID-19 restrictions were eased. The private debt allocation accrued 2.25% interest during the period. The expected investment income for 2020 is assumed to be 3.8%. The final return for 2020 will depend on market movements over the coming months; another downturn in equity markets will erode the return. Returns vary significantly over short horizons and for long-term investors such as the Petroleum Fund, it is better to assess returns over long horizons.

The Parliament has twice approved an extraordinary withdrawal from the Fund totalled \$536.3 million, of which \$219.5 million is allocated to response and combat COVID-19 related and \$316.8 to reinforce Treasury account during the duo decimal period until Budget 2020 to be approved by Parliament in September 2020. There has only been \$250 million of withdrawals for the year until June.

The Fund's balance is \$18,074.4 million as of June 2020. This is an increase of \$382.6 million from the start of the year. The Fund balance is expected to be \$17,655.7 million by the end of 2020 after deducting the estimated withdrawal of \$963.9 million in 2020 adopted by Parliament.

The Fund is forecasted to decline each year, falling to \$13,463.9 million by the end of 2024. Petroleum revenues and investment income are not expected to offset withdrawals. These are central forecasts and considerable variation must be expected. Investment income is by its nature volatile. In some years, like 2017 and 2019, the Fund will outperform expectations; in other years like 2015 and 2018, 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 19: Estimated Petroleum Fund Savings, \$million

	2018 Actual	2019 Actual	2020	2021	2022	2023	2024
Opening PF Balance	16,799.3	15,803.6	17,691.8	17,655.7	16,541.5	15,351.5	14,437.8
Petroleum Revenue (excluding PF Interest)	446.7	756.3	268.7	68.0	32.7	108.7	0.0
Petroleum Fund Interest, Net*	-459.9	2,100.9	659.1	637.6	594.7	555.4	520.2
Total Withdrawals	982.5	969.0	963.9	1,819.8	1,817.4	1,577.8	1,494.2
Closing PF Balance	15,803.6	17,691.8	17,655.7	16,541.5	15,351.5	14,437.8	13,463.9

Source: Petroleum Fund Policy and Management Office, Ministry of Finance, 2020.

2.5 Expenditure and Development Partner Commitments

Total expenditure in the 2020 budget is \$1,681.1 million (including donor funded activities of \$184.0 million and loans of \$60.0 million). The total 2020 State Budget 0.01% lower than that allocated for 2019. This is mainly because i) late promulgation of the 2020 State Budget does not allow time to execute a higher budget, ii) the government needed to instate several periods of 'State of Emergency' in response to the COVID-19 pandemic which further delayed execution

2.5.1 Expenditure by Fund

Public expenditures are spread across the Consolidated Fund of Timor-Leste (CFTL), the Human Capital Development Fund (HCDF), loans and European Union Budget Support. Since 2016, the Infrastructure Fund is an autonomous agency under the CFTL. Compared to the allocations for the 2019 State Budget, allocations for 2020 have increased for CFTL by 3.7%. However, HCDF has decreased by 46.3% and loan disbursements have decreased by 31.0%, as major programmes

cannot be introduced due to the COVID-19 pandemic as well as the state of emergency response (restrictions on movement of raw materials, personnel etc.)

Table 20: Expenditure by Fund, \$million

	2018 Actual	2019 Budget	2020 Budget	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Combined Source Budget	1,343.9	1,681.2	1,681.1	2,200.5	2,140.1	1,857.6	1,739.3
Government Expenditures by Fund	1,172.7	1,482.0	1,497.1	2,083.0	2,080.4	1,845.6	1,730.5
CFTL (excl. loans)	1,119.0	1,375.0	1,426.4	1,991.7	2,014.9	1,787.6	1,684.2
HCDF	14.5	20.0	10.7	11.2	11.6	12.1	12.6
Borrowing/Loans (disbursements)	39.2	87.0	60.0	70.7	63.1	64.0	27.0
European Union (Budget Support) and ILO*	-	-	10.6	9.1	9.0	5.0	2.8
Development Partner Commitments	171.2	199.2	184.0	117.4	59.7	12.0	8.7

Source: National Directorate of Budget and Development Partners Management Unit, Ministry of Finance, 2020.

*ILO contribution one-off payment of \$0.7m for 2020.

2.5.1.1 Consolidated Fund of Timor-Leste

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 21.

Total allocations in the CFTL increase 3.7% in 2020 compared to the 2019 State Budget.

The Public Transfers allocations for many ministries and agencies have also increased, with the allocation for the category a whole 56.8% higher than in the 2019 State Budget. Similarly, CFTL Goods and Service have increased by 7.9%. Though the duo-decimal system affected the final budget allocation negatively, these increases are due to the creation of the \$220.2 million COVID-19 Fund for health response to the pandemic and economic recovery.

On the other hand, allocations to Minor Capital and Capital and Development have decreased by 71.6% and 51.1% respectively, compared to the 2019 State Budget. During duo-decimal system, allocation for new projects in these capital categories are frozen. Additionally, by the time the 2020 State Budget is passed, agencies will not have sufficient time to execute higher budgets in these categories. Hence, most new projects will be rolled over to the 2021 State Budget.

Table 21: Breakdown of CFTL expenditure, \$million

	2018 Actual	2019 Budget	2020 Budget	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Total CFTL Expenditure	1,141.8	1,377.3	1,426.4	1,991.7	2,014.9	1,787.6	1,684.2
Recurrent	797.9	1,032.1	1,264.0	1,314.6	1,367.2	1,421.9	1,478.7
Salary and Wages	197.2	214.2	206.7	215.0	223.6	232.5	241.8
Goods and Services	288.2	455.2	488.6	508.2	528.5	549.6	571.6
Public Transfers	312.5	362.7	568.7	591.5	615.1	639.7	665.3
Capital	343.9	345.2	162.3	677.1	647.7	365.8	205.4
Minor Capital	7.8	31.5	8.9	9.3	9.7	10.0	10.5
Capital and Development (excl. loans)	336.1	313.7	153.4	667.8	638.0	355.7	195.0
Infrastructure Fund (excl. loans)	292.1	227.2	124.1	637.3	606.3	322.7	160.7

Source: National Directorate of Budget, Ministry of Finance, 2020.

Salaries and Wages

The allocation for Salaries and Wages (\$206.7 million), a 3.5% decrease in the 2020 State Budget compared to the allocation for 2019. This is due to cost efficiencies during the pandemic. However, the Government has budgeted for increases due to retroactive internal promotion of civil servants and changes in the structures of National Police of Timor-Leste (PNTL).

Key Measures

- \$1.3 million to National Police of Timor-Leste to accommodate changes in salaries for its members' promotion.
- \$730,000 to the Line Ministries for the internal promotion for civil servants.

Goods and Services

The CFTL Goods and Services budget (not including HCDF) for 2020 (\$488.6 million) is set to increase by 7.9% compared to the allocation in the 2019 State Budget. This includes operation and maintenance of the Hera and Betano generators and special measures to respond to the COVID-19 pandemic.

Key Measures

- \$158.4 million to the Ministry of Public Works towards fuel and maintenance of electricity generators in Hera and Betano. This includes to pay for the debt of fuel supply, maintenance of electricity transmission (150KW) and sub-stations of 20KW - towers at critical junctions at seven locations N117, N31, N71, N72, N15, N24, N34 and N76. Providing electricity throughout the whole country is key to generating growth and development across the country.
- \$85.6 million to the COVID-19 Fund for health response and economic recovery projects.
- \$17.0 million to the Whole of Government for the Counterpart Fund. This will contribute to the continued implementation of key counterpart funding projects. This includes purchase of Nakroma II ferry.
- \$10.0 million to the Whole of Government for legal services. This fund enables the state to defend itself in various legal cases.

- \$10.7 million to the Human Capital Development Fund for its programme on scholarship, technical training, vocational training and other training.
- \$10.0 million to Ministry of Public Works for the master design of roads and water sanitation projects.
- \$5.5 million to SAMES for acquisition of medications and pharmaceutical goods to help improve the quality of health services provided throughout the country.
- \$5.0 million to Ministry of Public Works for a flood control programme to protect against possible damage caused by floods on the coast and inland.
- \$3.8 million to the Ministry of Justice for retention of the programme for cadastral survey, and material for passports and identity cards.
- 3.0 million to the Ministry of Public Works for the maintenance of water sanitation projects in urban and rural areas.
- \$2.3 million to the Whole of Government for the payment of quotas to international institutions. This will ensure the continued participation of Timor-Leste in regional and international activities.
- \$1.5 million to Administration of Ports of Timor-Leste (APORTIL) for fuel and maintenance of Ro Nakroma.
- \$1.2 million to the Presidency of the Council of Ministers Affairs for supporting the health and housing of members of government.

Public Transfers

Public Transfers comprise all of the money the Government spends on public grants and consigned payments.

The allocation for this category is \$568.7 million, a 56.8% increase to the 2019 State Budget. It includes the economic recovery package for the COVID-19 pandemic, investment for Timor Gap and allocation to RAEOA -ZEESM.

Key Measures

- \$120.5 million to the COVID-19 Fund for health response and economic recovery projects.
- \$93.3 million to Ministry for National Liberation Combatants Affairs for veteran pensions.
- \$76.0 million to the Whole of Government for the development of RAEOA-ZEESM. This includes the financing of continued projects and recurrent operational costs for its regional development.
- \$44.6 million to the Ministry of Social Solidarity and Inclusion for the Contributory and Non-Contributory Regime.
- \$26.7 million given to the Ministry of Petroleum and Mineral 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. This includes investment planning, ISO certification and mapping of geological data.

- \$13.4 million to the Whole of Government for the provision of pensions for permanent civil servants under the contributory regime.
- \$11.5 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.
- \$9.2 million to the Ministry of Social Solidarity and Inclusion for a social assistance programme at the community level.
- \$8.0 million to the Whole of Government to cover loan repayments.
- \$7.2 million to the Ministry of State Administration for the National Program for Village Development (PNDS).
- \$5.5 million to Whole of Government for pension payments for former leaders and former members of sovereign bodies.
- \$5.0 million to the Whole of Government to support church activities through the Episcopal Church Conference.
- \$5.0 million to the Whole of Government for the capitalization of the National Bank of Commerce, Timor-Leste.
- \$4.0 million to the Whole of Government for the payment of bank fees and taxes on imported goods for grant projects.
- \$4.0 million to the Ministry of Education, Youth and Sport for concessions for public and private schools, payment of contractual teachers and operational costs for CAFÉ schools.
- \$3.4 million to the Office of the Prime Minister for civic welfare. This includes support for NGOs, the construction of Ai-Mutin and Becora Churches and activities of various civil societies.
- \$1.9 million the ministry of Interior for contingency measures for natural disasters.
- \$1.8 million to the National Parliament for parliamentary benches.
- \$1.8 million to the Secretary of State for Social Communication to provide subsidy for Radio Television Timor-Leste (RTTL), Tatoli and community radio.
- \$1.3 million to the Ministry of State Administration for a programme for increasing the capacity of municipal administration. This will mark an advanced stage in the implementation of decentralization policy which is funded by budget support.
- \$1.1 million to Secretariat for Youth and Sport, to provide support for various sporting events and youth activities throughout the year, including a subsidy for the Football Federation and Liga Amadora.
- \$1.0 million to the Whole of Government as contributions for international financial support. This will support the international community and allow Timor-Leste to further influence the global community.
- \$1.0 million to the Whole of Government for the g7+ secretariat. The work of this secretariat ensures that the voice of fragile states (including Timor-Leste) is heard and acted upon by the international community.
- \$785,936 to Secretary State for Cooperatives for subsidy to cooperative groups

- \$578,991 to the Ministry of Social Solidarity and Inclusion for a programme on HIV/SIDA.

Minor Capital

Minor Capital includes expenditures on vehicles, furniture and other movable assets. The 2020 budget (\$8.9 million) for this category reflects a 71.6% decrease compared to the 2019 State Budget (\$31.5 million). This is because the government does not allocate funds to this category during a duo-decimal budget regime. The current allocation focusses majorly on responding to the COVID-19 pandemic.

Key Measures

- \$4.1 million to the COVID-19 Fund for health response and economic recovery projects.
- \$2.5 million to the Ministry of Public Works for the purchase of an electricity transformer, prepaid meters and water equipment.

Capital and Development

The 2020 allocation for Capital and Development (CD) will decrease 51.1% compared to the allocation for 2019. Due to late introduction of the 2020 State budget, the number of new projects have been curtailed. \$10.0 million will be allocated to the COVID-19 Fund. As shown in Table 22, Capital and Development allocations under the CFTL are broken down into \$124.1 million for the Infrastructure Fund (excluding loans), \$5.9 million for the District Development Programs, and \$23.8 million for other Capital and Development projects across line ministries.

Key Measures

- \$124.1 million to the Infrastructure Fund for the construction of continued multiyear projects.
- \$13.2 million for the completion of retained and re-appropriated line ministry projects.
- \$10.2 million to the COVID-19 Fund for health response and economic recovery projects.
- \$5.9 million for the completion of retained and re-appropriated Integrated Municipality Development Programme (PDIM).

Table 22: Capital and Development Expenditures, \$million

	2018 Act.	2019 Budget	2020 Budget	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Total Capital and Development	297.7	261.5	153.4	667.8	638.0	355.7	195.0
Infrastructure Fund (excl. loans)	292.1	227.2	124.1	637.3	606.3	322.7	160.7
District Development Programs	4.2	7.8	6.0	6.2	6.5	6.7	7.0
Ministries / Agencies	1.4	26.5	23.4	24.3	25.3	26.3	27.3

Source: National Directorate of Budget, Ministry of Finance, 2020. The PNDS budget has now been moved to Public Transfers from Capital Development.

2.5.1.2 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 support sustainable economic growth, social inclusion, and promote the national connectivity. The Infrastructure Fund was established in 2011, with the role of financing strategic infrastructure projects on a multi-year basis. Since 2011 up to 2019, a total of \$4.63 billion has been approved and \$3 billion or 65% executed through the Infrastructure Fund (IF) to finance IF programs,

including the Public Private Partnerships projects (PPPs) and external loans. Since 2016, the Infrastructure Fund has been operated as an autonomous agency.

The VIII Constitutional Government set the infrastructure development priorities in the area of basic infrastructure for both social and economic sectors. That includes programs for roads, bridges, water and sanitation, and the provision of sustainable energy. Many projects have already been completed in previous years. Other important infrastructure will be required to support modernization and growth of the Timor-Leste's economy, including digital infrastructure, transport and logistics infrastructure for trade, as well as supporting industrial development.

In 2020 the total IF budget for 21 programs (including loans) is \$184.1 million, roads and bridges with the biggest share in the Portfolio (78%), and the remaining budget allocated to the rest of 20 programs (power sector, defence and security, public building, informatics, water and sanitation, agriculture and others). The budget has been allocated to projects that already had contracted out and for which the government needs to make payments based on progress toward the end of 2020. Moreover, a small amount has been allocated for some strategic projects such as supporting facility (power and road access) and emergency projects to initiate/ensure the procurement process.

Table 23: Infrastructure Fund budget and projection, \$million

Infrastructure Programs, \$ millions	2018 Act.	2019 Budget	2020 Budget	2021 Proj.	2022 Proj.	2023 Proj.
Total Budget (including loans)	366.5	366.5	184.1	708.0	669.4	386.7
Total Budget (excluding loans)	279.5	279.5	124.1	637.3	606.3	322.7
Agriculture	2.5	2.5	1.2	10.9	28.6	29.5
Water and Sanitation	3.7	3.7	2.6	27.5	28.2	10.9
Urban and Rural Development	9.5	9.5	2.3	9.2	5.0	5.0
Public Buildings	3.1	3.1	3.3	40.4	68.0	39.7
Education	1.0	1.0	0.1	24.9	25.6	21.2
Electricity	15.3	15.3	4.3	17.8	1.1	0.3
Informatics	2.9	2.9	2.6	7.7	12.0	3.4
Health	1.1	1.1	0.2	4.8	9.5	3.9
Security and Defence	3.3	3.3	3.8	11.5	15.6	15.0
Social Solidarity	0.5	0.5	0.6	0.9	1.3	0.6
Tasi Mane	60.6	60.6	2.0	299.0	275.2	118.2
Airports	12.5	12.5	4.0	13.5	14.5	10.3
Preparation of Designs and Supervision	3.9	3.9	3.6	13.7	7.2	2.7
Roads	127.4	127.4	80.0	130.7	97.7	54.3
Bridges	10.0	10.0	3.5	8.5	3.4	1.4
Ports	2.2	2.2	2.0	4.7	5.4	1.2
Tourism	0.3	0.3	0.0	0.7	1.0	0.5
Financial System for Supporting Infrastructure	3.9	3.9	3.1	3.8	4.2	3.8
Youth and Sport	2.8	2.8	0.6	2.7	1.3	0.3
Maintenance and Rehabilitation	13.0	13.0	4.3	4.5	1.7	0.4
Loans Program	87.0	87.0	60.0	70.7	63.1	64.0

Source: Major Projects Secretariat, the Ministry of Planning and Land Management, 2020.

2.5.1.3 Expenditure by Loan Financed Projects

Expenditure on loan-financed projects in 2020 is expected to reach \$60.0 million, as presented in Table 24. This is a 31.0% decrease compared to the allocation in the 2019 State Budget as no significant new loan projects will be initiated and many existing projects are coming to an end. A detailed description of these projects is presented in Section 2.6.3.3.

Table 24: Expenditure on Loan Financed Projects, \$million

	2020 Budget	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Loan Expenditure	60.0	70.7	63.1	64.0	27.0

Source: Ministry of Finance and Ministry of Planning and Land Management, 2020.

2.5.1.4 Human Capital Development Fund

The Human Capital Development Fund (HCDF) created in 2011 and its main objective to develop the human resources of the strategic priority areas in line with the National Strategic Development Plan. The programs financed through the HCDF are classified into four main groups, which are: Vocational Training, Technical Training, Scholarships and Other Types of Training.

The vocational training program is primarily focused on training young people in a foreign language to seek opportunities for service abroad and training in the industry. The technical training program covers training activities for public administration as part of the professional development program to raise the capacity of civil servants in all government departments. The scholarship program aims to increase the knowledge and skills necessary for the country's economic and social development. It covers grants and scholarships for the children of veterans, civil servants, teachers at private universities and young people without means. The other types of training program covers training for specialized areas such as defence, security and the justice sector and other areas of expertise that are proposed and approved by the CA-HCDF.

During duo-decimal system, HCDF reported an expected execution of \$6.5 million, and allocated another \$4.3 million for November-December. This results in a total allocation of \$10.7 million for the 2020 State Budget. The amount allocated is to finance the 4 types of training programs and 64 activities of 22 government institutions. The 2020 allocated amount compared to the year 2019 represents a reduction of 46.3% that is a cut of \$9.3 million.

The following table summarizes the budget allocations for the HCDF by program. As shown in Table 25, the majority is allocated to the scholarship program, which represents more than half of the total approved budget, i.e. 63.5% of the total budget. The remaining programs have the following budget allocation: technical training program (12.1%), other types of training program (17.7%) and vocational training program (7.5%).

As a result of the worldwide COVID-19 pandemic situation there have been certain restrictions on HCDF programme implementation in 2020, such as the suspension of all training, both short and long term (new scholarships) abroad.

Table 25: Human Capital Development Fund by Program, \$million

	2018 Actual	2019 Budget	2020 Budget	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Total HCDF (by Program)	15.7	20.0	10.7	13.9	25.8	26.8	27.9
Vocational Training	1.5	2.7	0.8	3.5	3.7	3.8	4.0
Technical Training	0.4	6.4	1.3	7.0	7.2	7.5	7.8

	2018 Actual	2019 Budget	2020 Budget	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Scholarships	12.5	8.7	6.8	1.1	12.5	13.0	13.5
Other Training	1.3	2.2	1.9	2.3	2.4	2.5	2.6

Source: Secretariat for Human Capital Development Fund, 2020.

2.5.2 Ministry Allocations

The summary of line Ministries' final allocation are presented in the Table 26.

Table 26: Proposed Allocation to Line Ministries, \$thousands

SDP Sector	Ministry	2020 Proposed Budget('000)
Economic Development	Ministry of Agriculture and Fisheries	7,265,087
	Ministry of Mineral Resource and oil	27,651,475
	Ministry of State, Coordinator of Economic Affairs	113,738,902
	Ministry of Tourism, Commerce and Industry	4,290,192
	Secretariat of State for Vocational Training Policy and Employment	3,765,006
	Secretariat of State for Cooperative Sector	2,500,151
Infrastructure Development	Ministry of Planning and Land Management	14,093,892
	Ministry of Public Works	195,423,435
	Ministry of Transport and Communications	6,482,998
Institutional Framework	Appropriations for all of Government	163,447,294
	Minister of State for the Presidency of the Council of Ministers	4,016,496
	Ministry of Defence including FDTL	21,493,520
	Ministry of Finance	16,513,335
	Ministry of Foreign Affairs and Cooperation	20,787,774
	Ministry of Interior including PNTL	45,989,819
	Ministry of Justice	11,609,323
	Ministry of Legislative Reform and Parliamentary Affairs Including SECS	4,729,787
	Ministry of State Administration	14,729,411
	Prime-Minister	7,035,457
Social Capital	Ministry of Education, Youth and Sports Including SEJD	68,332,420
	Ministry of Health	42,716,222
	Ministry of Higher Education, Science and Culture Including SEAC	5,429,323
	Ministry of National Liberation Combatants Affairs	98,768,183
	Ministry of Social Solidarity and Inclusion	59,286,030
	Secretariat of State for Equality and Inclusion	959,910
	Secretariat of State for Environment	957,841

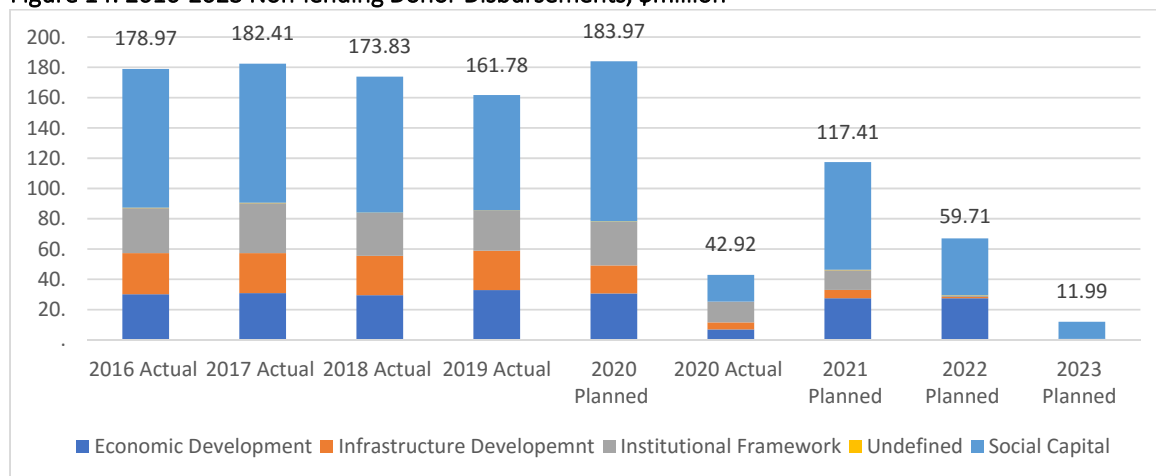
Source: National Directorate of Budget, Ministry of Finance 2020.

2.5.3 Development Partners' Commitments

The graph below shows generally declining rates of donor support between 2017 and 2019. However, 2020 disbursements are set to eclipse the previous year's by 13.7%. This significant increase in development partner non-lending assistance is due to development partners' recognition of the importance of effectively tackling the effects of the Coronavirus in Timor-Leste.

The international community has been able to mobilize additional support in a short time frame in order to support the Government in properly responding to the global pandemic.

Figure 14: 2016-2023 Non-lending Donor Disbursements, \$million



Source: Aid Transparency Portal (ATP), report generated on July 17, 2020.

Table 27: Planned Disbursements by SDP pillar and sub pillar for 2020-2021, \$million

Donor Group	2020	2021	2 year Total
Australia	66,807,438	51,542,378	118,349,815
Portugal	21,075,006	23,049,450	44,124,456
United States	22,196,854	7,482,138	29,678,992
United Nations	18,882,476	9,828,641	28,711,117
European Commission	15,918,958	5,677,218	21,596,175
World Bank Group	2,057,378	7,553,651	9,611,029
FUND (Green Climate Fund, Global Environmental Facility Trust Fund, and the Global Fund to Fight Aids, Tuberculosis and Malaria)	8,746,714	812,158	9,558,872
China	4,600,000	4,600,000	9,200,000
Japan	5,661,188	2,139,732	7,800,920
Germany	4,206,995	2,674,272	6,881,267
Asian Development Bank Group	6,515,118	123,235	6,638,353
Korea	2,777,678	1,926,298	4,703,976
New Zealand	4,498,297	-	4,498,297
United Kingdom	29,802	-	29,802
Total	183,975,922	117,411,191	301,383,072

Source: Ministry of Finance, DGGMRE, July 2020.

2.6 Financing

2.6.1 Definition of Financing

The total budgeted expenditure for 2020 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 (Treasury and RAEOA/ZEESM) and European Union Budget Direct Support. 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). Table 28 below shows the amount drawn from each of the financing items.

Table 28: Source of Financing, 2020-2024, \$million

	2020	2021	2022	2023	2024
Total Financing	780.4	1,362.0	1,387.6	1,185.7	1,095.9
Excess Withdrawals from PF	419.5	1,291.3	1,324.5	1,121.7	1,068.9
Use of Cash Balance	290.2	0.0	0.0	0.0	0.0
Use of Treasury Cash Balance	214.2	0.0	0.0	0.0	0.0
Use of RAEOA/ZEESM Cash Balance	76.0	0.0	0.0	0.0	0.0
Borrowing /Loans (disbursements)	60.0	70.7	63.1	64.0	27.0
European Union (BS) and ILO*	10.6	9.1	9.0	5.0	2.8

Source: National Directorate of Budget, General Directorate of Treasury and Petroleum Fund Policy and Management Office, Ministry of Finance, 2020. *ILO contribution one-off payment of \$0.7m for 2020

2.6.2 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 (domestic reviews and ESI) is a position that maintains fiscal sustainability. It is a benchmark level of spending for understanding the long run trend of government finances. The ESI can therefore be considered revenue. The government has changed the definition of revenue to include the ESI to make clearer what is fiscally sustainable.

The ESI is equal to 3% of the net petroleum wealth and is \$544.4 million in 2020. Further details on the ESI and petroleum wealth can be found in Section 2.4.2.1. of this Budget Book. The Government plans to withdraw \$419.5 million in excess of the ESI. Excess withdrawals are in line with the Government's frontloading policy. These excess withdrawals are being used to finance core infrastructure and human capital, which is necessary for long-term growth.

2.6.3 Loans

To meet development financing needs, the Government has explored possible additional sources of financing through external borrowing offered by multilateral and bilateral agencies. The main objective is to provide alternative financing for the development of strategic infrastructures as highlighted in the Strategic Development Plan (SDP) at minimum long-term cost, while meeting the national development goals.

Terms of Loans

At present, external loans are provided by international multilateral banks such as the Asian Development Bank (ADB) and the World Bank (WB), and bilateral agency of International Cooperation Agency of Japan (JICA). By creditor category, ADB is currently the major lender to Timor-Leste and its loans accounts for nearly 60% of the total loan amount followed by WB and JICA. Below are the terms of the loans.

Table 29: Terms of Loans

Creditor	Currency	Original Amount \$m	Grace Period (year)	Initial Amortization (year)	Completion Year	Interest rate 2019
ADB	\$, SDR	270.28	5.1	20	2044	2.51%
WB	\$, SDR	134.20	7.5	20	2059	2.65%
JICA	JPY	52.78	10	20	2042	0.70%
Total		457.51				

Source: DGGMRE, Ministry of Finance, 2020.

These loans carry considerable degree of concessionality and compare favourably to the opportunity cost of withdrawing funds from the petroleum fund. A key advantage is that the financial cost of concessional borrowing (2.34%) is currently lower than the annualized return on the Petroleum Fund since inception (4.5% as of December 2019) ensuring that the future debt repayments remain well within the country's capacity to pay.

Table 30: Cost of Borrowing VS PF Investment Return

Description	2012	2013	2014	2015	2016	2017	2018	Dec 2019
Cost of borrowing (effective rate)				1.02%	1.42%	1.68%	2.06%	2.34%
PF Investment Return since Inception Annualized	4.1%	4.4%	4.2%	3.8%	3.8%	4.4%	3.8%	4.5%

Source: DGGMRE, Ministry of Finance, 2020.

2.6.3.1 Portfolio Management

The management of public debt plays a critical role in determining the sustainability of fiscal policy. Due to change in methodology⁴, Timor-Leste's debt carrying capacity is now rated higher than previous by the International Monetary Fund (IMF) article IV assessment held in 2019 increased from weak to medium; thus, risk of external debt distress was also lowered from medium to low.

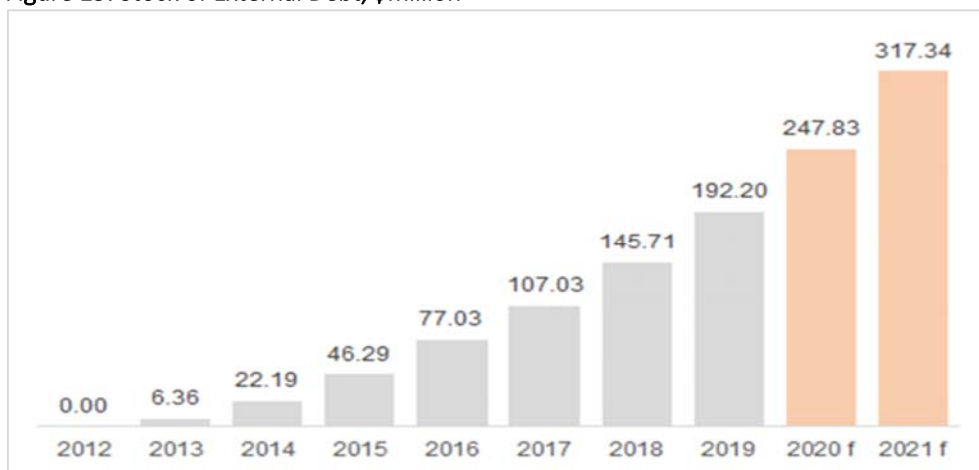
Changes in External Debt Stock

Over the fiscal year, the stock of external debt increased by 32% from \$145.71 million to \$192.20 million. This increase is due to \$49.75 million of new disbursements from multilateral and bilateral institutions including ADB, WB and JICA for ongoing and new projects. Interest repayments for

⁴In evaluating debt sustainability, Ministry of Finance is utilising a method jointly developed by the World Bank and International Monetary Fund, known as Low Income Country Debt Sustainability Analysis (LIC-DSA). As set under the new guidelines, a country's debt carrying capacity is classified into one of the three categories: weak, medium and strong based on its composite indicator score (CI).

the period increased from \$2.58 million in 2018 to \$3.92 million as at end of 2019. This amount is relatively small compared to the amount the Government currently owes to these lenders.

Figure 15: Stock of External Debt, \$million



Source: DGGMRE, Ministry of Finance, 2020

Increase of disbursement is expected to slightly decline in 2020 due to the implementation of safety measures relating to the COVID19 outbreak.

Debt Indicators

Timor-Leste’s debt ratios increased over the years, marginally. Despite this, total public debt remain sustainable over the years reflecting the Government’s prudent management of the debt.

Table 31: External Debt Indicators for the period 2012-2019, % of GDP and Revenue

	2012	2013	2014	2015	2016	2017	2018	2019*
Total Debt to GDP								
External Debt to GDP	0.00	0.43	1.43	2.9	4.66	6.73	9.23	11.71
Total Debt Service to Revenue								
External Debt Service to Revenue	0.00	0.01	0.04	0.04	0.12	0.27	0.42	0.98
External Debt Service to GDP	0.00	0.01	0.02	0.02	0.05	0.11	0.20	0.44

Source: DGGMRE, Ministry of Finance, 2020.

External Debt to GDP - The size of external debt to GDP during the period was relatively small when compared to the debt burden threshold and benchmarks as established under the debt sustainability frameworks for low income countries⁵. While the ratio constantly increased from 0.43% in 2013 to 11.6% in 2019, the values are far below the recommend 40% threshold.

Debt Service to Revenue – The debt service to revenue ratio started to increase more than two times in 2015. This increase was primarily due to an increase in debt service payments while revenue declined from 2018-2019. Repayment of principal started in September 2017 for ADB

⁵ Further reference on this subject: “Guidance Note the Bank-Fund Debt Sustainability Framework for Low Income Countries”, February 2018.

loan L2857. Despite the increase from 0.42% in 2018 to 0.98% in 2019, this percentage of debt service to revenue is still well-under the threshold 18%.

Debt Service, Actuals and Forecasts –Annual debt service is calculated on each loan to cover the repayment of principal, interest and other miscellaneous charges on a debt for a particular period.

Table 32: Debt Service by Institution and Type of Payment, \$million.

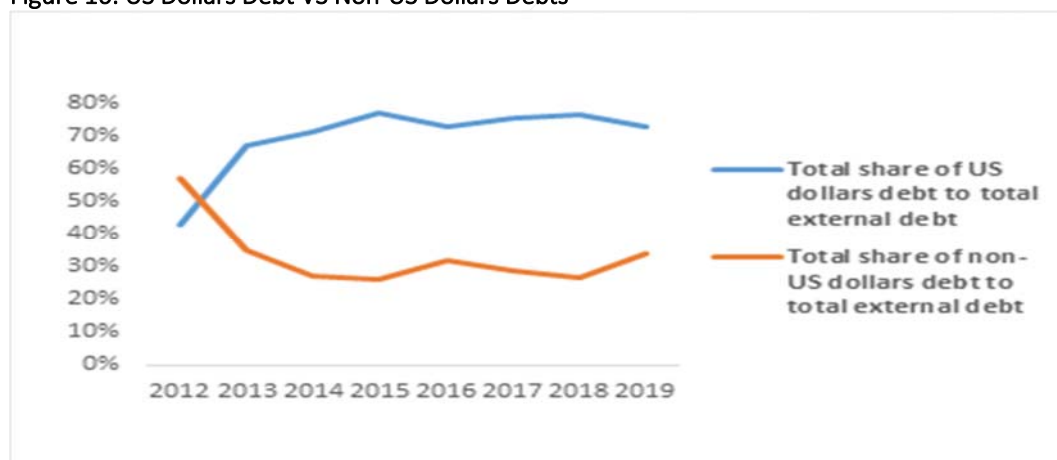
Donor	Debt Service	2018 Actual	2019 Actual	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
ADB	Principal	0.54	2.43	3.54	4.15	11.93	14.12	14.12
	Interest	1.65	2.66	3.13	7.13	5.13	5.49	5.32
	Charges	0.12	0.12	0.50	0.03	0.00	0.00	0.00
WB	Principal	0.00	0.83	0.83	1.41	2.75	2.75	2.75
	Interest	0.71	1.02	1.26	1.92	1.89	1.82	1.75
	Charges	0.00	0.00	0.00	0.00	0.00	0.00	0.00
JICA	Principal	0.00	0.00	0.00	0.00	2.57	2.57	2.57
	Interest	0.06	0.09	0.18	0.00	0.01	0.35	0.33
	Charges	0.04	0.03	0.12	0.01	0.00	0.00	0.00
Total		3.13	7.18	9.55	14.65	24.28	27.10	26.84

Source: DGGMRE, Ministry of Finance, 2020.

Risk Indicators

Foreign Exchange Risk – Complying with the loan policy note, the US dollar has remained the dominant currency in the Government’s external debt portfolio. Given the country’s highly dollarized economy, the large share of US dollar currency debt in the portfolio approximately 75% in 2019 cushioned the Government from extreme exchange rate movements. The policy to retain a larger share of US dollars debt continues at least in the short to medium term.

Figure 16: US Dollars Debt VS Non-US Dollars Debts

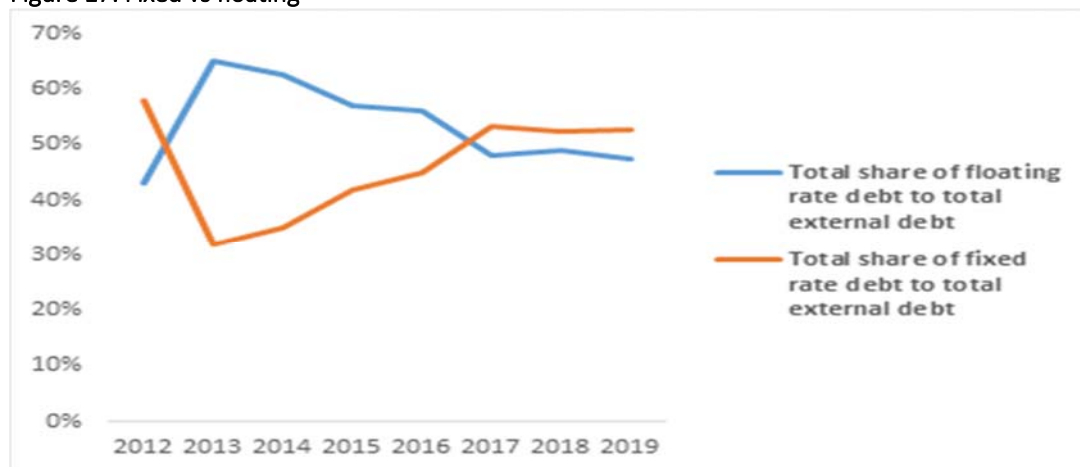


Source: DGGMRE, Ministry of Finance, 2020.

Interest rate risk – From 2013, the total share of fixed rate debt started to increase until it comprised the majority share of the debt portfolio, in 2017 and 2018 consecutively. The change occurred as a result of the ability of the Government in managing interest rate risk independently by converting the priority for disbursement from variable rate to fixed rate taken into account market interest rate fluctuation.

The cost of borrowing is expected to continue to rise as Timor-Leste is now classified as a blend country⁶ and is slowly being phased out from concessional financing by its external creditors. To limit the exposure to interest rate shocks, there needs to expand the use of more concessional financing from bilateral loan providers.

Figure 17: Fixed vs floating



Source: DGGMRE, Ministry of Finance, 2020.

2.6.3.2 Current Project Status

There are currently 15 ongoing road projects funded by concessional loans of which 6 projects had already been completed. These include roads connecting Tibar-Liquica/Tibar-Gleno, Manatuto-Laclubar junction and Solerema-Ainaro corridor. Other projects that most likely to be concluded by 2019/2020 are roads from Laclubar junct.-Natarbora, Manatuto-Baucau, and Dili-Manatuto bringing the total numbers of projects completion to over 60% by end the year.

Total capital contribution made by this investment is \$429.85 million which as a percentage of total investment, concessional loans accounted for approximately 65%. Of this, \$262.94 million has been disbursed leaving a balance of \$166.91 million to be spent for next 1-2 years in accordance with project construction periods. On the other hand, state contribution to the overall budget of Civil Works contract was \$163.45 million with an estimated remaining \$48.26 million for further disbursement.

New projects includes road section from Baucau-Venilale/Venilale-Viqueque and Laulara-Solerema. The key challenges in the implementation of these projects were mainly relating to the release of social safeguard documents by relevant line ministries including delay in environmental licensing and resettlements and payment delays. As for the latter, it explained the trends as illustrated in the graph below for road section Dili-Manatuto and Manatuto-Baucau. While projects progress was relatively high, disbursements were significantly low relative to the contract amounts.

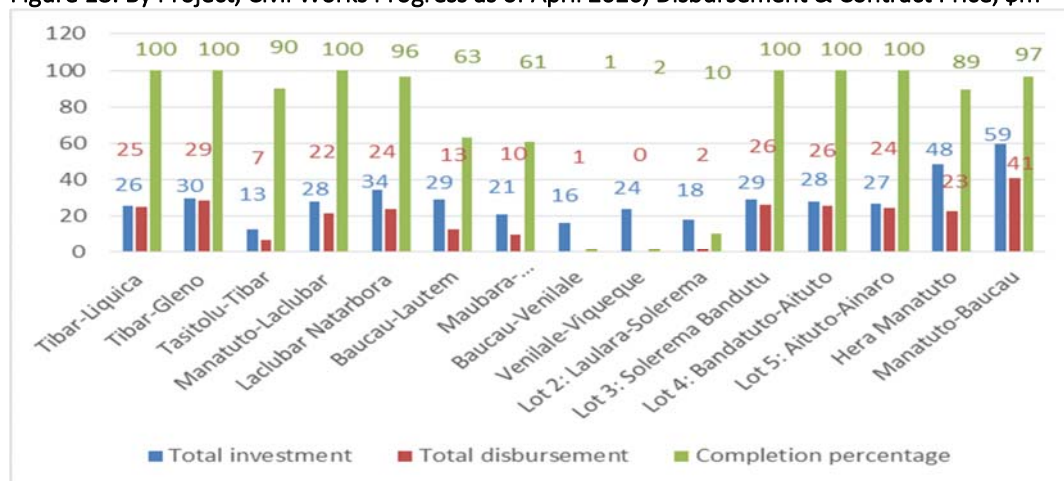
Table 33: Total Investment in Civil Works, \$million

⁶ Being a blend country, Timor-Leste has a limited access to concessional lending with a fixed interest rate.

Source of Fund	Total Investment in Civil Works	Disbursement as at December 2019	Contract Balance
Loan Fund	266.4	147.8	118.7
State Contribution	163.5	115.2	48.3
Total	429.9	262.9	166.90

Source: DGGMRE, Ministry of Finance, 2020.

Figure 18: By Project, Civil Works Progress as of April 2020, Disbursement & Contract Price, \$m



Source: DGGMRE, Ministry of Finance, 2020.

It is important to note that there is about \$40 million loan saving from ADB ongoing loan-funded projects. The cost reduction increases year by year as a result of the number of participating bidders also increases in the public procurement; hence, bringing down the prices by approximately 40%. This includes surplus in civil works, consulting services and unallocated loan contingencies. By projects, Baucau-Lautem/Maub-Karim/Atab-Motain contributed over \$25m in saving while other projects such as Manatuto-Natarbora, Baucau-Viqueque, Manatuto-Baucau, and Tacitolu-Tibar accounted for the remaining balance.

As a borrower, the Government can decide whether to fully utilise the saving or simply cancel the amount by complying with public debt law No.13/2011 and other relevant laws. For this purpose, the Government has already requested ADB to maximise the use of some of this saving to fund the construction of three (3) bridges: Seical Bridge, Borouai causeway and Malailada causeway with a total estimated cost at \$14 million, and a long Baucau-Lautem road section, to mitigate the pressure on the state budget.

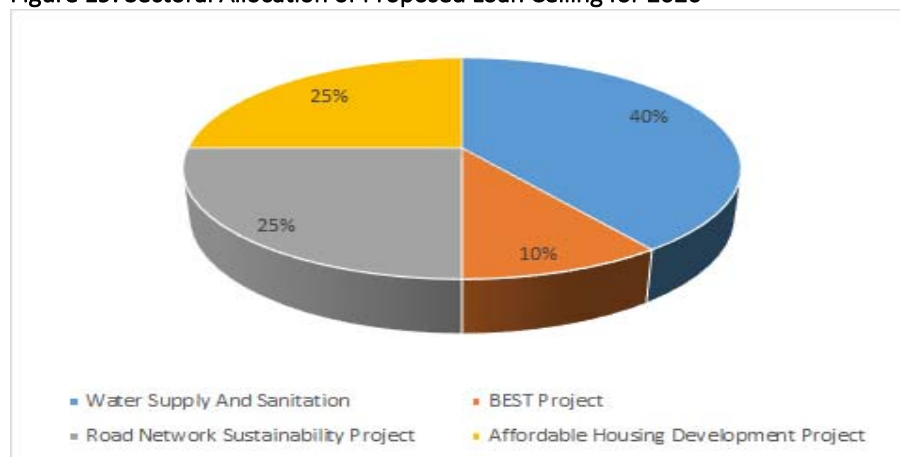
2.6.3.3 Future Loans

Infrastructure development would remain to play a key role in the country's economic development success in the medium term. New strategic sectors such as water, education, housing, and other sectors should receive concessional financing. This would help unleash the growth potential of other key economic activities; hence, inclusive economic growth and poverty reduction.

In this respect, annual loan ceiling is required for parliamentary approval, in the context of the State Budget Law, prior to implementing all these programs. The amount is set according to project cost estimates and debt sustainability analysis. On the debt sustainability analysis (DSA), based on the Ministry of Finance internal analysis, the country's external debt stock to GDP remained relatively low in 2019, which is 11.6%. IMF staff completed the country's 2019 article IV

consultation by stressing the need for making effective use of concessional borrowing for continued investment in infrastructure. In light of all the above, the Government is therefore, proposing a ceiling of \$200 million for new concessional foreign loans to be negotiated in 2020.

Figure 19: Sectoral Allocation of Proposed Loan Ceiling for 2020



Source: DGGMRE, Ministry of Finance, 2020.

2.6.4 Use of Cash Balance

The total cash balance to be used to finance 2020 State Budget is \$290.2 million. \$214.2 million is to come from the Consolidated Fund of Timor-Leste (CFTL) held in the Treasury Account. The other \$76.0 million is to come from the cash balances held by RAEOA/ZEESM. There is no forecasted rollover of cash balances for the HCDF from 2019.

Table 34: Use of Cash Balance in 2020, \$million

Total	2020
HCDF Rollover	0.0
Drawdown of Cash Balances from the Treasury Account	214.2
Cash Balance from RAEOA/ZEESM	76.0

Source: General Directorate of Treasury and Secretariat for the Human Capital Development Fund, 2020.

2.6.5 Budget Support

Timor-Leste has been receiving Budget Support (BS) from the European Union since 2014. The latest agreement was signed in 2016 under the 11th European Development Fund.

EU BS is considered as a financing for 2020 State Budget because it uses Government system (the money is in a Treasury sub-account) and on-budget, where the money is used directly by the beneficiary ministries for the public financial management program (Ministry of Finance), Malnutrition (Ministry of Health) and decentralization (Ministry of State Administration).

Total amount of BS for 2020 State Budget is \$9.9 million. Of that amount, \$6.2 million is distributed to the Ministry of Finance, \$2.3 million to the Ministry of Health and \$1.4 million to the Ministry of State Administration.

In this context, the funds are directly given to the country's government without prior earmarking. However, a variable tranche depends on specific Key Performance Indicators (KPIs) agreed upon by the Ministry of Finance and the EU. While the funds are not separate or additional to the

Ministry's core business, they must support clearly stated priorities and the Ministry's own planning framework.

For 2020, the Government also received a one-off payment of \$748,000 direct support from the International Labour Organization (ILO) to be incorporate in to the COVID-19 fund. The funds are implemented directly by Ministry of Social Solidarity to support the operational costs of the subsidy payment to families during the State of Emergency.

2.6.6 Public Private Partnerships

2.6.6.1 Overview of Public Private Partnerships in Timor-Leste

In general terms, the Public Private Partnership (PPP) refers to arrangements in which the private sector build infrastructure assets and provides services that traditionally have been provided by the State. The underlying rationale for PPPs in Timor-Leste stems from the fact that this arrangement may potentially allow the Government to benefit from the private sector expertise and financing, which then results in higher quality and efficiency, as well as lower risk borne by the Government. The government will also benefit from shifting the risks onto the private partner – for example, the risk of delays or cost run-ups in construction. Another advantage is the fact that the bundling together of the various stages of providing an infrastructure service creates the right incentives for the contractor to perform to a high standard. Should the same contractor is responsible for building, operating and maintaining a piece of infrastructure for a number of years, it will have an inherent incentive to build it in a way that optimizes the operation. Another advantage of proceeding with PPP arrangement is the fact that PPP contracts are typically output-based and extracting value-for-money through risk transfer to the private sector over the life of the project, rather than input-based as is generally the case with traditional procurement. This means that the Government is certain of paying for actually-functioning services that meet actual social needs.

Timor-Leste began exploring PPPs as a modality for project implementation over the last 7 years and started out by establishing a PPP Policy, PPP legislation and a dedicated PPP Unit Ministry of Finance. The PPP policy establishes key principles of PPP, while the legislations (Decree-Laws no. 42/2012 as amended by Decree-Law no. 02/2014 and Decree-Law no. 08/2014) confirms the policy as formal process, sets a framework for enabling the public and private sectors to be parties in a PPP arrangement; define the powers of relevant agencies and regulates the procedures associated with the PPP Projects Cycle. 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 instance, the legislations on PPPs includes a requirement that all PPP projects undergo both a pre-feasibility study and a full-fledged feasibility prior to proceeding to the procurement phase.

Decree Law no. 8/2014 stipulates the formation of PPPU, a PPP facilitation agency under the Ministry of Finance to take on the task of managing and implementing the PPP Project Cycle in coordination with line ministries and Council for Administration of Infrastructure Fund (CAFI). An important role of the PPP Unit is to promote and create environment for attracting foreign direct investment (FDI) through PPP modality, while at the same time looking for ways of encouraging local private sector involvement in PPP projects by pursuing policies and regulations that will allow for development of small to medium scale PPPs. One Sector that have high potential for this is the Tourism Sector.

2.6.6.2 Existing PPPs Projects

Currently, one PPP project is in Implementation and Operation Stage (Tibar Bay Port PPP), one in Procurement and Negotiation Stage (Medical Diagnostics) while three in early Feasibility Stage (Affordable Housing, Cristo Rei and Presidente Nicolao Lobato International Airport PPPs).

Tibar Bay Port PPP Project

The PPP modality chosen for Tibar Bay Port was a 30-year concession, including the design, partial financing, construction, operation and maintenance of the port infrastructure. Concession Agreement was signed in June 2016 while financial closing was reached in August 2018. The project is currently in construction phase with overall construction progress as end of April 2020 was 25.37% with dredging and reclamation completed, 33 % stone column done and 92 % Detail Design work completed. Tentatively it is estimated that commencement of operation will happen in August 2021, however, discussion is ongoing between Grantor and Concessionaire to extend the schedule service commencement date from August 2021 to May 2022 due to the COVID19 outbreak as proposed by Timor Port SA.

Tibar Bay Port PPP project involved the provision of Viability Gap Funding (VGF) of \$129.5 million in 2016 (recorded as 2016 expenditure) for earthwork, construction and equipment purchase. Private sector contribution to this project is around \$153.87 million meaning that the Government's VGF contribution stood at about 45% of total project cost.

To hold the VGF until disbursement, the Government was contractually required to deposit the full amount in an Escrow Account. For this purpose, a three party Escrow Agreement was reached between the Government, Timor Port SA and the United Overseas Bank (UoB) of Singapore in November 2016. Three disbursements have been made from the Escrow Account, two in 2019 and one in early 2020. The Escrow Account is earning interests. As of 1st June, 2020, interest earned amounted to \$8.23m, deposited in the Escrow Interest Account. The Escrow Agreement stipulated that the interest earned can only be transferred to the Government account after the closing of the Escrow Account and/or termination of the Escrow Agreement.

Medical Diagnostics - PPP

Medical diagnostics PPP is currently in preparation of tender documents and other necessary structures (e.g. accessible data room) which are the early steps in the Procurement and Negotiation Stage. The Feasibility Study and Transaction Structuring Report (TSR) were approved by CAFI on 11 July 2019 with clearance issued by the Ministry of Health in June 2019. The TSR recommended that the project upgrade imaging and laboratory diagnostic services in the National Hospital, all referral hospitals and 8 Community Health Centers (CHCs) to achieve a demand coverage of 98.2% of the total population. Concession period is recommended at 11 years to consist of 1 year of upgrading and construction of selected facilities and 10 years operation period. The estimated cost of Government contribution will be about \$17.9 million per year for operation and maintenance of health diagnostic services. It is estimated that the contribution of private sector will be around \$11 million for the upgrading or construction of facilities, operate and maintain Laboratory and Imaging centers and provide quality diagnostic services to patients in Timor-Leste. In addition, the private sector also will employ and train diagnostic services staff, comply with local regulation and international best practices in health care service delivery. Potential bid parameter and bid evaluation criteria have also been recommended. However, the project is on hold since the beginning of 2020 due to various reasons, particularly with the coronavirus disease (COVID-19) outbreak. Proposed work program and timetable will be adjusted and resumed as soon as the team have better view of the situation.

Dili Water Supply - PPP

Dili Water Supply PPP project is currently in the finalization of FS phase II where options for PPP modalities selected during the phase I (lease, reduced-risk lease and management contract) were examined in greater detail from the technical, financial, economic and legal perspectives. The main objective of the on-going 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 for the capital city. However, recent changes in government policy regarding reform of the sector will likely make this project difficult to turn into a PPP project. Hence, no further budgetary allocation has been made for this program.

Affordable Housing

The pre-feasibility study for Affordable Housing PPP project has been completed and submitted, and is currently in the process of finalizing the Financial Advisory Service Agreement (FASA) document. The study made an assessment of the housing ecosystem in Timor Leste including existing housing market, the housing value chain which considers the demand and supply sides of the housing provision in Dili and make recommendations for the creation of a vibrant housing market in the capital. Among the recommendations are – facilitating access to construction finance products and incentivize developers to provide market-based solutions for affordable housing (supply side) and facilitate access to home loans/mortgages for households with effective purchase power (demand side) and make available subsidy program to increase access to housing for qualified low income groups. Subsequent steps for the project is to secure CAFI approval before the project can proceed to Feasibility Study phase where deeper analysis of the technical, legal, commercial as well as social and environmental terms are conducted.

Presidente Nicolau Lobato International Airport Development

The President Nicolao Lobato International Airport (the Airport) is the primary gateway to Timor-Leste, handling about 250,000 passengers per year through regular connections to Darwin, Denpasar and Singapore. Due to its short runway length and width (1,850m and 30m, respectively); however, the airport is currently limited in its capability to accommodate larger aircrafts. The Government is committed to develop the Airport both its runway, ground facilities and other support infrastructure to provide the country with a modern airport to meet expected traffic growth, support development of key strategic economic sectors so as to facilitate access to new markets in the region and comply with International Civil Aviation Organisation (ICAO) requirements for safety and service standards. As stated in the Strategic Development Plan (SDP), the Airport needs to be developed substantially to meet the needs as mentioned above.

Given the above, the VIII Constitutional Government initiated the Airport development through the establishment of an Airport Master Plan with guidance and institutional support of the Inter-ministerial Commission (IMC) and Inter-Ministerial Working Group (IMWG). Both Institutions comprised of Ministers and Senior Officials of these Ministries. On the request of the Government, the International Finance Corporation (IFC) re-assessed and updated the previous studies, particularly on space allocation for various airport functions, air traffic forecast, investment program and applicable regulations and institutional arrangement. The Master Plan was presented to IMC on 22nd October 2019 for pre-approval and proceeded to Council of Ministers (CoM) for final approval on the subsequent day. The approval of the CoM entails the implementation of project through PPP Hybrid modality. In view of International Finance Corporation's (IFC) advisory capacity on structuring of PPP arrangements and experience in PPP due-diligence and procurement of airport developers and/or operators in many countries, the Government has requested IFC to perform the above-mentioned roles and activities as lead advisor through a Financial and Advisory Service Agreement (FASA). Several key components

established in the MP for the Airport includes extension of the runway, development of a new terminal, control tower and other ancillary facilities. Moreover, the project involves multiple stakeholders including International Finance Corporation (IFC) as the leading PPP transaction and financial structuring advisor to government, Asian Development Bank (ADB) in the provision of technical assistance for feasibility studies for 2.1 kilometres runway upgrading and other support facilities. On the other development, Japan International Cooperation Agency (JICA) expressed its commitment to develop a new Airport terminal building through the provision of grant financing. The total estimated capital investment for development and upgrading of the Airport infrastructures and support facilities amounted to \$483 million. The project finance may come from different sources of financing, and it displays the combination of loan, grant and state funding, including exploring the possibilities of private financing through PPP. Some major components of the project, have reached feasibility study stage while other components still subject to continued discussion and final confirmation from development partners.

2.6.6.3 New Initiatives

Tourism is thought to be one of several strategic sectors with potential to further diversify Timor-Leste's economy. Due to its close linkages to other sectors, improvement to the tourism sector requires wide range of intervention, e.g. in transport infrastructure, water and sanitation, agriculture, health infrastructure and education and training.

3 2020 General State Budget Law

Please, note that this document will be submitted separately.

3.1 Annexes

Please, note that this document will be submitted separately.

4 Supporting Documents

4.1 Justification for Transfer from the Petroleum Fund

4.2 ESI Report: Requirement for Transfer from the Petroleum Fund for the 2020 ESI

4.3 ESI Report: Transfers from the Petroleum Fund in Excess of ESI 2020

Supporting documents will be presented separately





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MINISTRY OF FINANCE

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