"The shift in the Government's focus from conflict resolution to rapid economic development and poverty reduction demands that the MoF also shifts its attentions from building basic capabilities for managing public finances to supporting the Government's implementation of its SDP, 2011-2030."

Timor-Leste's Ministry of Finance

2012 Annual Report

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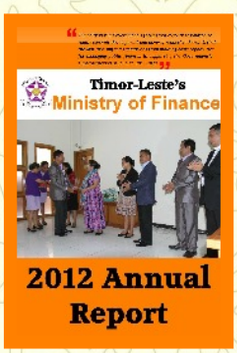

Message from the Minister

2012 - Challenges and Successful transition

The activities of the Ministry of Finance in 2012 took place in the context of an extraordinary year of challenge and transition for Timor-Leste. Both Presidential and Parliamentary elections were conducted in a peaceful manner and delivered to our nation a new President and legislature. The Fifth Constitutional Government was formed and the five-year Program of the Government was prepared and approved by the National Parliament. On top of that, the end of the year saw the closing of the United Nations Peacekeeping mission marking a new period of maturity and self-confidence for our country.

On the International front, 2012 was a watershed year for the Ministry of Finance with the signing of Timor-Leste's first concessional loans with JICA and the ADB, and the strengthening of our position in the International Monetary Fund through joining the Constituency led by Brazil. Also in 2012, the Ministry of Finance, as home to the g7+ Secretariat, facilitated Timor-Leste's co-hosting of a High Level Side Event at the United Nations and worked to secure a meeting with the new President of the World Bank to advocate for the 18 nations of the group.

My own nomination by the Secretary General of the United Nations to his High Level Panel advising on the Post-2015 Development Agenda was both an honor and an addition to the workload in 2012 for our already overworked Ministry. However this was an important opportunity to give a voice to the challenges of Timor-Leste and other g7+ countries and to lobby for better ways of international engagement.

Here at home, major achievements of the Ministry included the preparation of two budget submissions to the National Parliament, the approval and publishing of the Ministry's Strategic Plan (2011-2013), the approval by the Council of Ministers of a new Ministry of Finance organic law and organizational structure and the successful transition by Treasury to cash-based accounting by the end of 2012.

In 2012, our revenues were up with an increase of 21% in receipts from Petroleum Taxation on the 2011 figures. In domestic revenue collection, our projections were exceeded with $43.8M collected by year's end. Budget execution within the Ministry remained high at **89.10 %.**

We continued our push to reform and improve our systems. The online Transparency Portal was extended to include four portals: the Budget Transparency Portal, the Aid Transparency Portal, the eProcurement Portal and the Government Results portal. We also implemented the progressive decentralization of asset management in line with MoF's administrative reform programs. In the area of aid coordination and harmonization, we continued to work all year round with and coordinated our annual Timor-Leste Development Partners Meeting (TLDPM), with the theme, "A Nation Moving Forward – Handover Achievement, Challenges & Opportunities for the Future."

Overall, 2012 was a very challenging yet very productive year for the Ministry. We've accomplished a lot! At this stage, I would like to take this opportunity to thank all those who, in one way or the other, have been part in the Ministry's journey in 2012!

To our Ministry staff, managers, senior officials: congratulations and let's keep up the good work!

Emilia Pires
Minister

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The Ministry of Finance: Mandate and Structure

The Ministry of Finance of Timor-Leste (MoF) is the central body of the Government responsible for drafting, executing, coordinating and assessing the policies defined and approved by the Council of Ministers, for the areas of annual planning and monitoring, budget and finance. It is mandated to undertake the following functions:

(a) Propose macroeconomic, monetary and exchange-rate policies, in collaboration with the central bank;

(b) Propose policies and draft laws and regulations on tax and non-tax revenues, budgetary framework, procurement, public accounting, public finance, auditing and control of the State treasury, issuing and management of the public debt;

(c) Administer the petroleum fund of Timor-Leste;

(d) Work in cooperation with the Ministry of Foreign Affairs, so as to coordinate the relationship of Timor-Leste with the donors;

(e) Manage the external public debt, the State's stakes in companies and external assistance, coordinating and defining its financial and tax aspects;

(f) Manage the State's assets, without prejudice to the powers of the Ministry of Justice in terms of real estate assets;

(g) Compile and publish official statistics;

(h) Responsible for the implementation of the budget allocated from the State General Budget;

(i) Draft necessary regulations and perform financial control over the expenses of the State Budget that are allocated to other ministries, in view of pursuing a policy of granting greater financial autonomy to the services;

(j) Look after the good management of the funds transferred from the State Budget to bodies that are indirectly administered by the State and by the local government bodies, through audits and monitoring;

(k) Administer and promote international technical assistance in terms of technical advisory for State bodies, except for the areas of human resources training;

(l) Set up collaboration and coordination mechanisms with other Government bodies responsible for related areas.

The MoF is under the responsibility of the Minister of Finance, who supervises it and is answerable to the Prime Minister. The MoF carries out its responsibilities through services integrated in the direct administration of the State.

The following central services are under the direct supervision of the Ministry of Finance:

(a) Directorate-General for State Revenues, consisting of the following national directorates:

i) National Directorate of Customs

ii) National Directorate of Oil Revenues

iii) National Directorate of Taxes

(b) Directorate-General for State Finances, consisting of the following national directorates:

i) National Directorate of Budget

ii) National Directorate of Treasury

iii) National Directorate of Procurement

iv) National Directorate of Asset Management

v) National Directorate of Autonomous Public Authorities

(c) Directorate-General for Policy Analysis and Research, consisting of the following national directorates:

i) National Directorate of Statistics

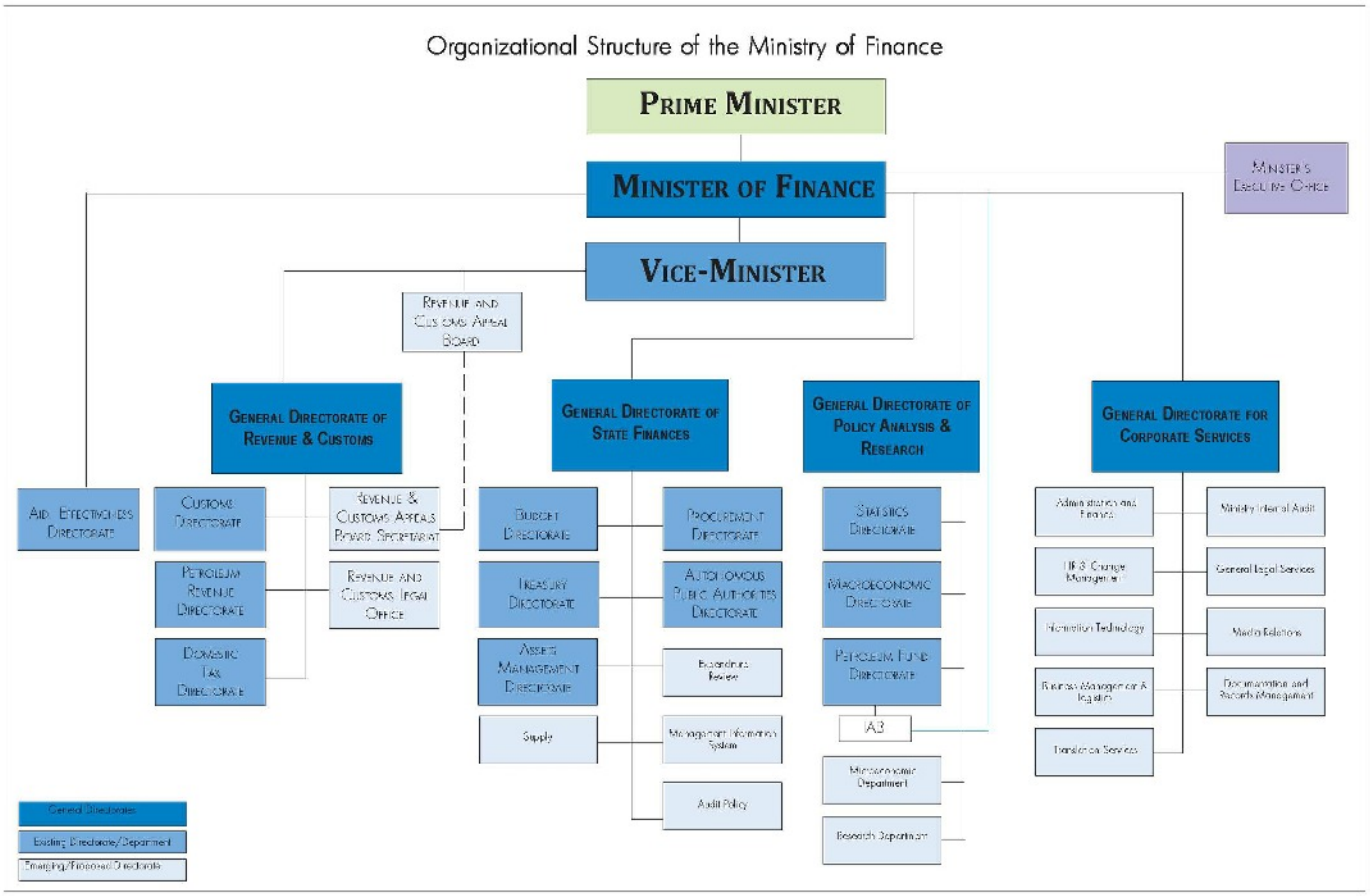
ii) National Directorate of Macro-economy

iii) National Directorate of Petroleum Fund

(d) Directorate-General for Corporate Services

(e) National Directorate for Aid Effectiveness

Up until 8 August 2012, the MoF operated under the following structure:



The Executive Office

> **A core function of the Executive Office is to help ensure that all stakeholders of the Ministry are responded to efficiently and effectively.**

In 2012, a total of **3,527 incoming** official communications were received by the Executive office, broken down as follows:

- Letters, 1,706
- Invitations, 308
- For Information, 1,226
- Books and publications, 30
- Others, 257

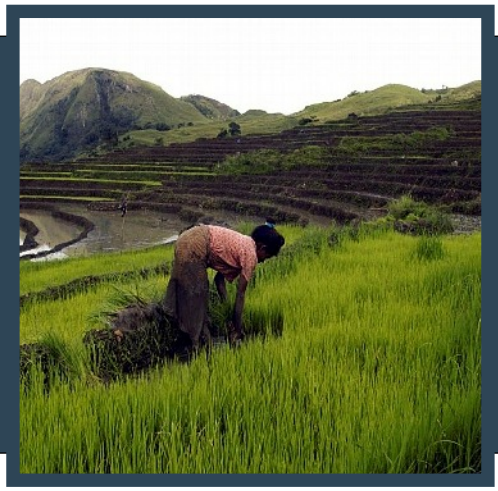
In return, the Executive Office issued a total of **576 outgoing** mail matters.

The Executive Office also provided support to the requirements of the Minister and the Vice-Minister, in the Minister's absence, during the weekly regular and extra-ordinary meetings of the Council of Ministers (CoM). It also provided support to the regular convening of the Consultative Council for Financial Management (CCFM) during 2012. A total of **12 CCFM sessions** were recorded in 2012.

In addition, and as recorded, a total of **294 meetings** were convened and organized through the Executive Office. These meetings were chaired by the Minister or the Vice-Minister of Finance.

The Executive Office also managed the requirements and preparatory work for the official overseas travels and representations of the Minister. The Executive Office also supported other units of the Ministry during Ministry-wide events such as meetings and conferences held in the country.

2012 Economic Highlights



"Expenditure in 2012 reached a record $1,194 million, increasing in 2011 expenditure levels by 9%. In 2012, 58% of the executed budget was spent on recurrent and 42% on capital. The overall execution rate in 2012 was 71% compared to 84% in 2011."

Global growth continued to slow to 3% in 2012 mostly because of negative growth in the Euro area and the United Kingdom (-0.4% and -0.2%, respectively), and sluggish growth in other advanced economies. Despite suffering from reduced export growth rates because of the slowdown in advanced economies, and from lower domestic demand, developing Asia remains the fastest growing region (6.6%), driving both the emerging and developing economies' growth[1].

Concerning international prices, oil prices increased by 1% in 2012[2]. Agricultural commodity prices experienced high volatility, with dramatic increases in the first and third quarters of 2012, followed by correspondingly strong decreases in the second and fourth quarters. Overall, the FAO food price index indicated that agricultural commodity prices were 0.7% lower in December 2012 compared to December 2011, and for the year as a whole averaged 7% less than in 2011[3].

Lower growth and lower commodity prices have contributed to overall lower levels of inflation. In fact, both advanced and emerging and developing economies saw consumer prices grow at lower rates compared to previous years (at 2% and 6.1% for 2012 compared to 2.7% and 7.2% in 2011, respectively)[4].

Domestic Economy

The latest actual GDP data available for Timor-Leste are for 2011[5]. These show that between 2004 and 2011, GDP increased substantially, reaching more than $4,400 million in 2011. In 2011, GDP was over 2.7 times the 2004 GDP level. It must be noted, however, that almost 80% of Gross Domestic Product (GDP) originates from the petroleum sector. In fact, the non-oil sector level of GDP for 2011 was estimated at $952.2 million (2010 prices), representing a 10.8% increase compared to 2010. This growth was mainly led by construction projects, largely financed by Government contracts. For 2012, Government financed investment led growth has continued, and preliminary data for the agricultural sector reveal much brighter prospects compared to previous years. After two years of bad harvests, agricultural production is estimated to have recovered strongly, notably for the country's main staple crops, rice and maize, and its main export, coffee. This improvement in yields will be beneficial to most Timorese, as the large majority of the population's consumption remains tied to the output from the earth.

The year 2012 has seen a dramatic improvement in the year-on-year inflation rate. After peaking in January 2012 (17.7% for Dili), the inflation rate stabilized at circa 11% at the end of the first quarter and during Q2 and Q3 before decreasing further to 10.9% (for Timor-Leste) at the end of the year. A double-digit inflation rate remains indeed high, but this substantial reduction in its volatility is highly notable and marks a considerable improvement for Timor-Leste compared to previous years.

Concerning the external sector, preliminary figures indicate a significant improvement in the country's exports compared to 2011. In 2012 exports (excluding re-exports) amounted to $31 million, well more than double the value of exports

for the year 2011 ($13.2 million). The value of total imports, however, also surged substantially to $571 million at the end of 2012; the trade balance thus remains in deficit.

Expenditure in 2012 reached a record $1,194 million, increasing on 2011 expenditure levels by 9%. In 2012, 58% of the executed budget was spent on recurrent and 42% on capital. This represents an increase in the proportion of spending afforded to recurrent compared to 2011. The overall execution rate in 2012 was 71% compared to 84% in 2011. It should be noted that 2012 expenditure figures have not yet been reconciled or audited and therefore they may be subject to minor adjustments.

Domestic revenues are comprised primarily of taxes, fees and charges, other non-tax revenue streams (including the rice subsidy program) and the autonomous agencies. In 2012, domestic revenues were $134.9 million. This represented a 24.3% increase compared to the 2011 level, significantly higher than the 12.6 % increase registered between 2010 and 2011.

Government tax revenues increased by 25% in 2012 to $98.1 million, up from $78.6 million in 2011. Amongst these, indirect taxes amounted to $59 million, whilst direct taxes were $39.2 million. Notably, income taxes decreased between 2011 and 2012 and represented only 7.5% of total tax revenue, whilst corporate taxes almost doubled to a record $7.2 million. Within the broad direct taxes category, however, withholding taxes remain dominant due to Government financed building and construction contracts which are subject to these type of taxes. The 2012 growth in indirect taxes reflects a surge in 2012 revenue from sales taxes, which almost doubled to $15.9 million, and to continued growth in revenue from excise taxes ($25.8 million). Albeit declining to $13.1 million, revenues from import duties remain a major contributor. The weight of these categories largely reflects the fact that, as a small developing island nation, Timor-Leste is very dependent on imports for domestic consumption and investment. Both revenue from fees and charges and from autonomous agencies grew between 2011 and 2012, by 11% and 13% respectively. Growth in the latter category was largely driven by revenues for EDTL, because of increased demand for electricity by businesses and domestic consumers, continued efforts to provide country-wide access to the grid and improvements in charging mechanisms, particularly after the opening of the Hera power plant in 2011. The former category is subject to volatility because of several changes to its categories each year (in 2012, for example, fees regarding vehicles were broken down into several categories). Finally, amongst the other non-tax revenues, rice sales are by far the largest and most variable contributor, due to evolving Government policy, uncertainty regarding totals to be imported, totals to be sold at a subsidized level and future international rice prices. In 2012, revenue from rice sales increased to $4.3 million, up from $1 million in 2011.

MoF

[1] IMF World Economic Outlook (WEO) Update, January 2013.

[2] Simple average of prices of UK Brent, Dubai and WTI crude oil, as reported in IMF World Economic Outlook (WEO) Update, January 2013.

[3] Food and Agriculture Organisation of the UN Food Price Index.

[4] IMF World Economic Outlook (WEO) Update, January 2013.

[5] DNE (2012), preliminary estimates based on the GDP Expenditure approach.

Petroleum Fund Performance

> **"The value of the Petroleum Fund was US$11,775 million at the end of 2012, an increase of US$2,465 million for the year."**

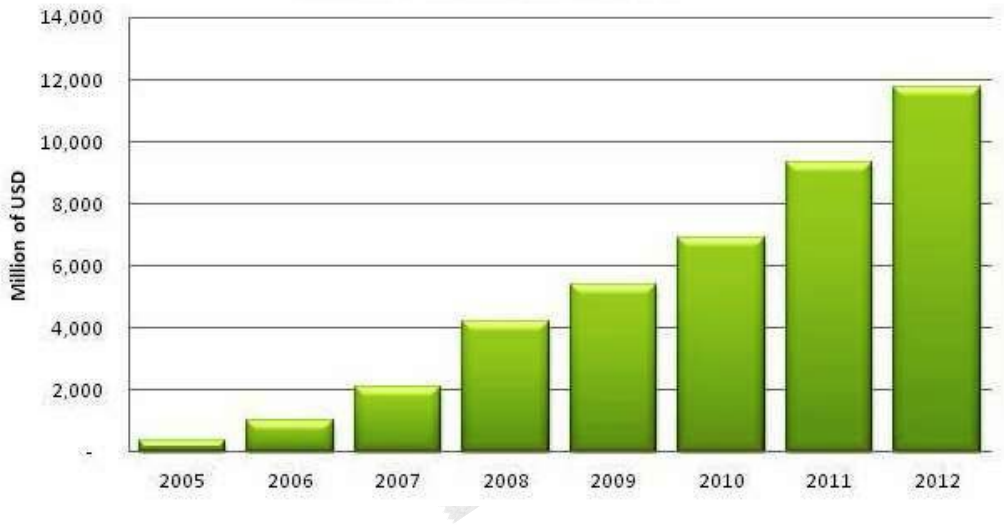
The Petroleum Fund of Timor-Leste was established in 2005 under the provisions of the Petroleum Fund Law no 9/2005, which was promulgated on 3 August 2005. The Law was amended with Petroleum Fund Law no 12/2011, which was promulgated on 28 September 2011.

The Government is responsible for the overall management of the Petroleum Fund. On behalf of the Government, the Ministry of Finance has entered into an agreement with the Banco Central de Timor-Leste (BCTL), delegating responsibility for the operational management of the Petroleum Fund.

Petroleum Fund Balance

The value of the Petroleum Fund was US$ 11,775 million at the end of 2012, an increase of US$ 2,465 million for the year. Figure 1 shows the market value of the Petroleum Fund since inception of the Fund in September 2005.

Figure 1 - Petroleum Fund Balance

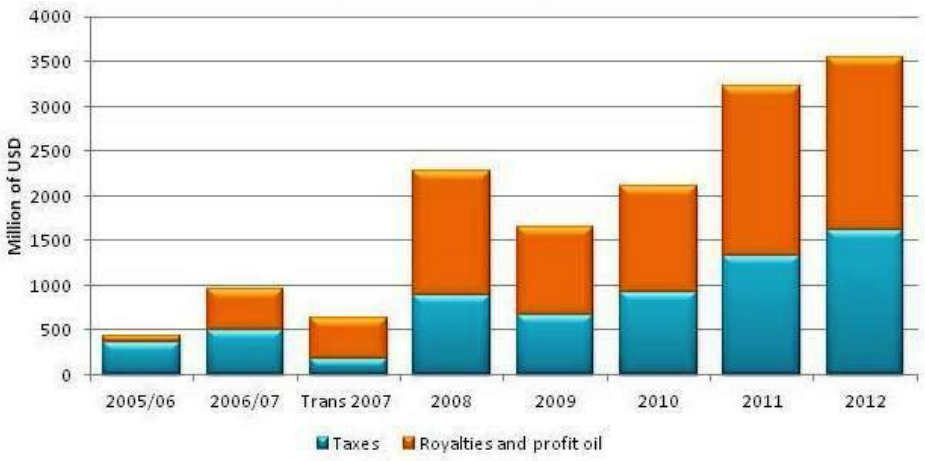


The Fund's balance is affected by three factors; a) petroleum revenues, b) net investment return, and c) withdrawals.

Petroleum revenues

Total net petroleum revenue receipts in 2012 amounted to US$ 3,559 million, comprising of US$ 1,612 million in petroleum taxes, US$ 1,938 million in royalties and profit oil/gas, and US$ 9 million in other petroleum revenues. The amounts were in accordance with Article 6.1 (a), (b) and (e) of the Petroleum Fund Law respectively.

Figure 2 - Petroleum Receipt 2005-2012



The total petroleum revenue collection since the inception of the Fund, as shown in Figure 2, was US$ 15,100 million, including initial transfers of US$ 80 million from the Timor Gap Account and US$ 125 million from the Consolidated Fund of Timor-Leste (CFET).

Net Investment Return

The gross return on investments until November 2012 was US$ 408 million[1]. In accordance with the Operational Management Agreement between the Ministry of Finance and the BCTL, a management fee is transferred from the Petroleum Fund to the BCTL. The fee amounted to US$ 6.9 million for 2012, covering both internal and external managing costs. The net investment return for 2012 was therefore US$ 401 million, adding up to $US 1,245 million net income since the inception of the Petroleum Fund.

The net investment nominal return for 2012 was around 3.9 per cent. Since inception the annualized nominal return of the Fund was 4.1 per cent.

Withdrawals

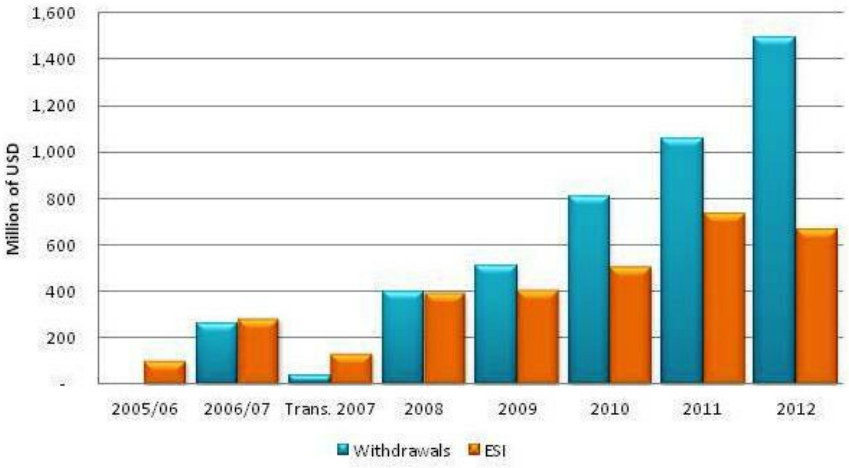
The Government withdrew a total amount of US$ 1,494.9 million from the Fund to the Treasury's Account (CFET) during 2012. This was US$ 829.6 million above the Estimated Sustainable Income (ESI). From inception to the end of 2012, the Government has withdrawn a total amount of US$ 4,569 million (see Figure 3).

Petroleum Fund Investment Policy

The Petroleum Fund investment policy is based on the asset allocation and risk limits as defined in the Petroleum Fund Law as amended in August 2011. The new investment policy states that no more than 50 percent of the Fund can be invested in equities, no less than 50 percent can be invested in investment grade fixed income, and no more than 5 percent can be invested in alternative instruments such as real estate, private equities and hedge funds.

As a first step to implement the investment policy, taking the advice from the Investment Advisory Board (IAB), the Minister of Finance instructed the Central Bank to progressively invest up to 20 percent of the Petroleum Fund in global equities by June 2012. As a second step, again taking the advice from the IAB, the Minister of Finance instructed the Central Bank to continue invest progressively up to 40 percent in global equities over the two next years, starting from July 2012.

Figure 3 - Transfer to the State Budget



As shown in Table 1 above, the Petroleum Fund had 74% of its capital invested in US Government bonds and 26% of its capital invested in equities (spread out on 24 developed market countries) at the end of 2012. The Ministry of Finance continues to emphasize the importance of diversifying the investments of the Fund and is currently looking at non-US bonds and publicly listed equities outside developed market countries.

[1]BCTL Q4 report 2012-Gross investment income of US$223.1 million and a positive market revaluation of US$184.7 million. Report is available at http://www.bancocentral.tl/PF/Reports.asp

Table 1- Petroleum Fund Portfolio and Managers Structure

No	Managers and Mandates, as of Dec 2012	Weight	Market Values, $ millions	Return since inception
Total Petroleum Fund Portfolio		**100.0%**	**11.8**	**4.1%**
International Fixed Interest Portfolio (Bonds)		*74%*	*8.7*	*3.8%*
1	Banco Central de Timor-Leste -BCTL (1-3 years US Treasury bonds) (3-5 years US Treasury bonds)	14% 40%	1.6 4.8	0.5% 1.6%
2	Bank for International Settlement - BIS (5-10 years US Treasury bonds)	20%	2.3	3.8%
International Equity Portfolio		*26%*	*3.1*	*8.0%*
3	Schroders Investment Management - Schroders (MSCI world)	5%	0.6	8.2%
4	State Street Global Advisors - SSgA (MSCI world)	21%	2.5	12.7%

Revenue Collection Performance

> *In 2012, there was a significant improvement in petroleum revenue collections due to the comphensive petroleum tax audit. These improved results were due in large part to the compliance activities.*

The National Directorate of Domestic Revenue performed all mandated functions satisfactorily during the financial year ended 31st December 2012.

Key accomplishments include:

- Re-focused collection and audit staff years on high potential large dollar cases, primarily government contracts.
- Ensured effective use of UNTAET garnishment authority and jeopardy orders to address uncooperative, non- compliant taxpayers.
- Established effective processes for referral of taxpayer cases from collection to audit.
- Established closer cooperation on the exchange of information between the SIGTAS, FreeBalance, and ASYCUDA.
- Provided close analysis of tax exemptions clauses in government contracts, identified some as illegal and provided the impetus for a Circular issued by the Minister of Finance to end the practice.
- Increased the liaison between various impacted agencies in the Ministry of Finance to jointly address and resolve complex legal issues in government contracts.
- Created standardized departmental letters following amended UNTAET Regulations 2000/18 for effective communication and dissemination to the general public in the four main languages
- Maintained excel spreadsheets created by management to control and manage inventory for audit and collection cases.
- Identified the need, develop the documentation and obtained funding approval from the European Union to secure analysis by a highly skilled contractor to develop long range plans for improving SIGTAS and related system automation.
- Developed close cooperation with IFC operations analyst to address process analysis for consolidating 3 ministries requirements for new businesses into one new SERVE operation.
- Improved turnaround times for appeal processes.
- Worked on the development of a proposed new Tax Procedures & Offences Law.
- Provided adviser-developed training for employees in COLLECTION.
- Completed proposal to reorganize NDDR according to their tax function based on international best practices in order to improve efficiency and effectiveness of service delivery.
- Secured additional vehicles and equipment to improve routine processes in collection.
- Designed a **"'fit for use"** case assignment document for Collection. Obtained programming support SOGEMA (SIGTAS Software supplier) to create this document, which is a snapshot summary of all "out-of-balance" (debit or credit status modules) for all four types of taxes for an individual taxpayer.

TAX FORMS PROCESSED	
Monthly tax Forms	13,940
Annual Income Tax Forms	2,866
Late Payment Reminders	2,426
Assessment Notices	54
CERTIFICAT DIVIDAS	
Processed	10,613
NEW BUSINESS REGISTRATION	
Charity/NGO's	53 TINs
Companies	586 TINs
Individuals	261 TINs
Government	4 TINs
Non Businesses	20 TINs
New Employees Registration	1,296 TINs
AUDITS	
Audits Completed	59
Audits in Progress	39
Additional Tax & Penalties Raised	$2,587,415.30
REVENUE COLLECTION	
Wage Income Tax	8.31M
Service Tax	4.27M
Income Tax	6.61M
Withholding Tax	24.09M
TOTAL (as at 31.12.2012)	43.8 M
TOTAL Estimated Projection for 2012	39.2 M

totaling **$964,962.19** together with **$458,649.56** in penalties amounting to **$1,423,611.75.**

- All of the above appeals have been considered and a decision has been made on them by the Commissioner.

SERVE One-Stop-Shop

The progress so far includes:

- Approval of the SERVE one stop shop law by Council of Ministers. This law has now been promulgated by the President.
- A Memorandum of Understanding between the participating Ministries has been signed.
- Initial design work for SERVE has been concluded.
- A potential building for use has been identified and a request has been made for a contract to renovate.
- Necessary adjustments to the current SIGTAS system have been identified and contracted to an experienced SIGTAS software company
- The "CEO" position has been advertised. Selection could occur as soon as January. The

- Surfaced and provided documentation about the critical need for additional SIGTAS, IT support.
- Implemented the successful separation of the NDDR from the Customs Directorate.
- Improved the percentage of revenue collected as per the Consolidated collection targets for 2012 overall.

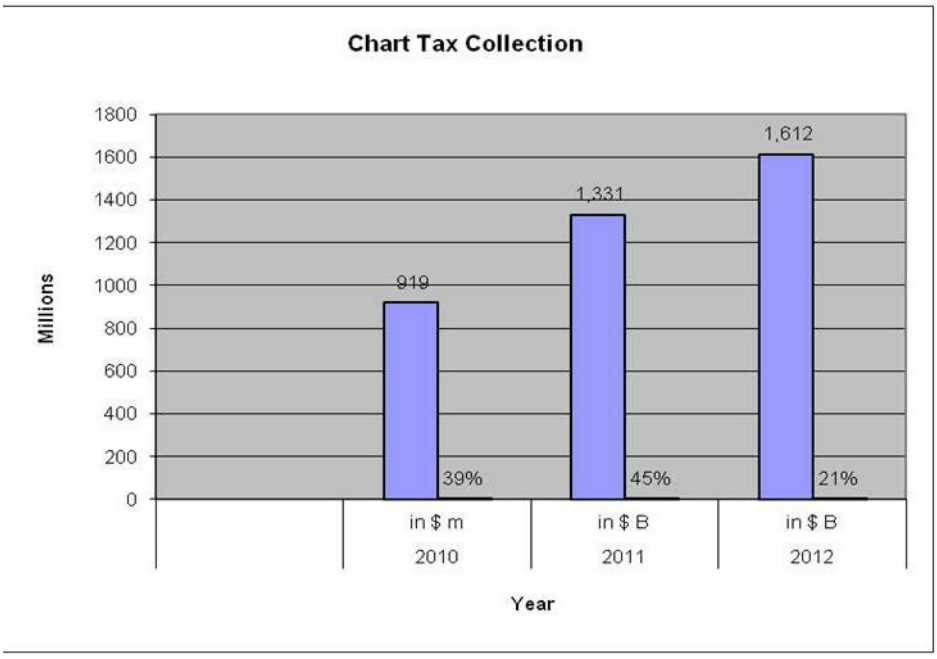
Audit Activities

NDDR's audit sections conducted the following audits and achieved the following result in 2012:

- 59 audits were completed during the year.
- Additional taxes and penalties that were raised amounted to $2,587,413.
- 19 audit cases were in progress by the begining of the year.
- 38 audit cases were in progress by the end of the year.

Appeals

- There were 58 appeals that were received and processed



new CEO, together with the relevant ministries, will develop the process of selection for an estimated 15 employees required for the initial operation of the SERVE.

Other activities undertaken

- The NDDR completed staff mapping to implement the proposed restructure.
- The NDDR Task Analysis plan was completed and submitted to DGSC.
- During the February and March an extensive publicity campaign was undertaken to promote timely Annual Income Tax Return lodgement. Media used included electronic News Paper, Radio, Television TVTL and banners placed in prominent places.
- Socialization undertaken in respect of annual income tax 2012 in 12 districts.
- A client perception survey was undertaken by Asia Foundation. The results have been discussed with NDDR officers through a one day workshop to develop improvements and changes.
- NDDR has during the year spent considerable resources for extensive liaison with the MoF Legal Department to draft proposal for new Tax Procedure Law.

Petroleum Revenue Performance

In 2012, there was a significant improvement in petroleum revenue collections throughout the comprehensive petroleum tax audit. These improved results were due in a large part to the compliance activities. The total 2012 petroleum tax collection was approximately **$1.6 billion**, representing a **21% increase** over the sum collected in 2011.

- Collection of approximately US$ 1,612,518,978 Billion from January to December 2012.
- Collection from audit-related activities accounted for 26% of total collection.
- Ongoing comprehensive tax audits in respect of the Bayu-Undan "Christmas Tree" and Gas Pipeline Audit covering 2006 to 2010 tax years.
- Successful hiring Engineering and Tax Audit firm to support "Christmas Tree" Bayu-Undan Wellhead tax audit.
- Approval of Chapter IX Taxes and Duties Act Regulation, 2012 in June 2012.
- NDPR issued tax assessments against some of the Bayu-Undan and the Joint Venture Contractors in relation to the unlawful tax deductions associated with the failed to withheld withholding taxes on Capacity Reservation Charge (CRC).
- Revised Tax Forms for 2012 and 2013 tax years.
- Chapter IX (Taxes and Duties Act, 2008) Regulation 2012 approved.
- Defence submission on current matters before the District Court of Dili prepared.
- New assessments related to large audit activities issued.

Customs Service Performance

"Significant increase in revenue collection for 2012 Customs due to the close monitoring of the Customs operations as well as through comprehensive audits undertaken which have had an impact on effective compliance."

Summary of Achievements:

- Reviewed border operations was undertaken by the Asian Development Bank (ADB) funded project "*Capacity Strengthening and Institutional Development for Border Management and Trade and Tourism Development in the Pacific*";
- World Bank Diagnostic Study of Customs reform program undertaken, including an assessment on the Customs Broker's Industry;
- UNCTAD conducted a study of current situation of ASYCUDA and a project for strengthening of Automated Customs and Development of ASYCUDA world has been proposed;
- A Policy Review was undertaken in December 2012 by the International Monitory Fund recommending the introduction of a VAT and changes in Excise Duty rates.
- Implemented ASYCUDA phase II work plan was enhanced by the recruitment of a ASYCUDA expert under EU funding;
- Operated the integrated Border Posts at Batugade, Salele and Sakato;
- The General Manager of the Integrated Border Posts was appointed by the MoF on 22 October 2012 as well as the IT Coordinator and two Facility Managers;
- With the assistance of Ministry of Environment and the UNEP, Customs implemented the Montreal Protocol under Decree Law 36/2011whereby the importation of Ozone depleting substances was banned;
- Client Perception survey conducted by Asia Foundation and the results were disseminated through a workshop to Customs senior staff;
- X-Ray machines from Smith Engineering were introduced at Batugade and Dili International Airport;
- The Chinese Government also donated 9 units of x-ray equipment during the year – 2 truck loaded container x-rays, 2 van loaded cargo x-rays and 5 baggage x-ray units;
- Senior Management Counsel consisting of all Government agencies working at the Integrated Border Posts was formed on 29 November 2012;
- Four cycles consisting of 12 units of Core Training was delivered to 92 customs officers by the Centre of Customs Excise Studies from the University of Canberra in 2012;

- The new Broker/Compliance Directive was approved by the National Director of Customs (NDC). This directive establishes national polices and operating procedures for ensuring the compliance of the brokers community with Customs.
- Customs is in the process of setting-up a Secure Economic Operator certification program in partnership with the private sector in order to facilitate customs clearance and promote trade. Guidelines for this process have already been produced.
- With the support of JICA, an ASEAN Workshop was conducted to identify activities and timeframes to meet all obligations of Customs under ASEAN membership.
- ADB is supporting Customs efforts in completing its ASEAN membership requirements and agreed to assist in the following areas: Introduction of Harmonized System Code 2012, a new Valuation approach and reforming of the Post Clearance Audit Function.
- Registered 10 new Customs brokers
- Completed 5 audits while one (1) is in progress
- Seized 46 Motor Vehicles and 2 containers with beer and whisky valued at $50,000
- Seized 5 kilograms of cocaine; $221,032.58 US undeclared currency
- Filed three (3) cases and one appeal was issued

In terms of the Dili port operations, a total of 20,170 containers were unloaded from 528 vessels that arrived in Timor-Leste in 2012, as follows:

- Containerized cargo: 166
- Bulk carries: 72
- Vessels carrying timber: 218
- Fuel tankers: 113
- Pleasure boats: 26
- PERTAMINA fuel tankers: 86

In 2102, the Customs Services also monitored the entry of the following imported bulk cargo, as follows:

	Dili Port	Batugade	Suai	Baucau	Airport	Maliana	Oecussi
IMPORT DUTIES	$14,590,916.67	$487,544.89	$24,942.02	$93.14	$17,659.34	$43,811.46	$22,810.92
EXSISE TAX	$26,820.351.52	$382,652.73	$1,053.35		$198.50	$27,090.00	$53,879.76
SALES TAX	$15.273.367.94	$510,347.88	$25,549.22	$95.47	$18,104.44	$44,094.68	$24,693.38
PENALTIES	$156,603.89						
PFE/PFI	$20,769.50	$6,068.00	$531.00	$1.50		$716.00	$332.00
TOTAL	$56,862.009.52	$1,386,613.50	$52,075.59	$190.11	$35,962.28	$115,712.14	$101,716.06

Macroeconomics

> *"NDME has regularly conducted domestic revenue projections to help the Government adopt prudent fiscal policies."*

The National Directorate of Macroeconomics (NDME) was established to provide compherensive research, economic analysis and to advice the Government regarding the issues that can have an impact on Timor-Leste'seconomy.

Progress Achieved

- Utilised National Account data to improve the Macroeconomic Framework;
- Produced Quarterly Inflation Review;
- NDME has also produced in-depth analyses of fundamental macroeconomic issues such as inflation, fiscal sustainability, sectoral developments, Value Added Tax, and economic productivity. As a result of such efforts the Directorate has been able to provide informed policy advice to senior Government officials;
- NDME has regularly conducted domestic revenue projections to help the Government adopt prudent fiscal policies. Along with the projections, the domestic revenue analyses have included the collection of data and other information from relevant line ministries, autonomous agencies, and other entities;
- NDME led the economic analysis of Timor-Leste joining the Association of the Southeast Asian Nations (ASEAN). As part of consultation efforts, an international conference on 'Timor-Leste joining ASEAN from an Economic Perspective' was held in Dili in May 2011. A subsequent analysis of the economic benefits and costs of Timor-Leste joining ASEAN is underway;
- NDME participated in and contributed to the discussion and analysis of the establishment of commercial banks and of central bank for Timor-Leste. This analysis was instrumental in the establishment of a central bank (Banco Central Timor-Leste) and a commercial bank (Banco Comercio de Timor-Leste) in 2011;
- NDME has facilitated IMF Article IV yearly missions which conduct impartial evaluations and examinations of economic development in Timor-Leste;
- NDME has established cooperation with academics in Timor-Leste. The objective of this cooperation is to involve academics in policy analysis and to share expertise;
- NDME has built the capacity of local technical staff through cooperation with the Overseas Development Institute (ODI) of England, Columbia University of USA, the Asian Development Bank, and with the IMF. As a result, seven young economists are now working in DGPAR and local staff is gradually taking over technical jobs from their international advisor counterparts.
- Improvement of Macroeconomic Framework (MF) and handover to National Staff;
- Refined and enhanced the policy analyses provided to the Minister and to other Directorates
- Increased analytical output regarding tax structure and economically optimal rates;
- Improved capacity to forecast economic and financial variables.

Statistical Work

> *"The National Statistics assured the regular provision of two (2) key statistical products, the Consumer Price Index for Timor-Leste and for Dili, and the External Trade Statistics (monthly and annually)."*

The National Statistics Directorate is the state department under the Directorate General for Analysis and Research (DGPAR) responsible for the co-ordination of the National Statistical System and for the collection, production, analysis and dissemination of official statistics on the demographic, social, environmental and economic domains.

Accomplishments

2010 Population and Housing Census Thematic Report

Finalized the status of 11 monographs as follows:

1. Disability;
2. Migration and Urbanization;
3. Education;
4. Housing;
5. Mortality;
6. Fertility and Nuptiality;
7. Gender;
8. Labour Force;
9. Population Projection;
10. Agriculture; and
11. Census Atlas.

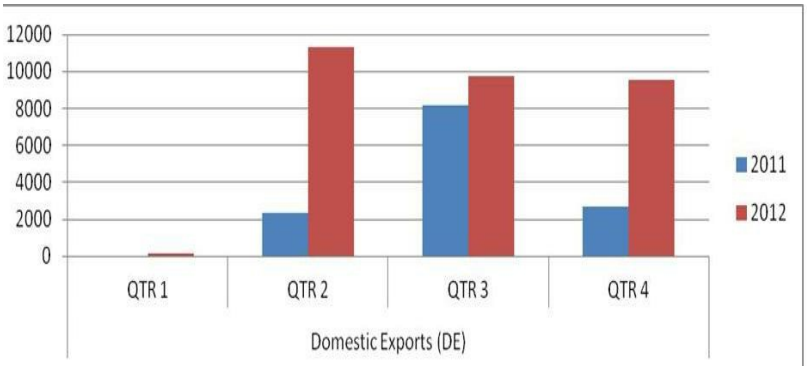
US$'000

External Trade Statistics	2011				2012			
	QTR1	QTR2	QTR3	QTR4	QTR1	QTR2	QTR3	QTR4
Domestic Exports	0	2,336	8,205	2,661	129	11,341	9,781	9,542
Re-exports	60	25	20,604	19,362	3,730	5,071	8,613	28,686
Total	60	2,361	28,808	22,023	3,858	16,412	18,394	38,229
Merchandise Imports	7,383	37,623	159,276	114,496	85,039	123,973	269,795	185,207
Non Merchandise imports	968	3,965	10,276	5,643	0	0	1,988	4,119
Total	8,351	41,588	169,552	120,139	85,039	123,973	271,783	189,327
Trade Balance	-8,291	-39,227	-140,744	-98,116	-81,181	-107,561	-253,389	-151,098
Coverage Rate	1%	6%	17%	18%	5%	13%	7%	20%

Consumer Price Index (CPI)

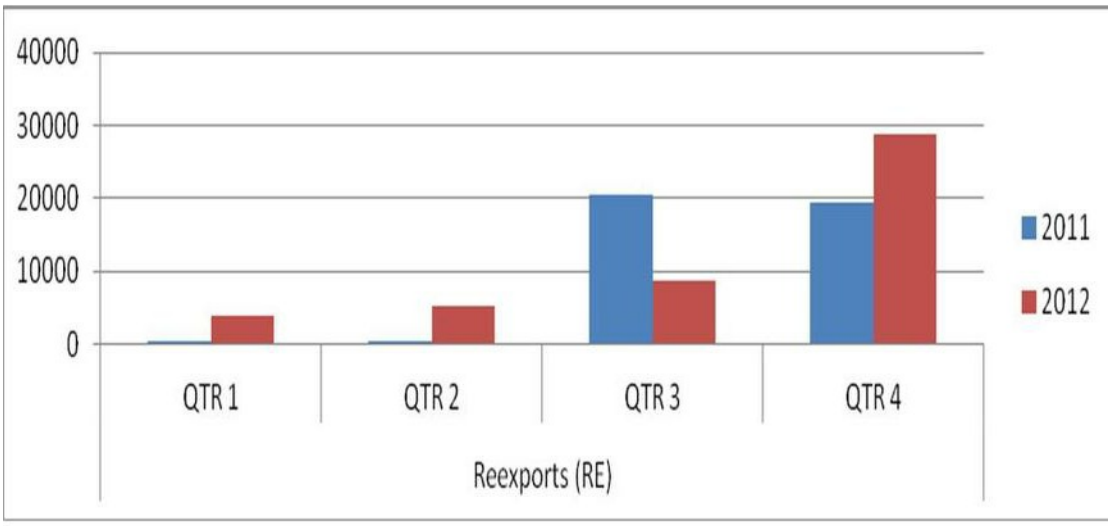
Worked with the Australian Bureau of Statistics to rebase the CPI using Household Income Expenditure 2011 data and will use the new basket of CPI by the middle of February 2013. The National Statistics Directorate ensured the regular provision of two key statistical products, the CPI for Timor-Leste and for Dili, and the External Trade Statistics (monthly and annually).

Education Survey Timor-Leste 2012



The Education Survey Timor-Leste was successfully completed by the National Directorate of Statistics and the Ministry of Education, with financial and technical assistance for the survey provided by AUSAID. The AUSAID support also covered administrative, logistical, and technical assistance. The survey covered all schools in Timor-Leste (Primary Schools, Basic Schools, Pre-Secondary Schools and Secondary Schools).

Training for the survey was conducted from August 27 – September 6, 2012 and field-work took place from September 10 – November 27, 2012.



Training DevInfo Program

The DevInfo Program training was conducted for the DDO, DNE Agencies and Program Manager Ministry of State Administration, in collaboration with UNICEF. The training used the Census Population and Housing 2010 Data.

Business Activity Survey 2011

Finalized the second Business Activity Survey 2011.

Equipment acquisition

Received the GIS equipment from UNMIT on October 24, 2012.

Presentation the Draft Thematic Report to the Census Technical Committee

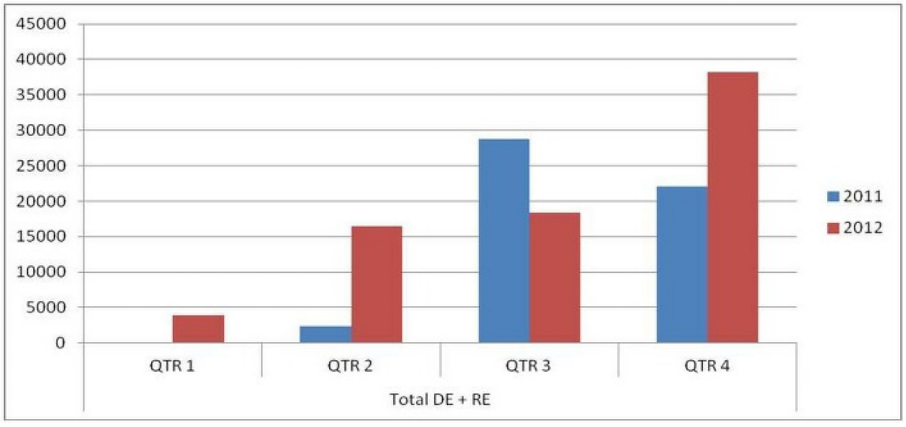
Other Statistical Outputs

In 2012, the National Statistics Directorate started the dissemination of regular Quarterly Statistical Indicators, involving the co-operation of several ministries holding administrative data. The NSD has also released the annual publication, "Timor-Leste in Figures, 2011"

Training on the DevInfo

Sensus Fo Fila Fali (Giving Back the Census) Report

Produced the Sensus Fo Fila Fali in Tetum and in English, and distributed to all stakeholders.



Treasury Work

The National Directorate of Treasury performed all mandated functions satisfactorily during the financial year 2012. Key activities were:

Activity	Volume
Staff Paid Through Payroll	32,773
Veterans Paid	93,038
Elderly & Invalid Paid	25,659
Members of Government Paid Through Payroll	54
Pension Holders including Public Servants Paid	166
Payment Requests Processed	49,700
Cheques & Treasury Payment Orders Issued	37,000
Revenue & Manual Journal Vouchers Processed	9,600
Internal & Independent Audits Conducted	25
Number of Treasury Staff	71

Key reforms and improvements during the year included changes to accounting processes, improvements in treasury operations and budget execution, financial reporting enhancements and capacity building initiatives.

Financial Statements for 2011, were prepared in accordance with International Public Sector Accounting Standard- Financial Reporting under the Cash Basis of Accounting (IPSAS Cash Basis), by Directorate of Treasury, audited by the external auditors and accepted by National Parliament in 2012. Timor-Leste joins a select group of countries who prepare financial statements in accordance with IPSAS Cash Basis. This compliance was further enhanced during 2012 when cash-based transactions were completed and closed on 31st December 2012.

Supported by efficient budget execution monitoring systems introduced in 2012, budget execution for Consolidated Fund of Timor-Leste (CFET) 2012 appropriations reached 89%.

The concept of a Treasury Single Account (TSA) has been effectively implemented during 2012 with a comprehensive review of all bank accounts and closing of 108 non-essential bank accounts and transfer of US$ 0.7 million to CFET.

Line Ministries and Agencies can now enter into commitments directly and system enhancements enable them to log in CPVs and purchase requisitions and generate Purchase Orders.

A completely revised Treasury Manual has been drafted and released for internal circulation and comment. Once the new structure of DG Treasury is approved it will be incorporated in the manual before formal release.

Improvements in Treasury processes and reporting include:

- Month end and End of Year account closure processes
- New MIS reports and monthly accounts for improved managerial oversight
- Letters of Credit Management

- Restricting revenue posting to current period and eliminating back-posting to prior periods
- Quarterly statements incorporating greater trend analysis and comparatives
- Separate financial statements for Infrastructure and Human Capital Development Funds as required by law
- Review of Chart of Accounts to enable IMF's GFS and UN's COFOG mapping

To strengthen internal controls Treasury reviewed its Internal Control systems, adopting a risk-based approach and developed a Risk Register which will be updated regularly.

During the year, the independent auditors conducted 17 audits which, in addition to CFET and the special funds included 13 special procurement reviews at line ministries. Completed audit reports have been presented to National Parliament.

In recognition of its expanded and critical role and future expectations, the decree law of the present Constitutional Government has elevated Treasury to General Directorate level with three National Directorates. The NDs of Accounting & Financial Regulations, Payments and Financial De-concentration are expected to be fully operational during 2013.

Coordination with Autonomous Public Agencies

> *"ND-APA completed the monitoring of 11 districts and sub-district offices of EDTL. This includes Los Palos, Manatutu, Baucau, Viqueque, Suai, Bobonaro, Liquisa, Ermera, Ainaro, Aileu and Oecussi."*

The National Directorate for Autonomous Public Agencies (ND-APA) is in charge of updating the Consultative Council on Financial Management (CCFM) of the Ministry of Finance (MoF) on revenues received by the autonomous public agencies. It works with the National Directorate of Treasury in requiring autonomous public agencies to open an official revenue bank account and deposit collection to this account in compliance with the Budget and Financial Management law.

ND-APA represented the MoF in the Board of the EDTL and in the Management Board of SAMES.

In 2012, a meeting with the MoF Legal Unit was held to further corroborate the regulations of APA and the MoF representation in EDTL's Board of Directors. ND-APA provided orientation regarding its responsibilities, structure and monitoring function to EDTL staff.

Also in 2012, an independent audit was completed for the Notional Operating Surplus (NOS). NOS is a condition in the contract between the Government of Timor Leste/Eletricidade de Timor-Leste (EDTL) and management contractor for an incentive remuneration based on a percentage share in the calculated annual surplus of EDTL. ND-APA has conducted several meetings on NOS to EDTL Board, Ministry of Public Works, DG-State Finances and Sr. Advisers and MoF staff. The ND-APA adviser and Audit Advisers have also conducted a review of the NOS calculation and provided various options to EDTL BoD for presentation to key government decision makers. Negotiation between the Ministry of Public Works and the contractor is in progress with the Ministry of Finance providing technical assistance on legal, financial and budget matters.

Coordination with the ND-Domestic Tax was also made for tax related matters of the management contractor.

Likewise, ND-APA completed the monitoring of eleven districts and sub-districts offices of EDTL in 2012. This includes Los Palos, Manatutu, Baucau, Viqueque, Suai, Bobonaro, Liquisa, Ermera, Ainaro, Aileu and Oecussi. It has also examined EDTL's collection procedure and controls in Dili. Monitoring of the activities of the autonomous public agencies is one of the core functions of the directorate in compliance with its vision to provide financial direction, control and support to them.

In 2012, the ND-APA Operations manual was completed. Staff have provided their inputs in the manual and it was reviewed by the Senior Management Adviser of the Directorate General for State Finances. In its current state, it now requires updating given the changes in the regulations, organizational structure, internal policies of the Autonomous Public Agencies and supervising line Ministry.

Under the new organic structure, the National Directorate for Autonomous Public Agencies will be merged with the new National Directorate for Accounting and Financial Regulation under the General Directorate of Treasury.

Asset Management Performance

> *"In 2012, NDAM implemented the progressive decentralization of asset management in line with MoF's administrative reform programs."*

The National Directorate on Asset Management (NDAM) took charge of the management and disposal of State Movable Assets. Their work was guided by the Organic and Decree Law on the management and disposal of state movable assets.

In 2012, NDAM implemented the progressive decentralization of asset management in line with MoF's administrative reform programs. FreeBalance on asset management was also activated with updated modules. Training for NDAM and staff from line ministries and state institutions carried out the continuation of the system that was officially decentralized on December 30, 2011.

The revised and approved manual for the management and disposal of state movable assets no. 15/2012 and the decree law no. 32/2011 that contains updated policy and current practices were incorporated. Presently, NDAM is composed of five (5) departments under the direction of the director supported by an adviser. Additional programs were carried out as required by the management.

Based on its 2012 Annual Action Plan, NDAM pursued the following activities:

- Reinforced the management and assets inventory
- Streamlined the asset monitoring, supervision and technical assistance to line ministries and state institutions.
- Reinforced the monitoring of state vehicle fleet management.
- Undertook training and capacity building of asset staff in line ministries and state institutions.
- Conducted disposal of government assets not being used.
- Performed the transfer of UNMIT's donated assets to the government.

Asset Inventory Management & Administration:

- New NDAM warehouses were built in Oekusse, Suai and Dili regions.
- Revised Diploma Ministerial No.15/2012 completed. Decree Law No. 32/2011 of July was incorporated in the revised manual.

Decentralization Programs on Asset and Inventory Management:

- Consolidated the result of evaluation checklist (phase II) for the management and disposal of state movable assets in the different line ministries and state institutions.
- Attained evaluation result at least 75% compliance on Asset Management Procedures, Policies and Guidelines for implementation.

Vehicle Operation & Maintenance:

- Provision of "Marka Kareta" Estado to State Owned Vehicles.
- Vehicle maintenance for MoF vehicles carried out efficiently.
- Organized the team of PNTL, DNTT and Asset Management who conducted checkpoint and implemented the circular on vehicle operation.

FreeBalance System on Asset Management:

- A total of 20,080 assets registered manually were uploaded in the FreeBalance system; more than 200 assets with duplicates has been removed.
- Registration of vehicles and motorcycles records were updated and registration of other assets was carried out.

Asset Disposal Management and Administration:

- Completed the disposal of 200 scrap vehicles contracted by Star Product Lda. under the direct negotiation methods of disposal. A total of USD 24,464.20 net sale amount was deposited with the CFET account at BPA.
- Disposal staff supervised the implementation of internal bidding for five line ministries/institutions that has been completed. A total of 107 units with a total sale amount equivalent to USD 204,173.50.
- Disposal of assets under the negotiated price was implemented with a total net sale amount of USD 11,250.00 that was deposited in the CFET account at BPA.
- Identification, recalling is on-going and disposal of identified assets due in November 2012 or during the first quarter of 2013.

UN Asset Liquidation:

- A Symbolic donation of five (5) vehicles, five (5) generators and five (5) computers received by the government during the ceremony held in the facilities front of government palace.
- Technical inspection and hand-over of 55 shared facilities and assets by UNPOL and PNTL started on 24 September completed in December 2012. Liquidation of UNMIT Assets in Dili region is expected to complete in March 2013.

Additional Activities Undertaken in 2012

- Coordinated the transfer of assets for the dissolved ministries.
- Served as a member for the CRO technical committee to prepare the evaluation and recommendation for the capital minor budget allocation.
- Worked together with DNO in the analysis and evaluation of maintenance cost and fuel consumption for the old equipment with IGE, ship and boats of the government.
- Supported the transportation requirements for TLDPM program of activities.
- Arranged transportation requested for the general election.

Infrastructure Development

Physical Assets

The MoF undertook the following in 2012:

1. Inaugurated the Integrated Border Post at Batugade in February 2012 and started its operations in September 2012
2. Inaugurated the Integrated Border Posts at Salele and Sakato in June 2012 and commenced operation in September 2012
3. Rehabilitated the Customs Building in Comoro Airport in Dili
4. Planted the first stone for the contruction of the new MoF Building in Aitarak – Laran, Dili
5. Landscaping, fixing the fence and renovating the ground floor building office of the Vice-Minister of Finance, Cafeteria Building and the Kobe House in the Customs office.
6. Project maintenance work on the bathrooms in Building 5
7. Maintenance security fence in Building 5
8. Additional security maintenance fence in Building 5
9. Project maintenance building in the Green Building
10. Fixed the car park in the Asset Directorate in Balide
11. Small project rehabilitation on the drainage of the Asset Directorate Building in Balide
12. Painted the fence of the Green Building
13. Small project rehabilitation main building check point of Customs at Porto Dili

Information Technology

During the last 12 months, the Office of ITD adjusted its orientation as a service-oriented provider for the whole Ministry of Finance. Despite its incomplete staffing over the years, the Office of ITD efficiently supported the Information Systems of the Ministry's operation.

This Department provided the following services to the MoF directorates and departments:

- organization of Ministry mission critical database applications i.e. SIGTAS, FA, GRP, ASYCUDA, PB, Procurement, eProcurement, Transparency Portal, Manager Dashboard, Document Management
- system management & system integration
- control and maintenance of network equipment
- control and maintenance of network services
- organized formal specialized short course and on-the-job training

Some of the key accomplishments by ITD in 2012 include:

- 90% of Ministry information system hardware and software are successfully updated and maintained and it is state-of-the-art technology
- Successfully launched Results Portal
- Successfully launched Aid Management Portal
- Successfully launched PROMIAS system for EU funded project
- Successfully launched Helpdesk System
- Successfully participated in Government Resource Planning (GRP) deployment of the GRP system to line ministries and various organs of state successfully implemented Integrated Border Posts' LANs at three major locations namely Batugade, Saleleh & Sakato
- Successfully trained 13 potential scholarship interns in IT to build foundation for continuation of further formal IT education

Those accomplishments were eventually supported by a tailored staff-training program managed by the team of both national, international advisors and independent software vendors' consultants.

In 2012, ITD has updated its manuals and procedures which were all published on the current Ministry's Intranet, http://intranet.mof.gov.tl/manual.

The Department of Information Technology also maintained close institutional relations with other directorates & departments of the Ministry, including other Ministry stakeholders such as Ministry of Infrastructure, Ministry of Justice, and Ministry of Education.

Systems and Processes (FMIS)

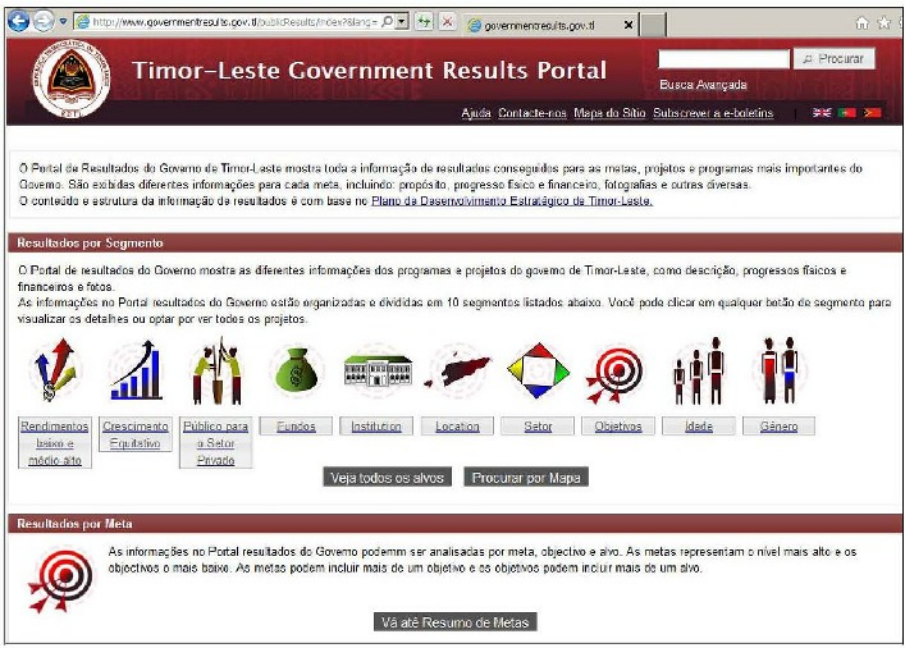
> **New web-based version 7 allows users to connect to the GRP systems using the internet connection or Government intranet (where available), with a "cradle-to-grave" process for budget execution, fully integrating the process of commitment, obligation, expenditure, reconciliation and reporting.**

In 2012, Financial Management Information Systems (FMIS) Unit continued to build on the accomplishments of the Public Financial Management (PFM) reform efforts made in 2010 and 2011, among others, focusing on decentralization of core Government Resource Planning (GRP) systems to Line Ministries and upgrade of the main Financials and Purchasing modules to new web-based V7. This was the last major upgrade of the RDTL's GRP systems to the new web-based version 7 which provides a "lighter" user interface with a more robust procedures and workflows tailored to RDTL's laws and regulations.

New web-based version 7 allows users to connect to the GRP systems using the Internet connection or government intranet (where available), with a "cradle-to-grave" process for budget execution, fully integrating the process of commitment, obligation, expenditure, reconciliation and reporting. This encompasses Core Financials, Purchasing, Revenue, Procurement, Contract Management, Assets Management and Payroll.

www.governmentresults.gov.tl

In 2012, FMIS Unit lead a number of new initiatives to further compliment the Transparency Portal suite (www.transparency.gov.tl) with the launch of the new Government Results Portal (www.governmentresults.gov.tl) and Aid Transparency Portal (www.aidtransparency.gov.tl), along with the enhancements to the Budget Transparency and eProcurement Portals. MoF also launched the new Help Desk system in July 2012 to track all IT, networking and system related issues in MoF.



Sustainability services were another critical component of FMIS work in 2012, by building government capacity to ensure long-term sustainability through training, systems and processes. One example is ensuring that the 2013 State Budget is prepared using the Performance Budgeting (PB) system in accordance with the mandate of the Fifth (V) Constitutional Government. Further strengthening and support was provided to the Payroll Unit to remove discrepancies in public servants employee records and harmonise them with the Public Service Commission records.

Human Resources

By December 2012, the staff at the Ministry of Finance comprised of 788 permanent employees. These weremade up as follows:

Category	Female	Male	Total
Technical Higher Grade A	0	3	3
Technical Higher Grade B	2	12	14
Technical Professional Grade C	18	68	86
Technical Professional Grade D	91	164	255
Technical Administrative Grade E	74	132	206
Assitant Grade F	39	115	154
Assistant Grade G	19	51	70
Total	243	545	788

Total MoF Employees by CATEGORY & GENDER ,Ending December 2012

Exercising the delegation provided by the Civil Service Commission (CSC), the Ministry recruited 217 permanent employees in 2012 at the following levels:

- Grade B: 1
- Grade C: 29
- Grade D: 88
- Grade E: 75
- Grade F: 23
- Grade G: 1

The Ministry also retained the services of 15 Contracted employees (under Goods and Services) and 7 Political appointees to the Office of the Minister and the Vice Minister.

Staff Mapping Project

The primary objective of the Staff Mapping Project is to try to reduce the gap between the Ministry's requirement for competent, well-motivated staff and the capacity of its staff by identifying following elements for each Ministry job holder:

1. Conducting a job analysis for each position;
2. Establishing performance standards/expectations for each position;
3. Identifying current skills and qualifications of jobholder;
4. Developing individual development plans to target specific skills and qualifications gaps.
5. Develop job descriptions that identify the duties and responsibilities for each position and the knowledge, qualifications and experience required to perform these duties and responsibilities.

Information produced by this project can be used for:

1. Recruitment and selection purposes
2. Job evaluation
3. Job design
4. Performance appraisals
5. Developing training programs

6. Enhancing productivity
7. Changing or upgrading performance standards/expectations

Three (3) reports were completed in 2012, namely that of the Corporate Services, Revenue & Customs and all Ministry leadership and management positions. The leadership and management report contained job descriptions for the key management positions in the Ministry.

The reports for Corporate Services and Revenue and Customs profiled the knowledge, qualifications and skills for existing staff and identified training and development priorities.

Eighty (80) per cent of the permanent Ministry staff had been interviewed by December 2012. Reports for DG Statistics, DG Treasury and DG Finance will be completed in 2013.

The results of the staff mapping project will be used to:

- Create a Central Registry of Job Descriptions
- Target staff requiring specific capacity development
- Ensure performance standards are being communicated, implemented and monitored
- Ensure job specifications are used for future recruitment and selection processes
- Establish an effective full-cycle recruitment and selection procedure.

Task Analysis to Support Ministerial Diplomas

Following the approval of the revised organizational structure under the Ministry organic law for the V Constitutional government, a task analysis was commenced to support the development of the Ministerial Diplomas and to identify staffing requirements under the new structure. Detailed examination of the results from the staff mapping project were used to identify gaps in staff and the skills required.

The job descriptions and competencies for each National Director and Director General, prepared under the staff mapping project, were used to assist in allocating functions and responsibilities to Directorates and Units in the Ministerial Diplomas. The job descriptions will also be used in the competency assessment and evaluation of staff for appointment to these positions.

Staffing levels in the Ministry have been capped at an overall increase of not more than 5%. While staff estimates had been submitted by DGs and DNs as part of the task analysis, final review and assessment is to be finalized in 2013.

Scholarship Program

Throughout the reporting period, 84 full scholarship recipients for overseas study and 60 supplementary scholarship recipients for in-country and overseas study were selected.

Detailed information of the progress is provided below:

- Support to 84 scholarship holders such as monthly allowance, tuituion and book fees, to students in Darwin, Adelaide, Jakarta and India.

- Supplementary Scholarships awarded to 60 Ministry of Finance permanent staff to complete their under graduate or post graduate studies in Timor-Leste and Indonesia, in areas relevant to Ministry of Finance.

- 5 best UNTL Law students selected and received MoF scholarship award. One was in his last semester, and 4 (including 3 females students) were in fourth semester.

- return of 13 IT MoF scholarship holders to Timor-Leste after their unanimous decision to terminate their studies in India.
- Together with Flinders University prepared work placement for 5 MoF Scholars.
- Preparation for MoF scholarship alumni integration into MoF (3 master graduates of Flinders University and 1 Law graduate) conducted.
- Prepared a Request for Proposal for the identification of university to provide tertiary education to MoF scholarship recipients in IT. RFP sent to 7 universities in Asia, Pacific and Australia. Charles Darwin University was selected.
- Preparation for post graduate scholarship in macro-economics.
- Support provided for PFMCBP Scholarhip transition to Human Capital Development Fund.
- Successful involvement in training Ministry staffs on works related to the day-to-day operation of scholarship and training.

Training Undertaken

The Ministry of Finance run training courses along the following areas:

Fifty (50) of these took place from January-June 2012, while thirty-seven (37) travelled during the period of July-December 2012.

General English

General English courses were administered in two (2) batches, with the first batch ending in January 2012 involving 49 participants and the second batch conducted with INAP. A third batch was attempted to be conducted but was eventually cancelled because of poor attendance.

English for IELTS

English for IELTS was arranged for the 13 IT scholars who were sent to India. The course ran smoothly and was completed with a final exam. The highest mark achieved was 6.0 while the lowest was 4.5. All 13 scholars successfully completed the course.

Administration Course

This course was administered for 30 staff members under Grau G. All of them finished the course.

Computer Course

This course was administered to 20 staff members under Grau G. All of them finished the course.

Tailor-made Course

MoF signed an MoU with UNTL for the delivery of this program. However, the implementation has been delayed due to several unforeseen factors, and its continuation is under review. The program aims to prepare customized subjects/curriculum for D1 courses in relevant fields required by the MoF officials.

Overseas Training

According to available data, a total of 87 staff members were able to attend training and courses offered overseas.

January-June 2012 Travel Period

No	Directorate Service	Gender		Total
		Male	Female	
1	DEAE	0	3	3
2	DGAP	2	17	19
3	DGFE	3	8	11
4	DGRA	4	9	13
5	DGSC	0	3	3
6	MdG	0	1	1
TOTAL		9	41	50

July - December 2012 Travel Period

No	Directorate Service	Gender		Total
		Female	Male	
1	DEAE	0	1	1
2	DGAP	1	16	17
3	DGFE	1	3	4
4	DGRA	5	9	14
5	DGSC	0	0	0
6	Gab. Ministra	0	1	1
7	MdG	0		0
TOTAL		7	30	37

Other Training and Information Sessions undertaken by the Ministry

Decentralisation training was one of the key activities of the MoF's FMIS Unit in 2012. Since 2011, the Unit's aim was to fully decentralize financial management functions to Line Ministries, including core functions like Procurement and Assets Management as well as Budgeting, Commitments/Obligations and Purchasing. Detailed listings of training activities undertaken in 2012 are as follows:

Module	Q1		Q2		Q3		Q4	
	No. of days	No. of participants	No. of days	No. of participants	No. of days	No. of participants	No. of days	No. of participants
V7 Procurement	10	31	29	37	24	18	32	50
V7 Contract Management	2	16	4	24	15	11	15	43
V7 Assets Management					11	37	17	24
V7 Payroll	11	5	9	12			12	77
V7 Financials							25	94
Performance Budgeting					12	81		
Records Management			9	9			5	9
Help Desk					6	34		
Country Wide systems			4	4	10	9	10	4
OLAP Analytics							3	5
Budget Transparency Portal			7	142			1	56
Government Results Portal							5	9
eProcurement Portal							1	62
Total	23	52	62	228	78	190	126	433

In 2012, FMIS unit also provided advisory sessions and presentations to the various levels of government agencies and donors, and provided advice and counsel on high level policy matters for advancing FMIS programs and initiatives, including the following:

Date	Description
February	Working group with Prime Minister
24 May	Presentation to CAC
4 June	Presentation to Gabinete Presidente
23 August	Presentation to the Council of Ministers
17 September	Presentation to Commission C (Baucau)
11 October	Presentation to the Ministry of Infrastructure
19 November	Presentation to the Fiscal Policy Group (MoF)
14 December	Presentation/ demo to Deloitte Team
19 December	Presentation to the Council of Ministers

National Directorate for Domestic Revenue (NDDR)

Throughout the year the MoF's NDDR also delivered a number of information sessions to the taxpayer community. The sessions aimed to extend taxpayers' awareness of paying taxes, how taxes are computed and paid and covered information about and interpretation of the Taxes and Duties Act. NDDR is of the view that taxpayer awareness maximizes the revenue and reduces the mistakes by taxpayers. Many taxpayers want to follow the legislation but do not understand the legislation.

The following activities were conducted during the year:

- Workshop on Wage Income Tax with 236 participants in Dili.
- Seminar on Withholding Tax and Wage Income Tax given to 24 EDTL officers and 16 officers of the Prime Ministers Cabinet
- Workshop on Income Tax declaration with 200 participants in Los Palos, Viqueque, Manatuto and Suai.
- Workshop on Income Tax declaration with 100 participants in Dili.
- Workshop on Income Tax declaration with 137 participants in Aileu, Maliana and Manufahi.
- National Directorate on Asset Management Trainers delivered training to line ministries and state institutions at national and district levels.

National Directorate for Asset Management (NDAM)

Likewise, the MoF's Asset Management Directorate undertook training and information sessions in 2012, as follows:

- Training for two NDAM technical staff by UNMIT in Balide Transport Unit was carried out and completed on 29 June 2012.
- Training started in April 2012 for two NDAM technical staff on vehicle maintenance and repairs carried out by the private sector that was completed in November 2012.
- Training & Capacity building for F-FDTL in asset management and disposal of state movable assets in March 2012.
- Module for the Revised Diploma Ministerial prepared and training delivered to:
    a. 24 EDTL Staff on July 24-26, 2012
    b. 25 PNTL Staff on June 4-6, 2012
- Joint NDAM staff and FreeBalance management trainer conducted training on Asset Management. Trained users and managers who completed the training and who met the requirements were certified and they performed asset data entry for their ministry.

National Directorate of Customs (NDC)

The Customs Service sent its staff to the seminars and workshops overseas and in-country, as follows:

- ***WCO Regional Workshop on Non-Intrusive Inspection (NII) Image Analysis*** in Malaysia, from 5 to 9 of March 2012.
- ***Regional Workshop on Partnership for Customs Modernization*** in China, from 28 May to 1 of June 2012.
- ***IPR Regional Workshop on Train the Trainers*** in Kashiwa Japan, from 21 to 25 of May 2012.
- ***WCO Asia/Pacific Regional Workshop on Rules of Origin*** in Shanghai, China, from 11 to 15 of June 2012.
- ***International Course of Customs on Narcotic Identification and Narcotic Law Enforcement*** in Melaka, Malaysia, from 2 to 14 of July 2012.

- ***Seminar on CEN and Intelligence Analysis*** in Seoul, Korea, from 10 to 13 of July 2012.
- ***WCO Regional Workshop on Countering Drug Smuggling by Air Passenger*** in Kashiwa Japan, from 23 to 27 of July 2012.
- ***IPR Regional Workshop on Development of the Enforcement Regime***, in Kashiwa Japan, from 11 to 14 of September 2012.
- ***WCO Regional Accreditation Workshop for Expert Trainers on Valuation Control via Post Clearance Audit (PCA)*** in Kashiwa, Japan, from 3 to 7 of December 2012.

The Customs Service took part in the ***"APG 15th Annual Meeting and Technical Assistance Forum and Training"*** in Adelaide Australia, from 16 to 20 of July 2012.

Also in 2012, the Customs Service took part in the meetings organized by the CPLP as follows:

- ***7ª Reunião do Grupo de Trabalho de Alto Nivel, between CPLP Countries*** in Luanda, Angola, from 16 to 19 of April 2012.
- ***47ª Reunião do Grupo de Trabalho do Sistema Harmonizado Alfandegas between CPLP Countries*** in Praia, Cape-Verde, from 23 to 27 of April 2012,
- ***7ª Reunião do Grupo de Trabalho da Convenção de Quioto Revista between CPLP Countries*** in Luanda, Angola, from 7 to 18 of May 2012,
- ***XXVII Reunião do Conselho dos Directores Gerais Alfândegas CPLP between CPLP Countries*** in Luanda, Angola, from 15 to 18 of October 2012,

Other training and seminars participated in by the Customs Service include the following:

- ***Regional Intelligence Management Workshop for Pacific ACP Customs Administrations*** in Nadi, Fiji, from 5 to 16 of March 2012.
- ***WCO Sub regional Workshop on Post Clearance Audit for OCO Members*** in Suva, Fiji, from 20 to 24 of August 2012.
- ***WCO Sub regional Workshop on Post Clearance Audit for OCO Members*** in Suva, Fiji, from 25 to 31 of August 2012.
- ***Conference on Regional Cooperation and Integration Experiences in Asia and Pacific*** in Kunming, PRC (China), from 26 to 27 of March 2012.
- ***Seminar on Challenges of Reforming Tax and Customs Administrations IMF-Singapore Regional Training Institute (STI)*** in Singapore, from 28 to 1 of June 2012.
- B***asics in Trade and Commerce for Timor-Leste*** in Singapore, from 15 to 19 of October 2012.
- ***ASMA Fellowship Programme*** in Malaysia, from 26 of November 2012 to 22 of February 2013.
- ***Workshop on Resources without Borders,*** in Washington, D.C. United States, from 21 to 22 of June 2012.

On the in-country trainings and seminars, the Customs Service took part in the following:

- ***"Customs Core Training Program, conducted by CCES, Unit 1, 2 3*** in Dili, Timor-Leste, from 15 of January to 14 of December 2012.
- ***"Course on Quick tool for screening the most Common Ozone Depleting Substances (ODS)*** in Dili, Timor-Leste, from 27 to 29 of August 2012.
- ***"English course basic and elementary level*** in Dili, Timor-Leste, from January to December 2012.

National Directorate for Macroeconomics (NDME)

Members of the National Directorate for Macroeconomics took part in the following training/workshops:

- "National Deep Sea Minerals Stakeholder Consultation Workshop" in October 2012.
- "Monetary Financial Statistics" in Singapore, November 2012.
- "Building Resilience Thought Good Jobs and Social Protection: Diverse Challenges around the World" in India, October 2012.

National Directorate for Treasury (NDT)

In the Treasury Directorate, a Training Strategy was developed and Training Needs Analysis conducted to build capacity and equip Treasury staff with relevant skills and knowledge. This resulted in an annual training plan.

Nine (9) training programs with detailed materials for each were developed and delivered to staff in areas including PFM concepts, Induction program for new recruits, TSA and Cash Management, Financial Accounting & Reporting, Treasury Operations, FMIS security to Train the Trainer.

Nearly 600 man-hours of training were received by Treasury staff and there is now a pool of experienced in-house trainers and training materials for future training.

Legislative Work

The Legal Support Unit supported the legal requirements of the Ministry of Finance, especially regarding public finance and management. The Legal Office produced legal drafts, circulars, legal opinions, instructions and analyses to the Ministry level for discussion and also to the Council of Ministers level for further approval. The Legal Office coordinates the services with other Legal Units within Directorate Generals and Directorate Nationals so to prepare legal drafts.

During 2012, the Legal Office had three main achievements, as follows:

- approval of Budget 2012 (Rectificativo) and 2013 Law Proposals;
- approval of the Organic Decree-Law of the Ministry of Finance under the V Constitutional Government; and,
- approval of the Public-Private Partnerships Legal Regimes.

In addition, the Legal Office performed the following activities:

1. Provided legal opinion for all documents from Ministerial lines, Government Institutions and Civil Society, and also legal opinion on issues related with Treasury, including payments for Former Heads of Government and Executives and other payments.
2. Provided legal opinion on issues related to the Budget; Taxes; Customs and foreign Aid Agreement;
3. Produced circulars on Budget execution;
4. Produced legislation on Public Finance and Budget Management to be approved in the Council of Ministers;
5. Provided legal advice and analysis of the financial impact on laws and regulations of other Ministries sent to the Council of Ministers;
6. Provided written and oral opinion to the Director-Generals, Director-Nationals and Chiefs of Department within the Ministry of Finance;
7. Wrote proposal of the new Organic Law of the Ministry of Finance
8. Wrote the Proposal of Law on Rectification Budget 2012
9. Wrote Proposal of Law on Government General Budget 2013;
10. Supported the recruitment of International Advisers, National Consultants and public servant 1;
11. Started the legal internship for 5 Students from UNTL;
12. Recruited 2 public servants as Administrative Assistant to the Legal Office;
13. Amended DL 10/2005 of 21 November regarding Legal Regime of Procurement;
14. Prepared draft on Investment Company in Timor Leste after making the presentation in the Council of Ministers to obtain approval;
15. Prepared Law Proposal for 1st Amendment on Petroleum Fund that has been discussed on the Parliament National to obtain approval;
16. Prepared draft on Liberalization of Telecommunications;
17. Wrote Law Proposal on Public Debts that has been discussed on the Parliament National to obtain approval;
18. Prepared the 3th and 4rd Amendments to DL on Former Heads of Government and Executives;
19. Revised the books of GGB 2012 and RB 2012;
20. Held discussions with the Commission C of National Parliament regarding the Law Proposal of GGB 2012;
21. Drafted DL regarding monthly allowance to civil servants (thirteenth month);
22. Rectified the Double Taxation Agreement with Portugal;
23. Drafted the Decree-Law on Public-Private Partnerships and then send it to the Council of Ministers to discuss and obtain approval.
24. Prepared the 1st Amendment on Decree-Law regarding PDD I and PDD II;
25. Revised the circular on Budget execution 2012;

26. Prepared circular on the Government General Budget 2013;
27. Produced the Resolution on System of Information of Financial Management;
28. Prepared the Resolution on Modernization of Integrated Border Posts and Customs;
29. Prepared the Ministerial Diploma on Management of Government Assets;
30. Assisted in the negotiation and signing of loan agreements with the Government of Japan and ADB;
31. Drafted the Decree Law on Tax Procedures ;
32. Drafted the proposed law on Administrative Fees;
33. Provided support for Arent Fox on tax claims from oil company;
34. Prepared the Law of Consolidated Procurement;
35. Started the tendering processes regarding Public-Private Partnerships for Tibar Port and Airport;
36. Assisted in the negotiation of the Sanitation Project and Irrigation of Dili;
37. Supported the intensive negotiation with Manitoba Company;
38. Assisted in the dispute resolution of Lifese;
39. Provided Resolution of students condition in India (Aptech);
40. Assisted in the review of the Building contract of the new Ministry of Finance premises;
41. Prepared the contract of Scholarship and service in the Ministry of Finance;
42. Prepared the Contract extension of FreeBalance;

43. Provided legal advice on the Project of Timor Gap research and Project to develop South Coast, include Special Economic Zones;
44. Reviewed grant agreements in the areas of health, agriculture and others;
45. Assisted in the negotiation on seabed cables;
46. Assisted in the New North-South connection through boat;
47. Assisted in the Safety Negotiations for Central in Hera and Betano;
48. Provided legal analysis on the World Bank loan;
49. Prepared revision of the Rural Development Project;
50. Rendered legal opinion on accession of Timor-Leste to the New York Convention on Arbitration;
51. Prepared presentations on the crime and financial offences to the Members of Government and Members of National Parliament.

Public Relations Work

Parliamentary Sessions

- Attended plenary sessions of National Parliament including: Normal and extraordinary sessions and the 2012 *Rectification Budget (11-17 October 2012).* Provided the sessions reports and shared with Ministry's officials and other line ministries, and international media which is working for government.
- Attended the 5- day *Parliament Welcoming Seminar (5-11 September 2012*) for the whole National Parliament Members (induction training) with speakers, the former-President of National Parliament of Portugal Dr Jaime Gama, and Dr Aristides Lima from Cabo Verde. Provided comprehensive report and shared with Ministry's officials and some of line ministries, government media and international media which work for government.
- Attended State budget *seminar at Hotel Flamboyant, Baucau, (17-18 September 2012*) which was organized by National Parliament Commission C – Provided a comprehensive report and shared with Ministry of Finance Officials, some of line ministries, government media and international media which is working for government.
- Attended Parliament sessions on *Five-year Program of the V Constitutional Government (12-14 September 2012*) – Provided comprehensive report and shared with Ministry of Finance's officials, some of line ministries, government media and international media which is working for government.
- Attended the *One-Day Seminar (8 November 2012*) at the plenary room of the National Parliament regarding presentation by Ministry of Finance and Towers Watson on *Petroleum Fund* - Provided the sessions report and shared with Ministry of Finance's officials, some of line ministries, government media and international media which is working for government.

Media Coverage of national events of Ministry of Finance

- Together with local media, undertook coverage of a series of MOF events such as swearing-in ceremony of the Ministry of Finance's Directors General and National Directors, induction training for new MOF staff and other MOF events including g7+ meetings, and produced media releases and web articles for the Ministry of Finance website.

Media Coverage of events in District

- Undertook media coverage of the Minister of Finance's visits to Districts in the occasions of inauguration and other relating events – Produced media reports and published in Ministry of Finance's website;
- ***Undertook media coverage of hand over of UNMIT assets beginning with a visit of the Committee for UNMIT Assets Donation to the UNMIT Compound in February and the subsequent handover ceremonies held in during the period of October- December 2012 Oecusse, Suai, Maliana, Baucau and Dili. The media team produced reports and uploaded in the MOF website.***

Media Coverage of events in Overseas

- Accompanied the delegation of MoF Director General of Corporate Services to Flinders University, Adelaide, Australia (16 -21 December 2012) and undertook media coverage upon the post graduation ceremony of 3 Ministry of Finance scholars. Produced the report of the event and published it in the Ministry of Finance's website.

Major Projects Secretariat Performance

"As of end of 2012, US$372,4 million representing 46% of the 2012 Infrastructure Fund original budget allocation, or 43% of the total available post-rectification budget of the IF, was successfully disbursed."

Law No. 1/2011 of 14 February, approving the State Budget (OGE) for 2011, created the Fund for Infrastructure (IF) and Decree Law 8/2011 sets out the management and operational aspects of the Fund. The IF was established to cover both multi annual and large projects above US$1M enabling resources once programmed to be expended in a more efficient, secure, transparent and accountable way. The Major Projects Secretariat (SGP) was set up to manage the IF on behalf of the Council for Administration of the Infrastructure Fund (CAFI) which is responsible for the operation of the Fund

In 2011, a total of US$599.3 million was allocated for disbursement in 2011 of which US$474.4 million was successfully disbursed representing 79.2 % of the total budget.

In 2012, the Government allocated an additional US$800.3 million for further development of public infrastructure, including US$43.1 million outsourced funds from external loans. By adding the 2011 leftover budget of US$124.9 million, the total available budget for the year was US$925.1 million.

The total value of Contract Agreements established between the Government and private companies, from 2011 until July 2012, amounted to US$1,210.8 million. This value excludes the on-going negotiations by the NPC with service providers for a several major projects that could bring the total value of contracts to US$1,500 million.

During the eighteen months since the Infrastructure Fund (IF) has been operational some adjustments have been required to fund allocations. These have enabled projects to proceed ahead of expected implementation schedules to remain with adequate funds to avoid delays in completion.

In terms of execution, as of end-2012, US$372.4 million dollars representing 46% of the 2012 IF budget original allocation, or 43% of the total available post-rectification budget IF fund, was

Table 1 - Infrastructure Fund Budget and Disbursement, 2012

Program Sector	2012 Budget Allocation	Balance from 2011	2012 Total Available	2012 Disbursements		End-2012 Balance
	($000)	($000)	($000)	($000)	% of available	($000)
Agriculture	9,384	450	9,834	2,357	24%	7,477
Water & Sanitation	13,500	0	13,500	2,871	21%	10,629
Urban & Rural Development	6,913	163	7,076	89	1%	6,987
Public Office Buildings	37,110	9,174	46,284	8,202	18%	38,082
Education	11,171	145	11,316	1,444	13%	9,872
Electric Power	282,000	19,821	301,821	282,750	94%	19,071
Informatics	7,100	4,891	11,991	5,811	48%	6,180
MDG	75,000	42,517	117,517	12,833	11%	104,684
Health	3,352	2,472	5,824	2,164	37%	3,660
Security & Defence	11,220	4,980	16,200	4,121	25%	12,079
Solidarity & Social	1,250	690	1,940	607	31%	1,333
Tasi Mane (i)	162,800	10,238	123,038	9,343	8%	113,695
Roads and Bridges	127,180	27,651	154,831	35,031	23%	119,800
Ports and Airports	9,181	1,681	10,862	4,781	44%	6,081
SUB-TOTAL	**757,161**	**124,873**	**832,034**	**372,404**	**45%**	**459,630**
Loans						
ADB (Roads)	10,000	0	10,000	0	0%	10,000
JICA (Roads)	3,100	0	3,100	0	0%	3,100
World Bank (Roads)	10,000	0	10,000	0	0%	10,000
China (Drainage)	20,000	0	20,000	0	0%	20,000
SUB-TOTAL	**43,100**	**0**	**43,100**	**0**	**0%**	**43,100**
GRAND TOTAL	**800,261**	**124,873**	**875,134**	**372,404**	**43%**	**502,730**

Note (i): Budget allocation before rectification budget, total available after rectification budget

successfully disbursed. Details by sector on the budgets and expenditures are shown in Table 1.

The electric power sector accounted for over 30% of the IF budget in 2012. These projects to provide adequate electric power throughout the country have proceeded particularly well with 94% of the available funds in 2012 having been disbursed during the year. Under the program one generating plant, at Hera, is operational and the second new plant at Betano is nearing completion. Also, over 50% of the medium voltage transmission grid network and over 60% of the low voltage network are energized. These projects have already created social and economic benefits from increased availability and reliability of electricity supply.

Three other programs each were allocated over US$100 million in 2012, namely: Tasi Mane program with US$ 173 million, the Roads and Bridges program with US$ 155 million and the Millennium Development Goals (MDG) program.

Meanwhile, loan agreements for road improvements were signed with the Japan International Cooperation Agency (JICA) and Asian Development Bank during 2012. Procurement of the design and supervision consultants is well advanced and mobilisation will commence in early 2013. However no disbursements from the IF were made in 2012. As for the Public Private Partnership (PPP) Program, two main projects are 1) the development of Dili airport with private sector participation to meet international standards in air travel and to increase efficiency of airport operations, and 2) Development of Tibar Bay port.

The major components of the 1st project are (1) the rehabilitations and upgrading of the runway, (2) the rehabilitation and upgrading of the passenger terminal, and (3) the Operation and maintenance of the airport facilities after and during project implementation.

The second project of PPP is the Tibar Bay Port. The project comprises of development of Tibar Bay Port with private sector participation to meet international efficiency standards for container and other cargo operations. The major project components are (1) the preparation of the port site conditions, including the preparation of the land and sea area, (2) the installation of the port facilities, and (3) the Operation and maintenance of the port facilities during and after the project implementation.

A Financial Advisory Services Agreement (FASA) has been signed between the MoF and IFC. Through this agreement, the IFC is expected to present the results of the transaction phase to the government regarding viability as well as presenting PPP options for decision to be taken by the government.

MoF

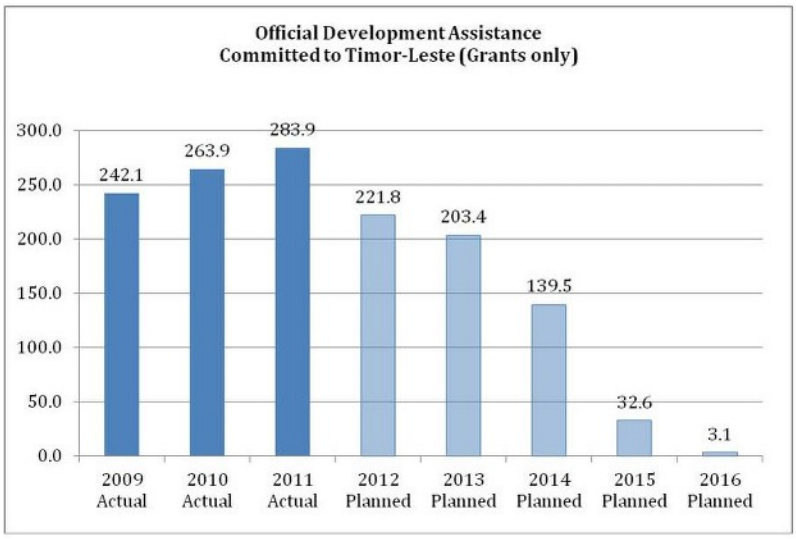
Aid Coordination Performance

> *"Building on the success of its launch in 2011, the Government has continued with the implementation of the Timor-Leste Aid Transparency Portal (ATP) as an integral part of the Government's effort to be a world leader in transparency."*

In 2012, the National Directorate of Aid Effectiveness (NDAE) has continued its activities for ensuring the effective use of the external assistance provided by Development Partners (DPs) and supported the Government's commitments to national and international development initiatives.

Management of External Assistance

The NDAE manages external assistance provided by DPs(17multilateral and 20 bilateral in 2012) to Timor-Leste, which amounts to US$221.8 million as grant assistance (estimate as of October 2012). Although the percentage of external assistance in the Combined Sources Budget has become smaller in recent years, the external assistance has still played an important role in development in Timor-Leste. 2012 has also represented a remarkable year in which loans were introduced for the first time in Timor-Leste; the two loan projects agreed to will finance upgrading national road networks.



Source: Proposed 2013 Budget Book 5

In its day-to-day operation, the NDAE (i) coordinated formulation of basic framework agreements, (ii) facilitated joint formulation and/or commenting on DPs' Country Assistance Strategy/Programs, (iii) facilitated bilateral policy dialogues with DPs and (iv) managed individual programs/projects. In particular, the NDAE put an emphasis on ensuring the Government's ownership/leadership in development and alignment of DPs' assistance with the Government's priorities, including the Strategic Development Plan 2011-2030 (SDP), which was officially launched in 2011.

http://www.aidtransparency.gov.tl

As one of NDAE's important roles, the NDAE organized periodical dialogues with DPs. The annual Timor-Leste Development Partners Meeting (TLDPM), "A Nation Moving Forward –

– Handover Achievement, Challenges & Opportunities for the Future," was held in May 2012 with the attendance of more than 35 countries and international organizations. The 2012 TLDPM reviewed past challenges, achievements and opportunities for the future, and drew a common strategic direction that goes through strengthening the alignment between DPs and effectiveness of the implementation of development programs. In the meeting, the handover reports for the V Constitutional Government were presented to the Prime Minister by Government institutions, DPs and Civil Society.

Building on the success of its launch in 2011, this year the Government has continued with the implementation of the Timor-Leste Aid Transparency Portal (ATP). The ATP is an integral part of the *Timor-Leste Transparency Portal* and the Government's overall effort to be a world leader in transparency.

Through the concerted efforts of the NDAE staff, the ATP now contains information on all projects carried out in Timor-Leste, including financial information on on-going and completed projects dating back to 2001. Built in reporting mechanisms and data analysis tools have also allowed for simplified reporting. Using these tools, the NDAE was able to publish the Aid report for the 2012 TLDPM and provide complete data on Development Partner funding for the 2013 Budget Book 5. Additionally, NDAE staff is now able to provide valuable project data to Line Ministries, helping them to work more closely with DPs and better formulate development strategies

In September, NDAE staff attended a training and fact-finding mission sponsored by the Ministry of Finance in Kathmandu, Nepal. Meeting with Nepalese staff, which has implemented their own *Aid Information Management Platform*, the NDAE learned about successes and challenges in implementing their system. With these lessons learned the NDAE will continue to improve the daily running of the ATP and quality of data gathered.

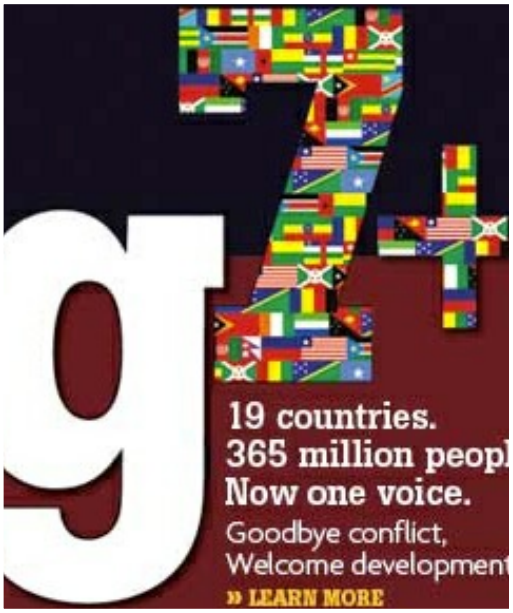
New Development Policy Coordination Mechanism

Since 2008, the Government has implemented the National Priority Program and the Secretariat for the Program has been located at the NDAE. Given the transition from the National Priority Program to the SDP, the Post-National Priorities Lessons Learned Workshop was held in April 2012. This workshop reviewed the National Priority Program in the past and formulated recommendations for implementation of the SDP. In parallel, the NDAE prepared the draft concept paper on the mechanism for operationalizing the SDP, including the establishment of the Sector Working Groups. These groups will provide the opportunity for policy dialogues between the Government and DPs and coordination/mobilization of external assistance on a sectoral basis.

South-South cooperation with Nepalese Ministry of Finance, Sept 2012

g7+and the New Deal

> *"Over the course of 2012, the g7+ has continued to make great strides. The group is now globally recognized as the overarching forum representing fragile and conflict-affected states, worldwide."*



The g7+ Group of Fragile States, which is currently chaired by H.E. Minister Emilia Pires, developed and agreed the landmark *New Deal for Engagement in Fragile States* at the Fourth High Level Forum on Aid Effectiveness, held in Busan South Korea in December 2011. The 'New Deal' sets out a new way of working in conflict-affected environments to improve development outcomes, increase resilience and support members' transition out of fragility. Since December 2011, this historic agreement has been signed by over 40 donors and international organisations.

Over the course of 2012, the g7+ has continued to make great strides. The group is now globally recognized as the overarching forum representing fragile and conflict-affected states worldwide.

Under the leadership of Minister Emilia Pires as Chair, and with the support of the g7+ Secretariat which is based in the Ministry of Finance in Timor-Leste, the group has successfully lobbied, advocated and campaigned for systematic changes to the way aid is allocated, delivered and managed.

The g7+ Secretariat and its member states have continued to work through the *International Dialogue on Peacebuilding and Statebuilding,* and the working groups it has established on Indicators, Political Strategy and Country Implementation, to begin to implement the New Deal in a range of pilot countries, and to achieve better outcomes for fragile states.

Under the leadership of the Co-chairs of the International Dialogue on Peacebuilding and Statebuilding, Finance Minister, H.E. Emilia Pires and Danish Minister for Development Cooperation, H.E. Christian Friis Bach, the New Deal is now part of a broader and growing agenda for the g7+ group and International Network for Conflict and Affected States (INCAF) partners and Civil Society representatives.

Seven g7+ countries have embarked on New Deal trial phase of country implementation, with 'Fragility Assessments' conducted in five pilot countries including the Democratic Republic of Congo, Liberia, Sierra Leone, South Sudan and Timor-Leste.

The New Deal Component

PSGs	FOCUS	TRUST
Inclusive Politics	Fragility Assessment	Transparency of aid
Security	One Vision, one Plan	Risk sharing
Justice	Compact	Use and strengthen country system
Economic Fiundations	Use PSG to monitor	Strengthen capacity
Revenue and Services	Support political dialogue	Timely and predictable aid

Other notable successes in 2012 include:

●The g7+ established a website, social media (facebook and twitter) and an advertising campaign including three articles in the internationally distributed magazine *Foreign Policy*. This allowed world leaders, major governments, NGOs, INGOs, think tanks, academics and embassies as well as the general public to be introduced to the g7+.

●A g7+ technical meeting in January 2012 was held in Dili, Timor-Leste to prepare for the year ahead and discuss policy and position statements for upcoming events.

- In July the Chair of the g7+ held bi-lateral meetings to introduce and promote the g7+ with the Secretary General of the United Nations, Ban Ki-moon, the G77 (Algeria), the LDC (Nepal), Chair of Peacebuilding Commission (Bangladesh), the Non Aligned Movement (Egypt), and BRICS (Brazil) in addition to individuals including George Soros, Paul Tudor-Jones and Tony Blair.
- The g7+ held successful meetings with the outgoing President of the World Bank, Robert Zoellick, on the sidelines of the Spring Meetings, held in April 2012. Meetings were also held with Vice Presidents including Sri Mulyani Indrawati. Eight g7+ Ministers were in attendance.
- In September 2012, the Governments of Haiti, Liberia and Timor-Leste held a High-level Side Event at the 67th United Nations General Assembly. The event, titled 'The New Deal: g7+ experiences and perspectives' took place on 26th September and was a huge success, attracting an audience of over 400 people, including George Soros, Jeffrey Sachs, Judy Cheng-Hopkins (Assistant Secretary-General of the United Nations for Peace building Support), Caroline Anstey (World Bank Managing Director), EU Commissioner for Development Andris Piebalgs, and the United States Under Secretary of State, as well as a range of ministers from g7+, G77 and other countries. Keynote speeches were delivered by two Heads of State and four Heads of Government, including President Susilo Bambang Yudhoyono of Indonesia, President Ellen Johnson Sirleaf of Liberia, Prime Minister Laurent Salvador Lamothe of Haiti, Prime Minister Kay Rala Xanana Gusmão of Timor-Leste, Prime Minister Julia Gillard MP of Australia, and Prime Minister Gordon Darcy Lilo MP of Solomon Islands.
- In October 2012, g7+ Ministers of Finance also attended the World Bank and IMF's Annual Meetings in Tokyo. Nine Ministers met with new World Bank President, Dr. Jim Yong Kim and his four Vice Presidents , as well as the new CEO of the IFC. This was one of only 4-5 meetings granted by the President in Tokyo.
- In November 2012, the g7+ held its annual Ministerial Retreat in Port-au-Prince, Haiti. This meeting was instrumental in consolidating political support for the g7+ amongst the membership and defining our priorities and activities in 2013. In Haiti the g7+ also formally expanded to 18 members, with the ascension of the Union of the Comoros.

MoF

NEW DEAL
BUILDING PEACEFUL STATES

MDGs and the post-2015 Development Agenda

High Level Panel of Eminent Persons on Post-2015 Development Agenda

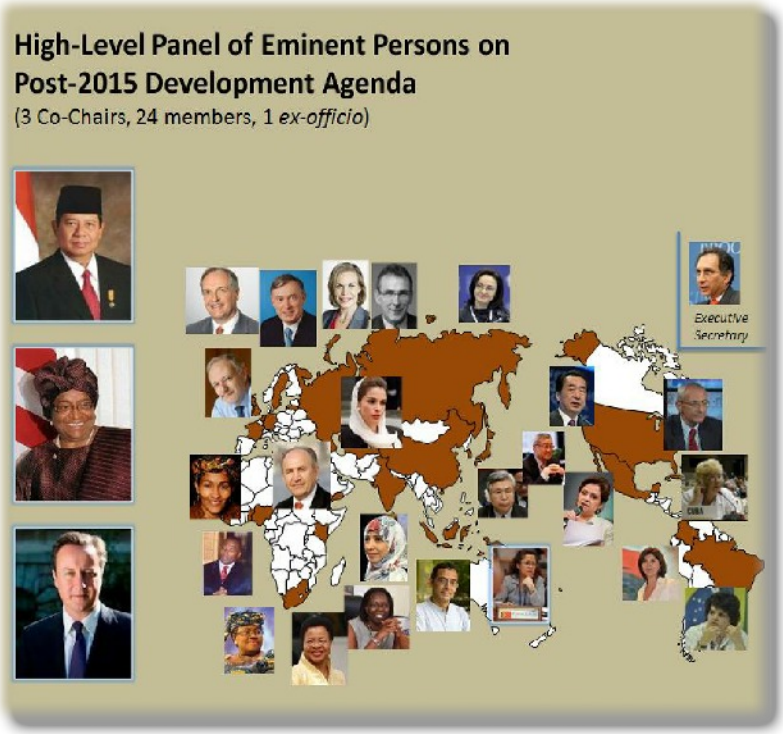
In September 2000, 147 heads of State and Government, and 189 nations in total, through United Nations Millennium Declaration committed themselves to making the right to development a reality for everyone and to freeing the entire human race from want. The Millennium Declaration called for halving by the year 2015, the number of people who live on less than one dollar a day.

From there the Millennium Development Goals (MDGs) were developed to define a common framework of priorities for all countries to follow. The eight MDGs, set specific targets on poverty alleviation, education, gender equality, child and maternal health, environmental stability, HIV/AIDS reduction, and a global partnership for development.
To help track progress on MDGs, international and national statistical experts developed 21 targets and 60 indicators to assess progress over the period from 1990 to 2015, when targets are expected to be met. Each year, the Secretary-General presents a report to the United Nations' General Assembly on progress achieved towards implementing the Declaration, based on data on the selected indicators, aggregated at global and regional levels.

The 2015 deadline is fast approaching and now is the time to learn from the successes as well as setbacks from MDGs and to identify the new challenges for the future. To start this process, a High-level Panel of 26 Eminent Persons has been convened by UNSG Ban Ki-moon to shape recommendations for the post-2015 Development Agenda. **Hon Emilia Pires, Minister of Finance, Timor-Leste** is one of the 26 Eminent Persons on this panel.

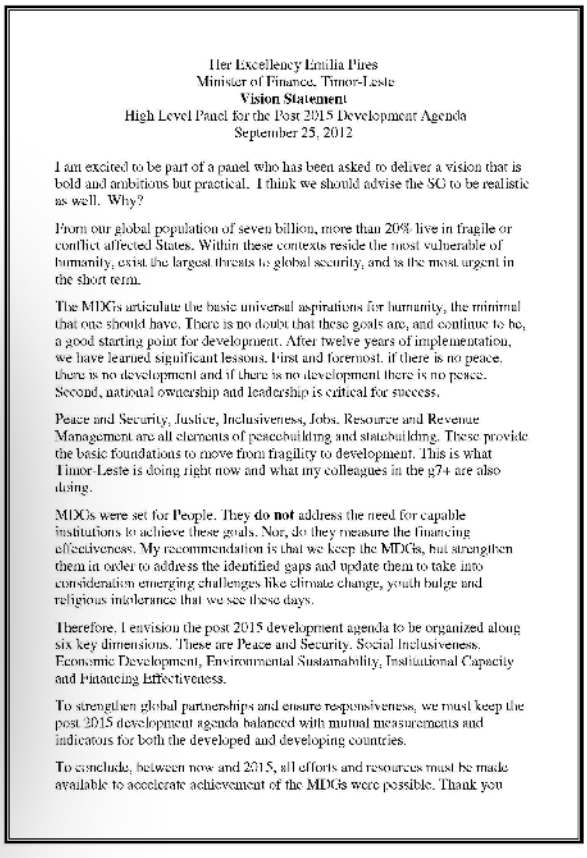
The Panel has met twice so far in New York and in London. The next meeting is scheduled in Liberia from 29 January to 1 February 2013. The final report and recommendations of the Panel will be presented to the Secretary General in May 2013.

The member states of the United Nations have also called for open, inclusive consultations involving civil society, the private sector, academia and research institutions from all regions, in addition to the United Nation's system, to advance the development agenda beyond 2015.



Minister Pires as a member of the Panel has organized the following consultations. The submissions/results collected through this process will be submitted to the High Level Panel to feed into the final report to the Secretary General:

- A country consultation in Timor-Leste with assistance of UNDP's country team. This consultation was conducted from 3-14 December 2012 and reached 11 target groups including 5 selected districts and around 220-250 people in Timor-Leste. In addition a big national consultation with representatives from all target group was organized in January to discuss and agree on priorities from Timor-Leste to contribute to the global development agenda. The report has been finalized and distributed during the International Conference in Dili, 26-28 February 2013. The report also was distributed to all stakeholders that have been consulted.
- Minister Pires also visited Australia and met with a number of groups, organizations and peak bodies seeking their views and visions on post-2015 development agenda. We have so far received 15 submissions from Australia some of which represent a large constituency.



Her Excellency Emilia Pires
Minister of Finance, Timor-Leste
Vision Statement
High Level Panel for the Post 2015 Development Agenda
September 25, 2012

I am excited to be part of a panel who has been asked to deliver a vision that is bold and ambitious but practical. I think we should advise the SG to be realistic as well. Why?

From our global population of seven billion, more than 20% live in fragile or conflict affected States. Within these contexts reside the most vulnerable of humanity, exist the largest threats to global security, and is the most urgent in the short term.

The MDGs articulate the basic universal aspirations for humanity, the minimal that one should have. There is no doubt that these goals are, and continue to be, a good starting point for development. After twelve years of implementation, we have learned significant lessons. First and foremost, if there is no peace, there is no development and if there is no development there is no peace. Second, national ownership and leadership is critical for success.

Peace and Security, Justice, Inclusiveness, Jobs, Resource and Revenue Management are all elements of peacebuilding and statebuilding. These provide the basic foundations to move from fragility to development. This is what Timor-Leste is doing right now and what my colleagues in the g7+ are also doing.

MDGs were set for **People**. They **do not** address the need for capable institutions to achieve these goals. Nor, do they measure the financing effectiveness. My recommendation is that we keep the MDGs, but strengthen them in order to address the identified gaps and update them to take into consideration emerging challenges like climate change, youth bulge and religious intolerance that we see these days.

Therefore, I envision the post 2015 development agenda to be organized along six key dimensions. These are Peace and Security, Social Inclusiveness, Economic Development, Environmental Sustainability, Institutional Capacity and Financing Effectiveness.

To strengthen global partnerships and ensure responsiveness, we must keep the post 2015 development agenda balanced with mutual measurements and indicators for both the developed and developing countries.

To conclude, between now and 2015, all efforts and resources must be made available to accelerate achievement of the MDGs were possible. Thank you

Fragility Assessment in Timor-Leste

The fragility assessment was conducted within two months period from July to August 2012. The process of fragility assessment involved approximately 41 institutions that consisted of state institutions, development partners, civil societies, local authorities and some universities.

The group discussion and interview were conducted at national and district level, the participants were participating actively to contribute and provide information that is needed. In addition, UN SG Ban Ki-moon also participated in one of the Fragility Assessment Workshop in Timor-Leste.

The main objective of this assessment is to find out the country situation in relation to 5 main objectives:

PSG 1: Inclusive Politics - Foster inclusive political settlement and conflict resolution
PSG 2: Security- Establish and strengthen people's security
PSG 3: Justice- Address injustice and increase people's access to justice
PSG 4: Economic Foundation– Generate employment and improve livelihoods
PSG 5: Revenue and Services - Manage revenue and build capacity for accountable and fair services delivery.

From this assessment, the result shows that: Timor-Leste has made the biggest progress on the PSG 2: Security. PSG 1: Inclusive Politics and PSG 5: Revenue and Services also have made some good progress. However, PSG 3: Justice and PSG 4: Economic Foundation are the two areas that will need more efforts and attention in the future since it has less progressed when compared with the other 3 objectives.

Overall, the summary of the assessment can be described as per following:

PSG	Fragility Stages				
	Stage 1: Crisis	Stage 2: Rebuild & Reform	Stage 3: Transition	Stage 4: Transformation	Stage 5: Resilience
1. Inclusive Politics			■		
1. Security				■	
1. Justice		■			
1. Economic Foundation		■			
1. Revenue and Services			■		

The Ministry under the V Constitutional Government

New Organic Law

Article 23 of Decree-Law no. 41/2012 of 7 September, approving the Organic Structure of the Fifth Constitutional Government, establishes that the Ministry of Finance is the Government's central body responsible for drafting, executing, coordinating and assessing the policies defined and approved by the Council of Ministers, for the areas of annual budget and finance planning and monitoring.

As such, and in accordance with the guidelines set by the Strategic Development Plan and by the Strategic Plan of the Ministry of Finance, the present Organic Structure seeks to contribute to the sound management of public finance, with transparent and efficient data handing and reporting systems, taking into account the economic and social needs of the Country.

The present structure also reflects the recent legislative options in terms of public funding, such as public-private partnerships and the public debt regime, creating the proper services for monitoring these options.

The Ministry of Finance, MoF for short, is the central body of the Government responsible for drafting, executing, coordinating and assessing the policies defined and approved by the Council of Ministers, for the areas of annual budget and finance planning and monitoring.

The MoF has the following attributions:

- Propose monetary and exchange-rate policies, in collaboration with the Central Bank;
- Propose policies and draft the necessary regulation projects on macroeconomics issues, tax and non-tax revenues, budgetary framework, procurement, public accounting, public finance, auditing and control of the State treasury, issuing and management of the public debt;
- Administer the petroleum fund of Timor-Leste;
- Coordinate the projects and programmes between Timor-Leste and the development partners, together with the Ministry of Foreign Affairs and Cooperation;
- Manage the external public debt, stakes by the State and development partnerships, being responsible for coordinating and setting the financial and tax aspects;
- Manage the assets of the State, subject to the powers of the Ministry of Justice in terms of real estate assets;
- Promote the management policy concerning State movable assets, in cooperation with the further competent public entities;
- Manage the supply of procured assets to every ministry;
- Negotiate, sign and manage the implementation of public-private partnership contacts, in coordination with the other relevant public entities, looking after their financial assessment so as to have a proper sharing of risks between the State and the private partner and to ensure the sustainability of every project;
- Compile and publish official statistics;
- Promote the necessary regulation and exert financial control over the expenses of the State General Budget allocated to the further ministries, in order to pursue a policy of greater financial autonomy by the services;
- Look after the good management of the funds transferred from the State Budget to bodies that are indirectly administered by the State and by the local governance bodies, through audits and monitoring;
- Coordinate national and international technical assistance in terms of technical advisory for State bodies, except for the areas of human resources training;
- Develop financial management information systems in every Public Administration service and body, in articulation with the development of the e-government process;
- Set up collaboration and coordination mechanisms with other Government bodies responsible for related areas.

1. The following central services are under the direct administration of the State, within the scope of the Ministry of Finance:

   (a) The Directorate-General of Revenue, consisting of the following national directorates:
      i) National Directorate of Petroleum and Mineral Revenue;
      ii) National Directorate of Domestic Revenue;

   (b) The Directorate-General of Customs, consisting of the following national directorates:
      i) National Directorate of Operations;
      ii) National Directorate of Compliance;
      iii) National Directorate of Administration;

   (c) The Directorate-General of State Finance, consisting of the following national directorates:
      i) National Directorate of Economic Policies;
      ii) National Directorate of Budget;
      iii) National Directorate for the Whole of Government;
      iv) National Directorate of Supply and Assets Management;

   (d) The Directorate-General of Treasury, consisting of the following national directorates:
      i) National Directorate of Accounting and Financial Regulation;
      ii) National Directorate of Payments;
      iii) National Directorate of Financial Decentralization;

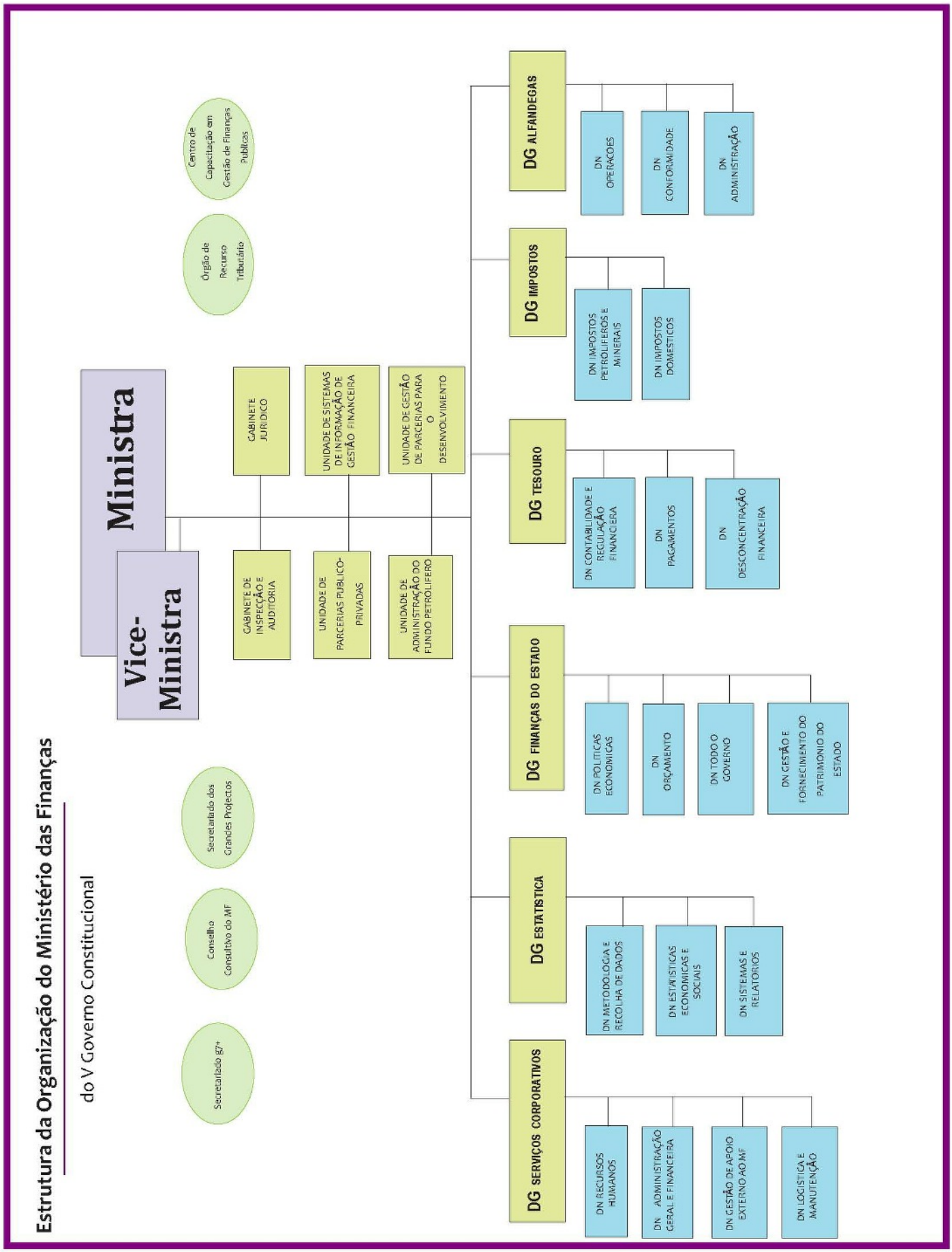
   (e) The Directorate-General of Statistics, consisting of the following national directorates:
      i) National Directorate of Methodology and Data Collection;
      ii) National Directorate of Economical and Social Statistics;
      iii) National Directorate of Systems and Reports;

   (f) The Directorate-General of Corporative Services, consisting of the following national directorates:
      i) National Directorate of Human Resources;
      ii) National Directorate of General and Financial Management;
      iii) National Directorate of MoF External Assistance Management;
      iv) National Directorate of Logistics and Maintenance.
   (g) The Development Partnership Management Unit;
   (h) The Petroleum Fund Administration Unit;
   (i) The Financial Management Information System Unit;
   (j) The Public-Private Partnership Unit;
   (k) The Inspection and Audit Office;
   (l) The Legal Office.

2. The Timor-Leste Investment Company, which has legal personality as well as administrative, financial and patrimonial autonomy, being regulated by its own memorandum of association, already approved under the law, performs tasks for the MoF under the leadership and supervision of the MoF.

3. The MoF has the following consulting, support or appeal bodies:
   (a) Ministry of Finance Consulting Council;
   (b) Large Project Secretariat;
   (c) g7+ Secretariat;
   (d) Public Finance Management Capacity Building Centre;
   (e) Appeal Body.

Organizational Structure



Introduction

The Fifth Constitutional Government of Timor-Leste was inaugurated by the President of the Republic, His Excellency Taur Matan Ruak on the 8th of August 2012 following the Parliamentary Elections held on the 7th of July 2012.

This report highlights the activities within the Ministry of Finance of Timor-Leste since that time covering the main activities undertaken in the first 100 days of the new Government. What is clear looking over this list is that between the 8th of August and the 15th of November a lot has been achieved! For these achievements I must pay tribute to the all the staff of the Ministry of Finance for their efforts. They have no doubt accomplished a good deal. And yet as always there is much ahead for us to do.

I wish to particularly thank the new Vice Minister of Finance, Santina Cardoso, for her diligence.

Now we continue our work in preparation for the 2013 Budget and in the many other areas of our responsibility as we press on to make our best efforts to serve the citizens of Timor-Leste. May we achieve even more in our second 100 days!

Emilia Pires
Minister of Finance
Fifth Constitutional Government
Democratic Republic of Timor-Leste

15th November 2012

Date	Activity	Unit	Notes
15/8/12	Meetings with Staff, Senior Managers & Advisors.	DGCS	The Minister introduced the new Vice-Minister and provided general guidance setting out expectations regarding performance of the MoF during the next 5 years.
17/8/12	Yellow Road Workshop held to decide 2013 Priorities.	DGPAR	Successfully completed the Yellow Road Workshop for the 2013 Budget and Priorities.
26/9/12	MoF Organic Law approved.	LU DGCS	Currently, awaiting publication in the Official Gazette.
17/10/12	Supplementary Budget 2012 approved by the National Parliament.	NDB DGSF	Completed
9/10/12	Budget 2013 preparation started.	NDB DGSF	Ongoing process. Draft 2013 Budget expected to be submitted to the National Parliament by 10 December 2012.
26/7/12	Diploma Ministerial prepared	LU DGCS	Currently reviewing the list of functionalities of each Directorate.
	Senior leadership recruitment process launched.	HRU DGCS MEO	Selection panel appointed by Civil Service Commission, and Job Descriptions defined. Vacancies to be announced when the Organic Law is published in the Official Gazette.
26/9/12	g7+ High-level Side Event held in New York City	g7+ Secretariat MEO DGCS	The HLSE was successfully organized by the g7+ featuring two Presidents (Indonesia and Liberia) four Prime Ministers (Timor-Leste, Haiti, Solomon Islands, Australia) and two Ministers (Denmark and Afghanistan). The event was attended by over 400 people and was one of the most successful events the g7+ Secretariat has organized.

The High-level Side Event held at the United Nations in New York City 26th September 2012
Prime Minister Gusmão co-hosted the event with the President of Liberia, Her Excellency Ellen Johnson-Sirleaf.

Date	Activity	Unit	Notes
25/9/12	MoF Minister attends Post 2015 High Level Panel (HLP) meeting in New York.	MEO DGC g7+ Secretariat	The Minister attended the 1st meeting of HLP in NY opened by the UN Secretary-General Ban Ki-moon and co-chaired by President SBY (Indonesia), President Sirleaf (Liberia) and PM Cameron (UK). During this meeting, the objectives for the work of the Panel was discussed and panelists also contributed their own views on the process and expectations for the outcome document.
13/11/12 14/11/12	g7+ Ministerial Retreat in Haiti on 13-14 Nov.	MEO DGC g7+ Secretariat	The event was attended by the Prime Minister and the Minister of Finance. Representatives from the nine g7+ countries were in attendance. It was a historic moment for Haiti as the Government hosted this event and televised to the whole nation. The Haiti Declaration was produced as part of the output of the meeting.

The High-level Panel of Eminent Persons advising Secretary General Ban Ki-moon on the Post-2015 Development Agenda meet for the first time in New York. 25th September 2012.

Prime Minister Xanana Gusmão joins the Prime Minister of Haiti Laurent Salvador Lamothe and the Minister of Finance Emilia Pires at the Opening Ceremony of the g7+ Ministerial Retreat in Haiti. 13th November 2012

Date	Activity	Unit	Notes
17/9/12	Public Finance Management presentation to Government Members.	DGSF	Completed
17/9/12	Public Finance Management presentation to National Parliament.	DGSF	Completed
	Public Finance Management presentation to PRG, CAC and Tribunals.	DGSF	Completed
	Public Finance Management presentation to Civil Society.	DGSF	Completed
7/11/12	Presentation of Petroleum Fund Investment to Government Members.	NDPF	Completed. The objective of the presentation was to share information on the management of the PF to the key stakeholders as a follow up to instructions from the PM. Due to high interest from the participants, another presentation is scheduled on 30 November to 3 December to the CoM, NP and CSO. Speakers were from NDPF (now PFAU) and Towers Watson, MoF external advisor on PF investment matters.
8/11/12	Presentation of Petroleum Fund Investment to National Parliament.	NDPF	Completed.
9/11/12	Presentation of Petroleum Fund Investment to Civil Society.	NDPF	Completed.
24/10/12	g7+ Presentation to Government Members.	g7+ Secretariat	The Minister of Finance successfully made a presentation on the New Deal to the Council of Ministers on 24 October 2012
14/8/12	New Deal Fragility Assessment done & UN SG attended workshop findings.	g7+ Secretariat	The New Deal Fragility Assessment has been completed and a report is being finalized. The kick off workshop of the Fragility Assessment was attended by UN Secretary General Ban Ki-moon, Prime Minister, Cabinet Members and CSOs on 14 August 2012.

Minister of Finance Emilia Pires and UN Secretary General Ban Ki-moon at the Timor-Leste Fragility Assessment Workshop in Dili, 14th August 2012

Date	Activity	Unit	Notes
21/8/`12 - 22/8/12	Support provided to South Sudan on their New Deal Fragility Assessment.	g7+ Secretariat	A representative from the g7+ Secretariat (Felicia Carvalho) participated in the Fragility Assessment in South Sudan in late August as part of sharing information among g7+ member states and pilot countries.
13/10/12	Attended the 2012 WB/IMF Annual Meetings in Tokyo, Japan.	MEO g7+ Secretariat	The Minister of Finance, as Governor of Timor-Leste in the World Bank and the Fund, took part in the 2012 Annual Meeting and met with various Ministers and officials from other countries, as part of T-L's networking and strengthening of its bilateral relations.
13/10/12	MF attended 1st meeting in the Brazil Constituency.	MEO g7+ Secretariat	With the recent shift in its constituency in the Fund to the Brazilian Directorate, the Minister of Finance attended T-L's first meeting with the Brazilian Constituency during the 2012 Annual Meetings.
10/10/12	Panelist in IMF conference on Capacity for growth.	MEO g7+ Secretariat	As a panel member, Minister of Finance emphasised the need to recognize the country's development context when pursuing development intervention.
11/10/12	g7+ Ministers led by Timor-Leste Chair meet with WB President.	MEO g7+ Secretariat DGCS	The Minister of Finance led a delegation of 9 Ministers of Finance from the g7+ member states and met with the new World Bank President, Dr Kim. Issues of conflict and fragility were discussed and the World Bank President committed to annual meetings with the g7+.

Nine Ministers of Finance from the g7+ countries meet with the new President of the World Bank Dr. Jim Yong Kim in Tokyo. 11th October 2012

Date	Activity	Unit	Notes
	Launched 12 thematic Census Reports.	NDS DGPAR	Finalized 5 thematic reports (Disability, Migration and Urbanization, Fertility and Nuptiality, Education and Mortality) and six more are in the process of publication.
	New methodology for CIP calculation approved for implementation.	NDS DGPAR	Finalized the Information paper and distributed to stakeholders for discussion.
07/11/12	Technical Budget Review Committee completed.	NDB DGSF	Completed.
	2011 Business Activities Survey 2011 launched.	NDS DGPAR	Field Work started on 17 Sept and finished 17 November 2012.
	Launched the School Survey 2012.	NDS DGPAR	The School Survey 2012 was launched and has started its field work on 10 September 2012. The field work is expected to be finished by 10 December 2012.
15/9/12	Received the Global Generation Award in Boston, Massachusetts, USA.	MEO	The Minister of Finance received the ***2012 Global Generation Award*** during the 2012 Millennium Campus Conference (MCC) presented by the Millennium Campus Network (MCN), in Boston MA, USA.
	Preparation to present 2011 *Contas de Estado* completed.	NDT DGSF	Completed, and has been submitted to the National Parliament.
8/8/12	Budget Execution Report submitted to NP, as of 8 August 2012.	NDT DGSF	Completed, and has been submitted to the National Parliament.

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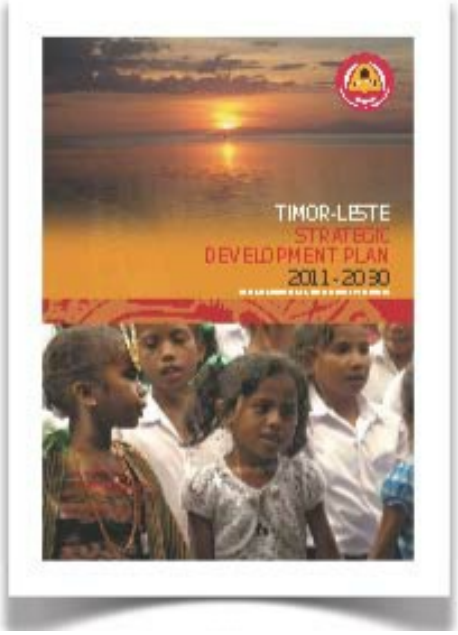
Date	Activity	Unit	Notes
	Petroleum Fund Annual Report 2011 publicized.	NDPF DGPAR	Completed and has been submitted to National Parliament and published in the MOF website.
5/9/12 - 7/9/12	International Forum on Sovereign Wealth Fund (IFSWF) annual meeting attended in Mexico City.	MEO NDPF DGPAR	A representative from the Ministry of Finance attended the 2012 Annual Meeting of the IFSWF held in Mexico City. The IFSWF provides a useful platform for its members to exchange views on issues of common interest, application of Santiago Principles, promote the development of sound investment practices based on good governance and risk management. The main agenda of the meeting was about IFSWF Internal Governance Arrangement .
	17 Procurement audits by Deloitte completed and submitted to CoM & NP.	NDT DGSF	13 procurement audits reports, in English and Portuguese versions, completed by Deloitte and have been submitted to the MoF. The MoF is awaiting 4 more audit reports to be completed by Deloitte.
	Finalize arrangement to draft Treasury Financial Regulation.	NDT DGSF	The contract with Deloitte to undertake the work has been signed with the Corporate Services.

Graduates of Ministry of Finance Training and Training Seminar

Date	Activity	Unit	Notes
	Skills Assessment Report presented to CCFM.	HRU DGCS	Skills Assessment Reports regarding those occupying leadership and management positions and general staff at DGCS and DGRC have been submitted to the Chair of the CCFM.
6/9/12	1st update of SDP 2011–2030 targets based on new National Accounts presented to the CCFM.	NDM DGPAR	Completed, awaiting final internal comments before publication
09/11/12	Report on key sectors (Agriculture, Tourism and Hydrocarbon) produced as part of SDP implementation.	NDM DGPAR	Completed, awaiting final internal comments before publication
13/11/12	3rd Quarter Inflation Analysis prepared.	NDM DGPAR	Completed, awaiting final internal comments before publication
21/9/12	JICA and ADB loan agreements amendments approved by CoM.	LU DGCS	Amendments to the loan agreement have been approved on 21 September 2012.
17/9/12	Tetun translation of PFM laws completed.	LU DGCS	Translation to Tetum was done on four approved pieces of law, namely, Budget and Financial Management Law, Tax and Duty Act, the Organic Law of Ministry of Finance and the Organic Law of *Câmara de Contas do Tribunal Superior Administrativo, Fiscal e Contas*. These Tetum translations are under proof-reading stages.



Date	Activity	Unit	Notes
Aug	World Bank Diagnostic Study of Customs reform program undertaken, including an assessment on the Customs Broker's Industry.	NDC DGRC	Completed.
Aug - Nov	Four units of Customs Training Programme delivered by the Centre of Customs Excise Studies from the University of Canberra completed.	NDC DGRC	Completed.
Nov	Expand Direct Trader Input from the Broker/Importers office from 2 companies to 12 – an increase of 80% of Direct Trader Input module.	NDC DGRC	Completed. 12 companies have been included to the Direct Trader Input Module.
Oct	Direct electronic input of Manifest Module to the system by 2 companies commenced.	NDC DGRC	Completed. Customs continues to test the manifest module with the 2 companies. However, further training is required for both the companies and customs officers before the system can be formally launched.
08/10/12	Selectivity profiles inserted in the system, profile committee formed, and profiles changed on a monthly basis minimum.	NDC DGRC	Completed.
26/10/12	PFMCBP extension completed including extension of selected advisors contracts..	MEO DGCS	PFMCBP extension formally approved by World Bank by letter dated 26th October 2012 (received on 5th November 2012). All selected Advisers' contracts are ready for signature pending approval of NOLs where required.
	Process for establishment of Internal Audit Unit commenced.	DGCS	The Internal Audit Unit is established in the MoF's Organic Law as a separate unit under the direct control of the Minister. The process of identifying detailed internal structures and its respective tasks, as well as staff composition and skill mix is now in the final stages.
5/10/12	PFMCBP Supervisory Committee Meeting held.	PIU PFMCBP MEO DGCS	11th Meeting of PFMCBP Supervisory Committee held on Friday, 5th October 2012. Draft Minutes ready for circulation.

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Timorese Customs officers undertake a Customs Training Program delivered by the Centre of Customs Excise Studies from the University of Canberra.

Date	Activity	Unit	Notes
Oct	Tax Procedures Decree Law approved. Amendments to the English version of the Tax and Duties Procedures Law and the Taxes and Duties Offences Law agreed upon. Prepared Portuguese version for presentation to Council of Ministers.	NDDR DGRC	The English and Portuguese versions have been prepared and are currently being reviewed internally before final submission to the Council of Ministers, for their consideration.
Sep	Necessary adjustments to SIGTAS to allow registration of businesses, issuance of licenses and certificate dividas by the SERVE shop completed.	NDDR DGRC	The IT specialist firm have started work and are well advanced. However the work is not yet complete as additional requests have been made as the scope of SERVE has developed.
22/10/12	Specialized consultancy firm to undertake diagnostic study of SIGTAS recruited.	NDDR DGRC	Achieved. The consultancy firm is currently in Timor-Leste interviewing stakeholders for their report
9/9/12	2011 and 2012 adjustments carried out by SOGEMA on SIGTAS completed.	NDDR DGRC	Completed.
	Budget 2013 draft books completed.	NDB DGSF	Technical BRC completed and the 2013 Budget books are in the process of being finalized and will be presented to the National Parliament by mid-December.

Date	Activity	Unit	Notes
	Identification and redistribution of assets of dissolved Ministries & Secretaries of State completed.	NDA DGSF	Assets of the dissolved Ministries & Secretaries of State were identified and due for collection and further allocation..
7/8/12 - 18/9/12	Phase 4 internal Auction for Finance, Education, Council of Ministries, SEFOPE and MSS completed.	NDA DGSF	A total of 87 units of vehicles & motorcycles disposed of with a net sale of USD 204.173.50.
	Contribution to post UNMIT work completed.	NDA DGSF	GIS equipment for Statistic Directorate received. Donation of equipment in Oecusse Region dated 6 Nov. 2012 28 Vehicles from FPU Malaysia. Ceremony done on 7 of Nov. 2012 Hand over in Suai District due on 15 of Nov. 2012 Hand over in Maliana Region on 30 of Nov. 2012 RSC Hand over in Baucau Region due on 3 Dec. 2012 NDA received list of assets on shared sites respectively for 19 regions. List being verified & to be confirmed on 15 November 2012. Recommendation will be submitted after verification, followed by signing of documents by the Government.

Handover Ceremony with FPU Malaysia on the 7th of November 2012

Other Additional Ongoing Activities

Date	Activity	Unit	Notes
	Administrative Fees Decree-Law draft finalized and shared with Directors and staff/advisers	LU DGCS	Currently being translated into English.
	Tax Procedures Decree-Law draft finalized and shared with Directors and staff/ advisers	LU DGCS	Currently being translated into English.
	Follow-up of the tax claims submitted by the oil companies, together with Arent Fox as our legal representative	LU	Awaiting the beginning of the trial.
	Drafting and Presentation of PPPs related legislation and procedures are concluded	LU DGCS	Drafted and in circulation between ministries before its approval by the Council of Ministers
5/8/12	Provide expertise in all matters related to the identification of software, hardware, data processing and produce information/ analysis reports for operation of Ministry's IS. Ensure Ministry's IS both financial and non-financial are fully operational.	DGCS	Completed.
25/9/12	Manage and control the Ministry's Information Systems (IS)	ITU DGCS	Accomplished. Coordinated with other Line Ministries to ensure smooth operations of existing and future network applications of both financial and non-financial systems, including performance monitoring of the health of the Ministry application servers. Took adaptive, preventive and corrective maintenances accordingly.

Date	Activity	Unit	Notes
17/10/12	Work closely with the Government stakeholders especially the Ministry of Transport and Communications (MTC) to identify and address issues relating to network issues that affect the overall operations or performance of the Ministry's IS such as GRP network and its software packages.	ITU DGCS	Coordination with MTC established and working.
5/11/12 - 6/11/12	Internal orientation program to newly recruited staff	HR DGCS	A two-day orientation program for 100 newly recruited staff was completed. The program included a brief explanation by the Vice-Minister on the MoF's Strategic Plan and its linkages to the NDSP, the core functions of MoF and its directorates as explained by the DGs, and the internal systems and procedures within MoF, Public Finance Management legislation as well as general concepts of leadership and management.
5/11/12	Recruitment of a General Manager, two facility managers and an IT coordinator to manage the integrated border posts	DGRC	All 4 recruits began work on 5 November 2012.
10/10/12	Update of information on Official Development Assistance to Timor-Leste in order to prepare the 2013 Combined Sources Budget.	NDAE	Aid information was updated through the Aid Transparency Portal (ATP) and the draft 2013 Budget Book No.5 was prepared based on the data in ATP for the first time.
24/9/12 - 27/9/12	South-south cooperation with Nepal on aid effectiveness and aid information management system	NDAE	NDAE delegation visited Nepalese Ministry of Finance and exchanged each other experience, opinions and lessons learned on aid effectiveness and aid information management system
24/9/12	MF Minister attended a seminar organized for the Post 2015 High Level Panel in New York.	MEO	Panelists also attended a seminar chaired by D/SG where they were briefed by UN Task Force. They also engaged with representatives of civil society, and development experts and practitioners from different sectors.

MINISTRY OF FINANCE - 100 DAYS REPORT

Date	Activity	Unit	Notes
31/10/12 - 2/11/12	MF Minister attended 2nd Meeting of the Level Panel in London.	MEO g7+ Secretariat DGCS	First day focus was on individual and household poverty covering human development, jobs and livelihoods, and how to reach the marginalized and excluded. HLP also considered a vision and framing questions to guide them. Second day focused on identifying challenges that the world faces in the coming years and to learn about a variety of issues that impact development. The final day was an outreach day where Panelists met with various stakeholders.

Legend of Acronyms

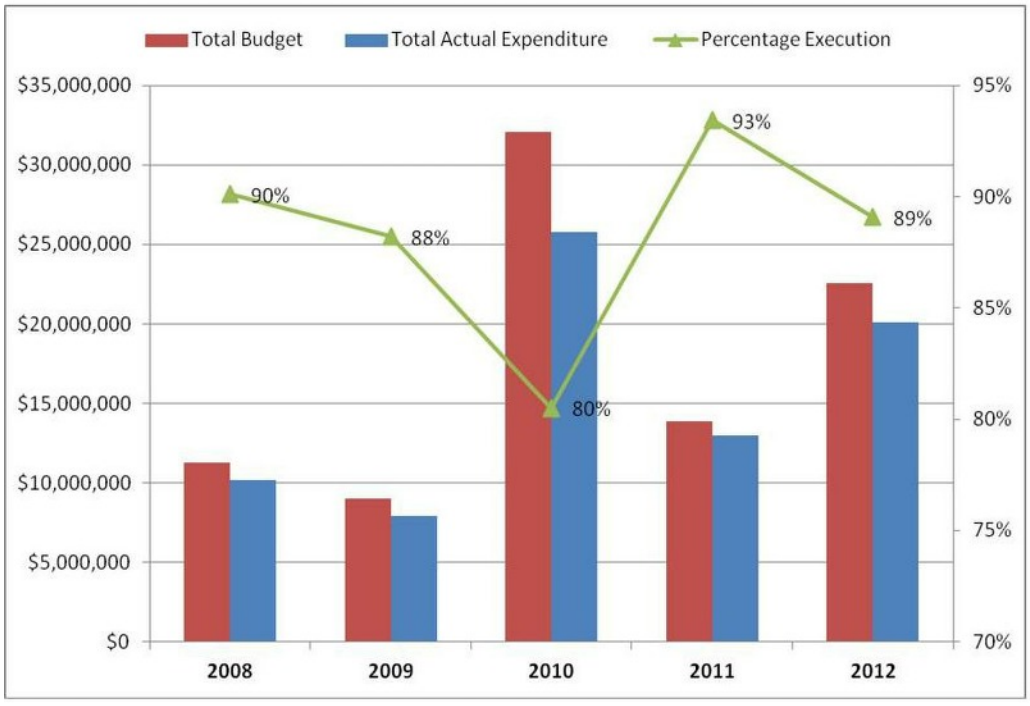
DGCS	Directorate General for Corporate Services
DGSF	Directorate General for State Finances
DGPAR	Directorate General for Policy Analysis and Research
DGRC	Directorate General for Revenue and Customs
HRU	Human Resources Unit
LU	Legal Unit
MEO	Minister's Executive Office
MPS	Major Project Secretariat
NAO	National Authorizing Office
NDA	National Directorate for Assets
NDAE	National Directorate for Aid Effectiveness
NDB	National Directorate for Budget
NDC	National Directorate for Customs
NDDR	National Directorate for Domestic Revenue
NDM	National Directorate for Macroeconomy
NDPF	National Directorate for Petroleum Fund
NDS	National Directorate for Statistics
NDT	National Directorate for Treasury
PIU-PFMCBP	Program Implementation Unit-Planning and Financial Capacity Building Program

Budget Execution Performance

The Ministry of Finance is responsible for monitoring the Government's finances to ensure the effective implementation of the Government's policies. The Ministry of Finance oversees the Government's finances through the Public Financial Management System which consists of the institutions, laws and information technology infrastructure through which the Government spends, collects and manages money. More specifically, the Ministry of Finance's main responsibilities include, but may not be limited to: a) offering advice on all aspects of economic and fiscal policy; b) formulating, executing, monitoring and reporting on the State Budget; c) mobilizing revenue and managing the petroleum fund; and d) managing debt, other liabilities and the financial assets of the Government.

Ministry of Finance CFTL Fund Execution

The Ministry of Finance's ongoing operations are financed through the CFTL fund. Graph 1 shows budgeted and actual expenditure in the Ministry of Finance from 2008 to 2012 for the CFTL. It also shows execution as a percentage on the right hand axis. The main points to note with reference to this graph are: a) the Ministry of Finance maintained a high rate of execution in 2012 even as its budget sharply increased and b) the Ministry of Finance's CFTL budget appears to have been cut from 2010 to 2011, but this was mainly because the Financial Management Information Support (FMIS) project was moved to the Infrastructure Fund.



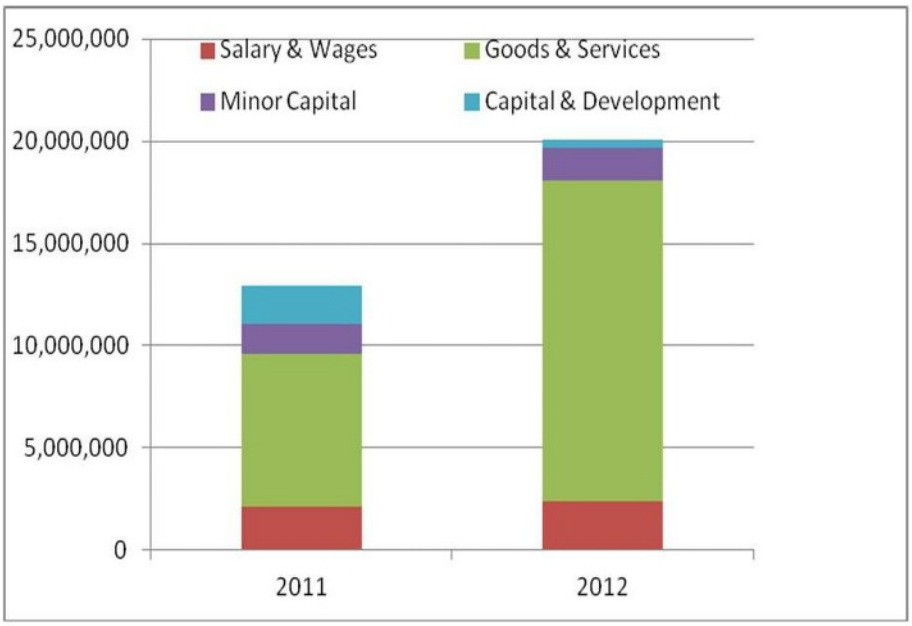
Graph 1: MoF's Budget and Actual Expenditure

CFTL Fund Expenditure by Appropriation Category

Graph 2 shows expenditure by appropriation category in the Ministry of Finance. The majority of expenditure is in the appropriation category Goods and Services. Expenditure on this item significantly increased from 2011 to 2012. This increase in expenditure was to cover expenses for advice and professional services related to ensuring that petroleum companies pay their taxes in accordance with the applicable laws of Timor-Leste. The Government considers that this expenditure represents value for money as it should contribute to higher tax collections. The additional amount collected from petroleum taxes should far exceed the associated costs.

Spending on Salaries and Wages, the second biggest appropriation category, slightly increased between 2011 and 2012. Ministry of Finance CFTL spending on Minor Capital and Capital and

Graph 2: MoF's Actual Expenditure by Appropriation Category



Ministry of Finance Expenditure and Execution in Comparative Perspective

The Ministry of Finance's execution percentage of 89% compares favorably to the overall CFTL fund execution rate of 77%. In addition, the Ministry of Finance's total share of the CFTL expenditure is less than 3%. This shows that the Ministry of Finance is managing the nation's finances with a comparatively small budget.

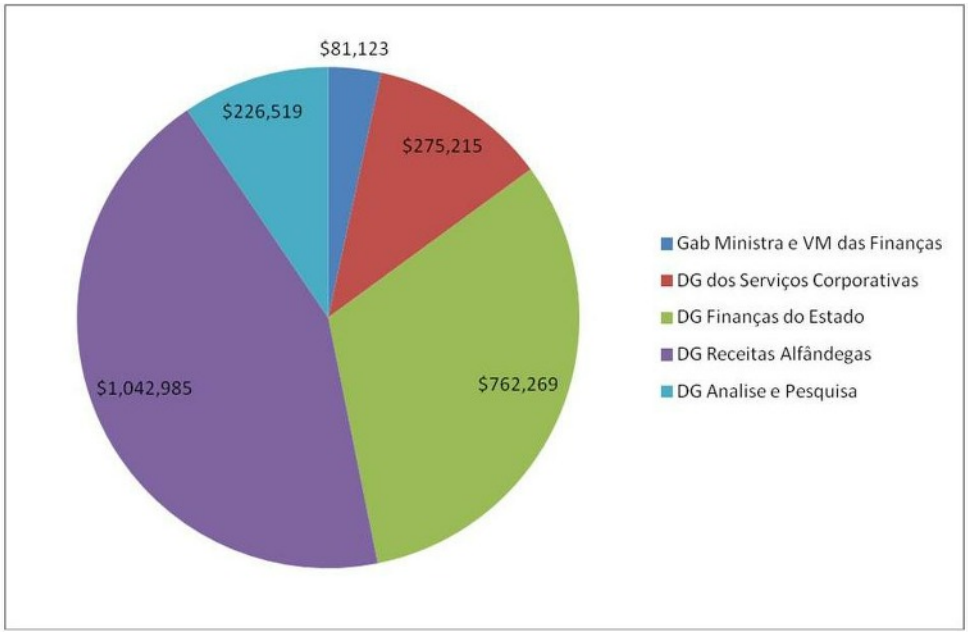
Conclusion

Ministry of Finance expenditure increased in 2012 compared to 2011. This was mainly because of costs associated with ongoing efforts to increase the collection of petroleum tax. These expenditures represent value for money as they should contribute to significantly higher petroleum tax collections. The Ministry of Finance's division of its Salaries and Wages budget by General Directorate is logical given the relatively labor intensity of their work. The Ministry of Finance's execution rate is higher than average and its overall level of spending is small as a percentage of the budget.

CFTL Fund Expenditure by General Directorate

Graph 3 shows the breakdown of salaries and wages expenditure by general directorate. Other appropriations categories' expenditures are recorded under the general directorate of Corporate services. The graph shows that:

- The general directorate of Revenues and Customs has made the largest expenditures on salaries and wages. This is because many of the activities of this general directorate such as reviewing tax returns are labor intensive.
- The general directorate of State Finance has the second largest expenditures. This is because some activities in State Finance such as processing invoices and making virements are labor intensive and contribute to a high salaries and wages budget.
- The general directorate of policy analysis and research has fairly small expenditures. This is to be expected as analysis and research requires a smaller but also very well educated workforce.



Graph 3: Actual Salaries and Wages by General Directorate

2012 List of External Audits undertaken by MoF

Engagement Name	Status	Date Opened	Date Closed	Modified
1. Procurement Review Min National Parliament 2011	Closed	8/15/2011	7/24/2012	7/24/2012
2. Procurement Review Min President 2011	Closed	8/15/2011	7/24/2012	7/24/2012
3. Procurement Review CNE 2011	Closed	8/15/2011	7/24/2012	7/24/2012
4. Review of IT Strategy and FreeBalance 2011	Closed	9/6/2011	5/29/2012	5/29/2012
5. Procurement Review Min Education 2011	Closed	9/23/2011	7/24/2012	7/24/2012
6. Procurement Review Min Health 2011	Closed	9/23/2011	7/24/2012	7/24/2012
7. Procurement Review Min Foreign Affairs 2011	Closed	9/23/2011	7/24/2012	7/24/2012
8. Ministry of Agriculture 2011-12	Closed	10/24/2011	7/24/2012	7/24/2012
9. Procurement Review Min Defence & Security 2011	Closed	10/24/2011	7/24/2012	7/24/2012
10. Tribunais 2011-12	Closed	10/24/2011	7/24/2012	7/24/2012
11. Procurement Review Min Infrastructure 2011	Closed	10/24/2011	7/24/2012	7/24/2012
12. Procurement Review Min Prosecutor General 2011	Closed	10/24/2011	7/24/2012	7/24/2012
13. Procurement Review Min Social Solidarity 2011	Closed	10/24/2011	7/24/2012	7/24/2012
14. Procurement Review Min Administration 2011	Active	10/24/2011	7/24/2012	7/24/2012
15. CFET for the year ending 31 December 2011	Closed	10/31/2011	10/22/2012	10/22/2012
16. Petroleum Fund Audit - Quarter 4 2011	Closed	1/2/2012	3/8/2012	5/29/2012
17. National Parliament Audit 2011	Closed	12/12/2011	7/24/2012	10/22/2012
18. Procurement Review Min Agriculture 2011	Closed	1/24/2012	10/20/2012	10/22/2012
19. Deliverable 18: Transfer Payments 2011-12	Active	12/1/2011		10/12/2012
20. Audit of the Infrastructure Fund 2011	Closed	12/1/2011	7/24/2012	10/22/2012
23. Audit of the Human Capital Development Fund 2011	Closed	12/1/2011	7/24/2012	10/22/2012
24. Review of Rice 2011/2012 Ministry CTI	Active	3/5/2012		3/12/2012
25. Audit of TFET for the Year Ending 31 December 2011	Closed	3/1/2012	10/19/2012	10/19/2012
26. Review of Domestic Taxes 2011	Active	3/1/2012		5/15/2012
27. NOS Calculation - Deliverable 1 2012	Active	5/1/2012		5/28/2012
28. NOS Calculation - Deliverable 2012	Active	5/1/2012		5/28/2012
29. EDTL Fuel Review 2012	Active	6/12/2012		6/15/2012
30. Review of Treasury 2012	Active	6/11/2012		6/19/2012
31. Review of Revenue Processes 2012	Active	7/31/2012		8/2/2012
32. Review of IAB 2012	Active	7/1/2012		9/28/2012
33. Audit CFET 31 December 2012	Active	10/19/2012		10/29/2012
34. Audit of National Parliament 2012	Active	10/30/2012		10/30/2012
35. Audit of the Human Capital Development Fund 2012	Active	10/30/2012		10/30/2012
36. Audit of the Infrastructure Fund 2012	Active	10/30/2012		10/31/2012
37. Agreed Upon Procedures ESI Rectification 2012	Closed	9/19/2011	1/27/2012	1/27/2012
38. Petroleum Fund 2011 - Q3	Closed	11/1/2011	5/14/2012	5/14/2012
39. Petroleum Fund 2011 - Q4	Closed	1/9/2012	7/24/2012	7/24/2012
40. Petroleum Fund Qtr 1 2012 Audit	Active	7/1/2012		7/10/2012
41. Petroleum Fund Qtr 2 2012 Audit	Active	9/1/2012		9/10/2012
42. ESI Budget 2013	Active	10/16/2012		10/16/2012
43. ESI Rectification Budget 2013	Active	10/16/2012		10/22/2012
44. Petroleum Fund Qtr 3 2012 Audit	Active	10/22/2012		10/22/2012

Selected Speeches Delivered by H.E. Emilia Pires Minister of Finance, RDTL

Reprinted from USAID Frontiers in Development

Emilia Pires

Building Peaceful States Against All Odds: The g7+ Leads the Way

Every morning I am greeted by the local gardener, Guilherme, who busily tends half-broken trees and overgrown bushes, planting seeds in the modicum of soil available in the suburbs of Dili, the capital of Timor-Leste, in hopes of springing new life to a city that had been almost wholly destroyed in 1999, devastated by war and cyclical instability. Salutations are brief. Guilherme considers himself my de facto advisor. Each day he offers a brief but new insight into the health, well-being, and livelihood of the collective "we" that is his village—one of 442 *sucos* in Timor-Leste. In early 2008, Guilherme said, "Minister, we are not producing; bellies will not be full come rainy season." Guilherme knew what I knew: Food security and peace go hand in hand.

As I entered the office, I asked my chief economist to look up the price of rice. He returned ashen-faced bearing the bad news: The price of rice had risen 218%. With a reduction in domestic production and rice imports rising, our budget was now in shambles. This is what the international community calls an "external shock." As Minister of Finance, I call it "being in shock," a state I have become well versed to since coming into office on August 8, 2007.

On day one of my mandate as Minister, I walked into the Ministry of Finance with no handover, no functioning computers that could spit out the kind of standard information ministers of other nations would expect, and a highly politicized public service that was deeply loyal to the previous ruling party. I admit I was never trained in how to "rule"; I am a technocrat with a background in public service. We were a government formed to serve. A major mentality shift was about to be introduced.

The final crisis of 2006 resulted in 150,000 internally displaced persons (IDPs)—almost 15% of our population—and adding to our burden, we had more than 700 rebels in the mountains threatening stability. Economic growth was negative 5%; consumption had declined 26%. If the engine room of any government is a well-oiled public finance management system, my engine reflected that of a 1967 Chevy that had never been serviced.

East Timor Prime Minister Xanana Gusmao (right) campaigns for presidential candidate Taur Matan Ruak (left) at a rally in Likisa. Preliminary results from April 17, 2012, showed former guerrilla Ruak winning East Timor's presidential run-off by a wide margin in a pivotal year for the nation almost a decade after independence. | AFP Photo: Valentinho De Sousa

The highly centralized systems had all but stalled service delivery, and my people were suffering. Reform was the name of the game, but even in that, the challenges seemed insurmountable. The average math level of my 723 ministry staff was at third grade, remnants of a generation lost to war. The fight for freedom was a de facto education in pursuit of independence and democracy—all principles that we as a government were now charged with operationalizing. But the reality was, I did not have one qualified accountant in the Ministry of Finance. A quick review by international auditors revealed 54% of the 2006–2007 budget was recorded to a vendor called "no vendor," mechanization had yet to be introduced, and we had little information from which to collate a comprehensive budget going forward. We turned to the international community for answers, and so the $8 billion question came to be.

The answer, of course, is in the question. More than $8 billion had been spent, and poverty had increased by a minimum of 15% and a maximum of 25%. Poverty had doubled in some regions, and the national average stood at 49.9%. One out of every two of my people now lived in extreme poverty. We were being called a failed state. After 400 years of occupation, 24 years of war, 2 years of a transitional United Nations Administration, and 5 years of a government mired by cyclical instability, the hopes, dreams, and expectations of my people had been eroded. This mattered more than any label stamped on us. We were not a failed state

because the state had yet to be built. But we had all failed; that was an undeniable truth.

We still had few functioning roads, virtually no connectivity, inoperable hospitals comparable to international standards, substandard schools, no electricity, not enough water, and substandard sanitation. We still had few teachers, accountants, lawyers, and doctors. Our standard of living was of the fourth world, and while so much money had been spent, so little had changed.

I still believe the majority of the perception of the western world is that donor aid is handed to recipient governments to spend as they wish. But the reality is, governments in fragile states do not see aid money. It does not go into our coffers, it does not go through our systems to strengthen our capacities or align to our programs and service delivery, it does not go into our budgets; it is for the donors to spend on projects, programs, and technical assistance (usually sourced from their own countries). Imagine having technical assistance at any one time speaking some 30 different languages, not one of which is the local language. Program workers cannot converse with local staff, and they are promoting different ways of thinking. This further fragments capacity-building efforts and governance structures and systems that are weak to begin with.

If we did have a better vision of donor aid, I believe we would have roads, electricity, water, and proper sanitation. The fact is, we in fragile states rarely know how donor aid is spent. Donors often bypass the state agenda to pursue their own agendas, delivering services directly to our people, at times, without our knowledge and often without our consent. This not only causes fragmentation and proliferation in development but also weakens any legitimacy we as representatives of and for the people have in building viable institutions or leading a national vision and inclusive agenda for peace. This way of doing business must change.

Harmonization and alignment between recipient states and donor countries has yet to become a reality to make long-lasting change to fragile states. We have achieved little results for those who matter the most—our people. When things go right, the international community is the first to take the credit. When things go wrong, the government is the target of blame. This is the way of the world, and the world must now be re-educated on the aid paradigm so together we can get it right.

In Timor-Leste, we quickly learned not to focus on the past; it was now about creating a future. If Guilherme could wake up every morning and plant seeds despite the challenges, so could we as a government. But we also knew that any chance we had to localize peaceful states through inclusive politics must first be socialized at the global level. In my country, we began with the first coalition of five political parties. Commentators said it would never last, and I sit here today, five years on, with continued peace—writing proudly and confidently that we still are a functioning brethren of ministers that put our politics aside for the bigger picture of peace, stability, and development. We as a cabinet decided to strive for one thing internationally: **Inclusive politics must be globalized before it is localized.** And so our agenda for fragile states began, with peacebuilding and statebuilding at the forefront.

For decades, fragile states have been seen as a minority, when in the global context, we are the majority. We represent the critical mass, the 1.5 billion people (or 20% of the global population) who live among the most extreme situations of poverty and are affected daily by current or recent conflict. We are the voiceless, the under-represented, the ones discriminated against because aid architectures that apply to "normal" developing nations don't consider or calculate the unique

challenges that we, in the fragile context, face. In fact, one cannot even be labeled a "fragile state" when there is no globally accepted definition of "fragility." We also learned recently that fragile states are disadvantaged, by no fault of their own, receiving 5 cents per capita in aid compared to other developing countries that receive 11 cents per capita.[1] Interestingly enough, statistics show that aid to fragile states is an investment with a greater return. This is a simple equation. Billions are spent on defense each year by the global community. When development can act as a catalyst to peace, funnel it to where it counts the most.

Politically, the word fragility has become akin to a curse word. The technocrats understand the word relates to institutions yet to be established, low capacity, lack of an established justice system, lack of infrastructure, lack of systems—all characteristics that have nothing to do with strength of sovereignty. Politically, the word must be embraced for what it is. I often describe fragility as a fine champagne flute, something that is beautiful but easily broken and therefore must be handled with care. Imagine the citizens of the United Kingdom with little to no access to schools, health care, water, social security, police, or banks. It is easy to see then how conflict erupts. This is fragility.

Less than two years ago, a milestone was reached when representatives of several fragile countries sat together in a room and talked about our commonalities and our challenges. As colleagues from Burundi, the Central African Republic, Chad, the Democratic Republic of the Congo, Liberia, Nepal, Solomon Islands, Sierra-Leone, South Sudan, and Timor-Leste spoke around one table, we discovered that, although we had our differences in regards to region, linguistics, culture, historical backgrounds, and our root causes of conflict, we had much more in common than we could have ever anticipated. Through this solidarity we formed a deep bond, and after hours together of sharing our experiences, we acknowledged that in order to emerge from fragility, it would take a consolidated forum to make a tangible difference both in our own countries and in the way we do business with the international community. We needed a united and shared voice. We needed our own policies; we needed the international community to understand our unique challenges and shared objectives—and so the g7+ group of fragile and conflict-affected states was born and rapidly grew from 7 to 19. The g7+ symbolizes the first time in history that we, as fragile states, have a voice in shaping global policy, advocating our own country-led and country-owned transitions out of fragility and, most importantly, identifying that peacebuilding and statebuilding are the fundamental foundations to transition from fragility to the next stage of development, the ultimate aim in reaching the Millennium Development Goals.

If we did have a better vision of donor aid, I believe we would have roads, electricity, water, and proper sanitation.

Peacebuilding means that inclusive politics, security, and justice are the cornerstones of building stable and long-lasting states. Statebuilding means that donors can no longer bypass our state institutions, weakening our ownership and hindering our nations from building the institutions and capacity

1 "Chapter 3: Trends in official development assistance" in *Resource Flows to Fragile and Conflict-Affected States* (OECD, 2010), 49–59.

Internally displaced Sudanese from the south pack their belongings in Khartoum on October 27, 2010, as they prepare to return home in preparation for South Sudan's referendum on independence on January 9, 2011. | AFP Photo: Ashraf Shazly

necessary for strong bureaucracies to serve the needs of our people. We ourselves must take responsibility for developing economic foundations, quality resource management, and service delivery with the support of the international community.

Together with the international community and through the International Dialogue on Peacebuilding and Statebuilding, the g7+ created a new aid architecture for fragile states called the New Deal. We made it simple, clear, and concise with three simple elements: the Peacebuilding and Statebuilding Goals (PSGs), FOCUS, and TRUST. The PSGs are the goals that will allow us to transition to the next stage of development. FOCUS is a new way of engaging, and TRUST is a new set of commitments.

The five goals are **Legitimate Politics**—to foster inclusive political settlements and conflict resolution, **Security**—to establish and strengthen people's security, **Justice**—to address injustices and increase people's access to justice, **Economic Foundations**—to generate employment and improve livelihoods, and **Revenues & Services**—to manage revenue and build capacity for accountable and fair service delivery.

The letters of the word FOCUS stand for:

- Fragility assessment. We will conduct a periodic country-led assessment on the causes and features of fragility and sources of resilience as a basis for one vision, one plan.
- One vision, one plan. We will develop and support one national vision and one plan to transition out of fragility. This vision and plan will be country-owned and -led, developed in consultation with civil society, and based on inputs from the fragility assessment.

- Compact. A compact is a key mechanism to implement one vision, one plan. A compact will be drawn on a broad range of views from multiple stakeholders and the public, and be subject to an annual multistakeholder review.
- Use PSGs to monitor. We will use the PSG targets and indicators to monitor country-level progress.
- Support political dialogue and leadership. We will increase our support for credible and inclusive processes of political dialogue.

The letters of the word TRUST stand for:

- Transparency. We will ensure more transparent use of aid.
- Risk-sharing. We accept the risk of engaging during transition, recognizing that the risk of non-engagement in this context can outweigh most risks of engagement. We will identify context-specific, joint donor risk-mitigation strategies, which will require different approaches to risk management and capacity development. We will conduct joint assessments of the specific risks associated with working in fragile situations and will identify and use joint mechanisms to reduce and better manage risks to build the capacity of and enhance the use of country systems, to step up investments for peacebuilding and statebuilding priorities, and to reduce aid volatility.
- Use and strengthen country systems. We will jointly identify oversight and accountability measures required to enhance confidence in and enable the expanded use and strengthening of country systems.
- Strengthen capacities. We will ensure efficient support to build critical capacities of institutions of the state and civil society in a balanced manner, increasing the proportion of funds for capacity development through jointly administered and funded pooled facilities.
- Timely and predictable aid. We will develop and use simplified fast-track financial management and procurement procedures to improve the speed and flexibility of aid delivery in fragile situations, and review national legal frameworks to support our shared objectives. We commit to increase the predictability of aid, including by publishing three- to five-year indicative forward estimates (as committed in the Accra Agenda for Action), and to make more effective use of global and country-level funds for peacebuilding and statebuilding.

These interrelated and interdependent principles are established through a tangible working model that each state and its partners can work through on a matrix that is both fluid and reflective of the fragile circumstances—and can be the foundation of a compact between the country and the international partners. In the Busan IV High Level Forum on Aid Effectiveness, the New Deal was endorsed by 32 countries and 5 major international organizations, with a trial that includes the UK, Australia, Denmark, Afghanistan, Timor-Leste, and South Sudan. The agreement will change the way aid is configured, managed, and delivered—and most importantly, make a change in the outcomes of aid on the ground. What matters is results.

We Say We Are Now Making the New Deal a Real Deal

I have the honor of being the chair of the g7+ and the co-chair of the International Dialogue from where the agreement for the New Deal gained consensus. Coming from Timor-Leste, I knew that the only way we could make long-lasting change on the ground on inclusive politics, the foundation of the PSGs, is pushing forward the agenda of globalizing inclusive politics. This is not an easy process because it requires changing the attitudes, perceptions, and way of doing business between

the fragile states, the international community, and the public.

I will use my own country as an example. This year we celebrate 10 years since the formal restoration of our independence. In 1999, after the national referendum that set us on this course, we were a country that was devastated by war. Most of our infrastructure and the homes of many of our citizens were burnt to the ground. Between 1999 and 2007, despite billions being spent on Timor-Leste, as our President His Excellency Jose Ramos Horta often says, very little had been spent in Timor-Leste. When I assumed my mandate as Minister of Finance, time was not on our side. Accelerating development and fast-tracking

It might take generations to change traditions and cultures but the will is there, and our partners in development must take the journey with us.

reforms, especially in public financial management; establishing institutions to manage our vast resources in oil and gas; and ensuring that transparency and inclusivity led our actions in implementing social and fiscal expansionary policies was a core element to transforming our small nation.

The international community often had a different view of how we as a government should act and what we should do, and they were vocal in their interventions. For instance, with 15% of our population displaced, development could not progress. We were told it would take 10 years to resettle the displaced. However, we in government knew that 10 years was not an option. Through dialogue with local actors and cash packages for families, we resettled all 150,000 IDPs in 2 years, closing 65 IDP camps and reintegrating families back into communities across the nation without conflict or dispute. We were accused of buying peace.

At the same time, we entered into conflict resolution with the rebels, former members of the army who had been released from duty by the previous government. From the mountains where they once threatened to destabilize national confidence, they returned to the capital, peacefully disarmed, and reintegrated into communities. We were accused of not providing justice.

The government promised pensions to the elderly, the disabled, mothers, veterans, and orphans. This, we believed, was the obligation of the state for the sacrifices our people had made over the 24-year struggle for independence. We believed it was the responsibility of the state to take care of our most vulnerable as in other socially compassionate nations, such as Australia, the UK, and many countries throughout Europe. We were accused of being fiscally irresponsible.

My point is that there is no price for peace, and governments of fragile states have one main objective—that is to keep peace and stability. Without peace, services cannot be delivered, and without services delivered, there can be no peace. We as government know our people and the political complexities. Often these complexities go back generations, and few outsiders can navigate the political landscape. They must simply trust that with a constitution and the concept of democracy, a nation will find its way, but always with peace at the forefront of its journey to emerge from fragility.

Timor-Leste is a nation blessed with natural resources. We have $10 billion in the bank and no debt, with growing capacity to execute. Our

Supporters of candidates ride in trucks during a campaign in East Timor's capital city of Dili. East Timor was officially recognized as independent in 2002 following Indonesia's brutal 24-year occupation. | AFP Photo: Romeo Gacad

strict controls, checks, and balances also ensure we never fall into the oil curse. Best-practice resource management is part of the g7+ mandate. The Timor-Leste Transparency Model was the first to go beyond the Extractive Industries Transparency Initiative with a five-pillar 360° transparency modality across government. What we lacked in structure, we made up for in innovation, leading global good practice even by international standards. This surprised many.

International standards would naturally mean harmonization and alignment of all development actors, with government leading the agenda. This was the decision and agreement between international actors in the 2005 Paris Declaration and the 2008 Accra Agenda for Action. Recipient countries lead, and partners in development align their planning accordingly. It hasn't worked according to plan.

In Timor-Leste, 46 donors and 302 NGOs are all working in good faith for the good of our people, but often bypassing our state institutions, which weakens the capacity of our systems. We often do not know what they are doing—where they are engaging or what the methodology of engagement is. We do not know how much money they are spending in what sector, and this causes confusion and can also be a cause of conflict. When we ask our donors to use country systems, this is our way of attempting to align and harmonize all interventions to national priorities and to one plan, one vision. Too many chefs in the kitchen create chaos and confusion, and this is why over decades we see very few results; and at times, more harm than good.

A recent example demonstrates the unwitting conflict that can arise when planning is not properly coordinated. A g7+ nation told the story of a village that had been given toilets as part of a development project, and the next village over was taught by an NGO to dig holes for their waste. The chiefs of both villages were enraged at the inequity. They did not blame the NGOs; they blamed the government. And while the government is responsible for aid effectiveness, it often lacks information on activities, which can be excruciatingly difficult to collect from donors.

One of the most important initiatives that Timor-Leste has activated is the Transparency Portal. Everything is online, from the budget expenditure to procurement to aid. But when it comes time to gather the aid information, we still find that our partners are not forthcoming with details for the Transparency Portal. In a country where capacity is very low, it should not be so difficult. Harmonization and alignment of programming to government is a key to success. When Timor-Leste took the reins in 2007, we started identifying national priorities and insisting that donors align and harmonize with those national priorities. Within two years, we had reduced poverty by 9%. These are results achieved for our people. These are the results of true development partnerships.

I can say that one of the second most important initiatives Timor-Leste achieved was Census Fo Fila Fali. Many people in our countries have no

UN and East Timorese police (right) secure a polling center in Dili on April 16, 2012, as volunteers (wearing yellow) look on. East Timor went to the polls to elect a new president in a run-off vote as the young democracy prepares to celebrate its first decade of independence and bid goodbye to UN forces. | AFP Photo: Valentinho de Sousa

idea about the world around them or even the villages around them. They have no data or statistics in their language that help them understand how they can be part of the development process.

While g7+ countries are often rated and ranked in comparison to the most developed, this is done without any of the same accurate, qualitative, quantitative, real-time, or conclusive data. In Timor-Leste, we conducted a census for the first time in 400 years to give the information, segmented by village (all 442), back to our people. Twenty people from each village were trained at how to read the census and how to use it in identifying the action the village would need to take to better their community. As a result, 8,840 more people are now educated on their state and community and understand their role in development. This is inclusive politics.

In 2011, Timor-Leste launched the Strategic Development Plan 2012–2030. We rifled through some 4,000 reports written on and about Timor-Leste over the past decade, and to our surprise, not one cross-sector analysis had been done on how to build the nation or what the global costs would be in a state the size of a small town in the United States. Not one town planning document for the capital had been developed. We wanted to know one simple question. How much will it cost to create the basic and core infrastructure for Timor-Leste? Not one donor, international partner, or government office had coordinated the most basic of information. This should cause a moment for pause for any partner in development. Why have we not gotten the basics right? Data, planning, alignment, interventions? This is FOCUS in the New Deal.

Without accurate information, engagement and interventions into states are like shooting darts blindfolded. Every donor and government is responsible for ensuring states are equipped with the technology and ability to collect real-time data—not data that are three to nine years out of date—but real-time, cutting-edge data that can shape and form effective policy and planning, which counters risks and builds effective national planning systems. This will ensure not only local development for peaceful states but also regional and global solutions for building more inclusive states.

Census Fo Fila Fali is the kind of initiative, creative and innovative, that we need to set for the fragile states. These are the lessons learned and shared through the members of the g7+.

Our aim in fragile states is to build strong bureaucracies that cannot be politicized and can stand the test of time through generations serving our people with strong service delivery in areas like health and education. What we want in the fragile states is an independent judiciary, free and fair elections, parliaments that represent our people and can speak freely. But we alone in fragile states cannot bring this agenda forward. It might take generations to change traditions and cultures but the will is there, and our partners in development must take the journey with us.

Inclusive politics means that we must be part of policy on the global level. We can no longer be exempt from dialogue or the recipients of a monologue. We can no longer be seen and categorized through the lens of the developed but instead must be seen through the eyes of the developing.

The actions of the most powerful affect the most vulnerable, and it is we who serve the most vulnerable and must act quickly to ensure we secure local, national, and regional stability. We must now globalize and localize peacebuilding and statebuilding. If we are looking at stopping the acts of terrorism or the acceleration of our youth in participating in illegal activities, if we are looking at avoiding conflict and wars, if we are looking

at promoting peace as a way for the future, then the way we utilize aid and donor systems must be re-evaluated. Fragile states cannot be penalized, just as our partners in development cannot be blamed. The international community and we as governments must now take equal responsibility for our failures and successes and look to a new way of engaging.

This Is the New Deal

In another decade, our countries should no longer be characterized by no connectivity, no roads, no hospitals, no schools, no water, no sanitation, no service delivery, no doctors, no lawyers, or no accountants because this would mean no economic or social development and a progression of all that fragility brings. No more time should go by when we do not focus on the very foundations that will build peaceful states.

When I look at my own country, in many ways we are starting from the beginning and are lucky to have established one of the best resource petroleum funds that will benefit our people now and in the future. Internationally, we are recognized for our revenue transparency; however, that level of transparency must start at the global level.

We went from being a failed state to being one of the top 10 fastest-growing economies in the world. It is a success story because of inclusive politics, because we, as a nation, fought a common enemy—poverty—and we made our national motto "Goodbye Conflict, Welcome Development." From the smallest village to the city centers, our people were looking to the future with this phrase and with economic and social policies reigniting hope. It was their united will that brought peace and stability. When the United Nations handed over primary policing responsibilities to the Timorese police, there was no increase in crime. This was a benchmark that trust and confidence had been earned and communities were normalized to a new way of life.

The peacebuilding and statebuilding goals will be taken to the United Nations for resolution in front of the General Assembly in September, 2012. This will be one of the single most important initiatives to accelerate development in the fragile states and allow us to transition to the next level of development where we can achieve the Millennium Development Goals—where we take ownership and responsibility of our own national visions and plans and make inclusivity a cornerstone of success.

Recently in a g7+ meeting, my colleague from South Sudan said, "Nothing about us, without us." I echo his sentiment. There should be no more policy where we are not at the table, no more research where we cannot contribute, no more forums where we are not offered a seat, and every "G" meeting should embrace our little "g" because we represent the largest population of the globe, but also the most vulnerable, and we deserve the opportunity to contribute to peacebuilding for all regions and continents.

One day, I asked Guilherme the gardener about the fruit in Timor-Leste. He said that banana was the most common fruit but durian was the most coveted. From that advice, I created the Banana Show for my Cabinet members targeting the success of budget execution. Every Minister had to hit a certain budget execution rate that was associated with a Timorese fruit, banana being common (less than 25%), papaya the next (between 26% and 50%), with the durian being outstanding (above 75% execution rate). The Banana Show would be transparently published in the local paper for our people to judge the performance of their government. Through humor, good will, a common purpose, and a little innovation the Banana Show became legendary. Budget execution

Economically challenged residents receive a free sack of rice from the government, being distributed at a veterans' center in Dili on March 15, 2012 that will be used as polling center for the upcoming presidential elections. | AFP Photo: Romeo Gacad

was the highest ever, rising from 49% when we came into office to reach 89% and continuing to progress on increased budget amounts. It worked.

Soon after that day I had learned of skyrocketing rice prices, we were one of the first countries to set up an economic stabilization fund. The international community said it was not the right thing to do and accused us of intervening in the private sector by subsidizing the purchase of rice. However, we had enough rice for our people come rainy season and every season thereafter. A year later, we witnessed one of the largest interventions into the market in world history with the U.S. banking sector. I was not surprised. Right or wrong, governments either from fragile nations or world powers must often make difficult decisions for their people.

The very same people who criticized the Timor-Leste economic stabilization fund offered an apology. I accepted.

Now, I am not sure if Guilherme the gardener ever knew that I listened so much, but this is inclusive politics on the local level. As for the global level, Guilherme can teach us this: Listening and planting seeds to grow, even in the most arid places where you think they could never grow, is worth taking risks…and Timor-Leste is an example.

***Emilia Pires** is the Finance Minister of Timor-Leste, Chair of g7+, and Co-Chair of the International Dialogue on Peacebuilding. The views expressed in this essay are her own, and do not necessarily represent the views of the United States Agency for International Development or the United States Government.*

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The inaugural Harold Mitchell Development Policy Lecture: Timor-Leste and the New Deal for Engagement in Fragile States

Emilia Pires

Abstract

This is an edited transcript of the lecture given by The Honorable Emilia Pires, Timor-Leste Finance Minister and g7+ Chair, for the inaugural Harold Mitchell Development Policy Lecture at the Australian National University on 22 November 2012. In her lecture and subsequent Q&A, Ms Pires explains, drawing from its own experience in achieving social stability and rapid growth, Timor-Leste's pioneering role in the establishment of the g7+, a group of now 18 fragile states that was formed in 2010 as a country-owned and country-led global mechanism to monitor, report on and draw attention to the unique challenges faced by fragile states. The New Deal for Engagement in Fragile States is the first time in history that conflict-afflicted states have taken the lead in designing an aid architecture for and by themselves.

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DECEMBER 2012

The inaugural Harold Mitchell Development Policy Lecture: Timor-Leste and the New Deal for Engagement in Fragile States

It is with great honour that I have accepted your invitation to be here today to deliver the first Harold Mitchell Development Policy Lecture.

First of all I would like to thank Harold Mitchell for his support to my country. Harold is a very good friend of Timor-Leste and a true friend to our Prime Minister, Xanana Gusmão. I have great admiration for Harold's extraordinary talent and resilience: I know that you also experienced poverty in your youth and that now you enjoy enormous wealth that we are all benefiting from. The people of Timor-Leste are very fortunate that you have been a passionate supporter of our nation.

I want to focus briefly on Harold's support for governance initiatives in Timor-Leste as it is very relevant to my broader topic today: Timor-Leste and the New Deal for Engagement in Fragile States.

Harold has funded an innovative model of direct engagement—the Steve Bracks Timor-Leste Government Project—since its inception in 2007. As most of you will know, the Honourable Steve Bracks was the Premier of Victoria from 1999 to July 2007. Upon his resignation he became a special adviser to my Prime Minister, Xanana Gusmão. He brought with him the invaluable knowledge and experience acquired during his term as Premier of Victoria.

It was Harold who provided the funding to enable Mr Bracks to come to Timor-Leste with a small team to help him provide expert technical advice. Most importantly, Mr Bracks answered directly to the Prime Minister and the Government of Timor-Leste and to no-one else. He worked only under *our* direction on the initiatives that *we* identified as priorities. His engagement with Timor-Leste was an early, successful, example of the principles behind the New Deal for Engagement in Fragile States.

Before speaking about the New Deal, I would first like to explain how it all started. I would like to take you on my journey over the last five years. I became Minster of Finance in Timor-Leste in 2007, Chair of the g7+ in 2010 and Co-Chair of the

International Dialogue on Peace-Building and State-Building, where the New Deal was conceived.

Xanana Gusmão's Government took office in September 2007 with very high hopes. We had a very strong social and fiscal performance agenda. What we walked into in administrative, social, economic and political terms, was chaos.

We inherited a highly politicised public service with very little understanding of civic duty or that bureaucracy should exist to professionally serve the people and the policies of the government of the day. There were no handover documents, no briefings on how our policies could be implemented or the status of the programs of the previous government. I had a blank computer and no internet access. There was not one qualified Timorese accountant in the Department of Finance. Someone did manage to brief me on the fact that in 2007 the average mathematics proficiency of the 723 staff in the Department of Finance was Grade 3. The story was the same across all the ministries, and we had many other challenges.

Over 150,000 internally displaced persons (IDPs) who had fled their homes during the last and final crisis in 2006 were living in refugee camps, mostly around the capital, Dili. We had 800 rebels with weapons—a small army—in the hills threatening stability. We had negative 5 percent economic growth and service delivery had all but stalled.

A review by the Norwegian government on aid to Timor-Leste revealed that US$8.2 billion had been spent on aid and peacekeeping operations between 1999 and 2006. But what had that aid delivered? When we came into government poverty had doubled. In some regions one out of every two Timorese lived below the poverty line. It was much worse than I had feared. Our roads were impassable. Most of the country had no electricity. There were no pensions to support our most disadvantaged citizens. Many of our hospitals and schools were still in ruins and, worse still, our people had lost hope.

At the same time, even though we had only just come into government, we were bombarded with reports and "expert" opinions. It was like a stampede. Report after report was released adding to the some 4,000 reports that had already been written about Timor-Leste since our independence in 2002.

Entire theses with contradicting statistics were being written about us. It seemed everyone else was more of an expert than we were on our own country. I kept asking our Statistics Department where this information was coming from, as I was actually in charge of data and statistics. No-one knew. Finally I said that enough was enough!

We asked for space and time to give us the chance to take ownership, as we had all agreed in the Paris Declaration of aid effectiveness in 2005, so that we could have a country-owned and country-led transition.

Australia was one of the few donors that were sensitive to our request. This was very helpful because they were also our largest bilateral development partner. However, with 45 other donors and 302 NGOs all competing for success and relevance, it was not an easy task to get everyone onto the same page. It was a very painful period for some donors to let go and to let us stand on our own two feet, to find our own way, to take small steps, to set up systems, and indeed, to make our own mistakes.

We quickly learned that in a post-conflict setting you have to act, and you have to act fast, to regain trust in society, to normalise the situation, so as not to return to conflict.

Until we could lay the basic foundations for the State and our people, we could not plan long-term. Our partners demanded long-term plans but we could barely get through the day. We were reacting and by necessity we became experts in crisis management.

When I look back from 2007 to now, I think it is nothing short of a miracle to see how far we have come given the enormous challenges we faced. I know we still have a long way to go, but the key to our progress was acting and acting fast. This is not in any donor organisation's or institution's handbook.

We resettled all of the 150,000 IDPs in two years. The United Nations told us that it would take ten. We negotiated to get all the armed rebels down from the mountains. We began to de-centralise budgets to allow ministries to improve service delivery. We introduced pensions for the elderly, single mothers, orphans, veterans and the disabled.

As many of these people had no bank accounts and many in the rural areas do not read or write we used thumbprints to acknowledge the receipt of funds. This was achieved quickly and, as a result, was not necessarily using the world's best practices. But the reality on the ground was that time was the crucial factor.

You can't get dividends of peace if you make processes more important than outcomes. What matters the most is the number of lives we save and the number of days of stability we give our people.

We created labour-intensive work programs and social transfers to re-build communities, giving them ownership to shape their future. We gave tractors to farmers and we bought seeds so they could accelerate food production. We established youth athletic programs. We built parks, held concerts and hosted our first international meetings and sporting events.

I remember the Prime Minister coming to me and wanting money to re-build the garden in front of the Hotel Timor, to put in swings and so on. I thought, "My God, is this our priority?" But then I understood: to take people with you, you need to expose them to what life can be like. Most people did not even know what a swing was. How can you talk to people about a better life when they don't know an alternative? You have to show them. I started to understand that development is not just about the hard stuff. It's very important that you do both hard and soft at the same time.

We demolished the remnants of half burnt buildings. Backed by AusAID and a team funded by Harold Mitchell, we established a Civil Service Commission that introduced merit-based appointments and new standards in training for our public servants. We invested in capacity building in the security sector. We set up the Anti-Corruption Commission and introduced new, transparent tender arrangements for major infrastructure projects.

We established the National Petroleum Authority, which employs some of our best educated men and women to manage and regulate petroleum activities in Timor-Leste's exclusive jurisdictional areas, and in the joint petroleum development area that we share with Australia.

We were the first in Asia and the third in the world to be compliant with the Extractive Industry Transparency Initiative. Every dollar that comes in from petroleum revenue is publically disclosed and matched with the records of the resource companies. We began creating a highly transparent financial system where anyone in the world will be able to track the budget as its being executed, in real time, and track aid expenditure, procurement and, most importantly, results.

And, as only 5 percent of our population has higher than a secondary school degree, we invested in education and training for our people.

We found time to set national priorities. And each year we evaluated them and changed them according to our needs. We were making progress in Timor-Leste.

At around the same time we became more active internationally. This was thanks initially to Australia, who encouraged us to participate in the Third High Level Forum on Aid Effectiveness in Accra, Ghana. This was followed by a preparatory meeting on a new forum called the International Dialogue on Peace-Building and State-Building in Paris. This forum brought together fragile and conflict-affected countries, donors and organisations to look at how international support could be more targeted and more effective.

At one session we asked if we—the recipient countries—could have a day alone. There were seven Ministers of Finance from seven different countries, all fragile states. We were from different continents. We spoke different languages. We had different religions, cultures and traditions. Despite this we began talking about peace-building and state-building and our challenges when working with donors, and we realised that we had the same experiences, and so we began to share solutions. It was astonishing. At the end of our closed-door session we joked that we were the "little g7+". And so we came to be.

Then in April 2010, Dili hosted the International Dialogue on Peace-Building and State-Building, largely funded by Australia and the UK. This was the first time in history that fragile and conflict-affected states had a united voice on the global stage. We wanted to end the monologues spoken at us and promote a dialogue with us, both globally and

locally. What started out as seven countries quickly became 17. Today there are 18. But our aim is not to grow: it is to become the little g0!

I was honoured to be voted the Chair of the little g7+. I suspect that my colleagues thought I was probably the least afraid to speak my mind! The reality that Timor-Leste faced when we gained our independence ten years ago was very familiar to many of my g7+ colleagues: no-one with experience running the government; a de-skilled public service; a population that had been traumatised and denied a decent education; an almost non-existent private sector; minimal jobs growth; limited training; fragmented aid; a highly charged political environment and poor services.

We in the g7+ realised immediately that we were not going to meet the Millennium Development Goals (MDGs). In fact no fragile country ever will. So the big question for us to answer first was, why? And second, how do we change the way we do business to get better results?

For too long the world had dictated our development priorities without ever asking us. We agreed however, that the MDGs set out in 2000 are absolutely imperative. They captured the basic necessities for humanity and the rights and freedoms required for a successful state. But there was a vital missing link: to achieve our development goals we first needed to stop conflict and crisis and then build a functioning state.

The g7+ members recognised that as a development community we have largely failed to stop conflict. As a result we have largely failed to build resilient states to address the needs of our peoples. In the process, 1.5 billion people have been left behind: 20 percent of the global population live in conflict and fragility—Professor Paul Collier's "bottom billion". So what are the priorities and needs of people emerging from conflict and fragility?

The New Deal for Engagement in Fragile States was released on 30 November 2011 at the Fourth High Level Forum on Aid Effectiveness in Busan, South Korea. The New Deal had been developed and endorsed by the g7+ through the International Dialogue Forum.

The g7+ countries are Afghanistan, Burundi, Central African Republic, Chad, Comoros, Côte d'Ivoire, The Democratic Republic of the Congo, Guinea, Guinea Bissau, Haiti, Liberia, Papua New Guinea, Sierra Leone, The Solomon Islands, Somalia, South Sudan, Timor-Leste, and Togo.

When we gang up we are a formidable force, and the New Deal is our call to the rest of the world for a new way of engagement. It is an architecture shaped by the g7+ to increase aid effectiveness and country ownership. We advocated for three independent and inter-reliant principles which make up the New Deal:

1. Five Peace-building and State-building Goals;
2. FOCUS, an acronym for the new pillars of engagement; and
3. TRUST, an acronym for mutual commitments.

The New Deal's peace-building and state-building goals

The first goal is **security first; normalisation second**. Our people must feel safe. They must find a routine again in which they no longer feel threatened. You cannot build schools that children are afraid to attend, and you cannot combat disease if your life, and that of your family, is under threat.

The second goal is **legitimate politics**, or as I like to say, "peoples' participation". This does not infringe on sovereignty: it strengthens it and establishes the necessary avenues for people to feel included in nation-building. This includes a free media, a strong civil society and the socialisation and education of the people about their rights and freedoms, as well as their duties and responsibilities. As we saw with the Arab Spring, it is in the State's interest to embrace the voice of the people.

The third goal is **justice**. For Timor-Leste this meant equity for all with a forward-looking approach to implementing best practice, social justice, economic justice, and legislative justice.

Reconciliation with Indonesia was at the heart of our success. Despite the massive trauma and pain of the past, we had to look forward. We knew the best result for us was to create a peaceful future for our people. To do this we needed strong economic foundations and good governors in terms of our resource and revenue management. We thought this was our pathway to preventing conflict, that this was state-building at its core.

The fourth goal was to build **strong economic foundations**, which means generating employment and improving livelihoods. The engine room for any government is Public Financial Management. It can be very challenging in developing countries that have so many other pressing economic challenges, but without proper financial management you cannot build institutions and create the economic conditions needed to serve the needs of your people.

The final peace-building and state-building goal concerns **revenue and services**. We need to manage revenue and build capacity for accountable and fair service delivery.

Let's not forget that many of the g7+ countries are enormously rich in resources, but they reap very little benefit. In Timor-Leste, we have a best practice model where every oil receipt is put in our petroleum fund. That money is then invested wisely and then we take each year as an Estimated Sustainable Income.

When I first became Minister of Finance we had US $1.65 billion in the petroleum fund. Today we have a little over US $11 billion. We have only just begun to explore our resources: 100 percent of our onshore and 50 percent of our offshore potential resources has yet to be explored or exploited. So our horizon is bright. But we must have the human capacity to equalise the investment otherwise it will be lost for our people.

These are the five peace-building and state-building goals. In Timor we began with these challenges and have come a long way since 2007. I know we still have a long way to go, but the key to our success was acting and acting fast, which meant money had to be spent and spent quickly. We took the risk, and thus far the investment has paid off in

peace and citizen engagement. There is no price tag you can put on this. In Timor-Leste we never asked a donor to take a risk we ourselves would not be prepared to take.

These goals were our own national priorities. They have been tried and tested and the results speak for themselves. We have not had a crisis since 2007. We have had average double-digit economic growth rates year on year. We have been one of the top ten to 20 fastest growing economies in the world since 2008. Our institutions are improving and our service delivery is becoming more relevant to the needs of our people. All our key human, social and economic indicators are improving. To be honest, when we started I didn't think we had a chance: we were building a State and its institutions from scratch.

The FOCUS principles

Equally important to the New Deal and the peace-building and state-building goals were the principles of **FOCUS**, which is a new and progressive way of engaging in our States that supports country-owned and country-led pathways, and a set of mutual commitments to results. Let me explain the FOCUS principles.

F stands for **Fragility Assessment**; by us, for us, on our own countries, by our own people. We need to analyse and understand our own problems so that we can implement our own solutions.

I think many who have worked in development will know that very often everybody comes to a country and does their own assessment. They know how fragile we are, they have their own little criteria. Then they go home and design the programs. We only learn about the programs when they begin. When they are then implemented, we don't know where the project came from because we don't really understand the problem, as we didn't do the analysis. And then we cry when it fails.

We need to analyse and understand our own problems so that we can implement our own solutions.

O stands for **One Plan and One Vision**. In the case of Timor-Leste we had 46 donors and 320 NGOs at one time. Everyone had their own plans and projects. We had

fragmentation, duplication, little alignment, and zero cost savings. There can be only ONE plan, and it must be country-led and country-owned and agreed with all stakeholders for the benefit of the State and its people.

In July 2011, after two years of national consultations, the Prime Minister launched our first Timor-Leste Strategic Development Plan. This was developed by us and is now being implemented by us with the support of our development partners.

C is for a **Compact,** to agree that everyone will stick to the plan. In Timor-Leste, Australia is one of our major partners and was the first to align with the Timor-Leste Strategic Development Plan.

U is to **Use** the peace-building and state-building goals and indicators to monitor country-level progress. This is important because most of the time programs are designed by development partners against the framework of the MDGs and, as I have already said, we can't get there. We have to do other things first if we are going to get to the MDGs. If you design a program against the MDG framework of indicators and you can't effectively measure it, the program will be rated as unsuccessful or a failure.

S is to **Support** continuing dialogue among ourselves and our partners. This will include support for global, regional and national initiatives to build the capacity of government and civil society leaders and institutions to lead peace-building and state-building efforts and to ensure that our plan is on course.

The TRUST principles

T is for **Transparency**. We need to know from donors and NGOs, and anybody in our country, how much is being spent, where and on what, so that when we do our budget we are not duplicating. We need to harmonise efforts to implement the plan. Without full transparency you can often make mistakes.

R is for **Risk sharing**. If you want to engage in fragile states you need to take risks. It is not business as usual. Sitting on the sidelines can be a conduit to crisis. There is a need

to act and act fast in a fragile and conflict-affected context, and sometimes that means taking risks and not waiting for a feasibility study or a risk management plan.

I remember when we were going to resettle the 150,000 IDPs and were negotiating housing allocations per family. I went to the Prime Minister, thinking as a Minister of Finance does, and said that we needed a control process under which we could disperse money in small tranches based on given benchmarks. The Prime Minister turned to me and said, "We need peace. Give them the money to build the houses and they will make a home." So I took a risk and did it, and he was right. I had become compartmentalised by my own systems and procedures and lost the vision for our nation.

U is to **Use** our country's systems. Some countries in the g7+ have up to 65 parallel units running, all doing the same thing. The usual reason for not using a country's systems is that they are not up to standard. But it's like trying to fix a pipe that you never use. How in the world do you know where the leak is if you never use it? And how can you fix it? You have to use it, then fix it, in order to strengthen the country's systems.

S is to **Strengthen** capacity. A common misconception is that donors give us, the fragile state, money, and that we do with it as we please. That is not the case in the fragile and conflict-affected context. Help usually comes in in the form of technical assistance to pay people from donor countries who are supposed to tell our people how to do the job. But the job itself is sometimes so demanding that there is little capacity-building. Knowledge transfer is also limited by the fact that most advisers cannot speak the local language.

T is for **Timely and predictable aid**. We cannot plan without knowing what will and will not be supported. Recipient countries need consistency and a trajectory of what they will have to spend so that planning can take place.

Timor-Leste has lived and experienced the peace-building and state-building goals and the *TRUST* and *FOCUS* principles. They have been tried and they have been tested. However, we continue to have major challenges. One of the biggest challenges is getting baseline data so that we can draw our initial fragility assessment. I believe we do not

have the data to measure fragile states, and we, the international community, have not figured out a formula to retrieve the data within this context.

It took Timor-Leste many years to do a comprehensive census on 1 million people. We now have the data we need to plan and prioritise. Without the right data you cannot measure, you cannot plan, you cannot prioritise. It's like shooting darts blindfolded. And this is why I believe we have been largely unsuccessful in meeting the MDGs.

The New Deal is a proposal for a change in how we engage, and that change must be measured for its success or failure. It is a change in how we do business, a change in procedures and a change in mindset. This last change, I believe to be the most difficult.

At the beginning of my mandate I recall the failure of a major donor project to increase the institutional capacity of my Ministry, the Ministry of Finance. I realised that the project was orientated toward its own success, rather than the success of building the Ministry as an institution. When I attended project meetings, the presentation would start with the project and at the end there would be a mention of the Ministry of Finance. The Project Managers used to beg me to chair the meeting so that they could show the donors that there was ownership by the Minister. I felt like a rubber stamp. I was spending days wondering how I was supposed to reform the Ministry, and I used to spend a long time talking intensively to my Timorese staff on the importance of putting the institution first, explaining the role of the institution in the building of our nation and how the whole thing would affect our lives and those of our children and future generations if we didn't do the right thing.

Then we would go into meetings with the donors to be shown a presentation of the project that was supposed to help me reform the Ministry. The first slides would be about the project and what international advisers would be doing and, if you were lucky, one slide would be about the Ministry.

It was like living in two different worlds: there was such a disconnect. The advisers were more concerned about reporting to the donors than they were to the Minister. If we are not careful the same may happen with the New Deal.

I reacted by refusing to attend any further meetings and refusing any of the donor projects offered until I could gain some control and understanding. They needed to completely change their mindset by placing the Ministry above all else. It took another 12 months for a change of behaviour to occur. It was hard. I kept reminding the Project Manager that I was Minister in the Ministry of Finance: that there was only one boss and it happened to be me.

The next presentation started with The Ministry of Finance, its aims and objectives, weaknesses and strengths, and its current status. This was when I knew we were on the right track. I asked for the Project Implementation Unit to be immediately transferred into my Ministry and to be led by someone from my office. No more sitting outside the Ministry and writing long reports that nobody ever reads. Country-owned, country-led: this is local action.

Ironically, I am now globally seeing a parallel. In reports coming out through donor organisations, I see the donor organisation's name first, then the New Deal and then the country. There is still a disconnect: it should be the country first, the New Deal second, and the organisation that supports it third.

As I said, it's all to do with mindset. When you do achieve a change in mindset, you can see a huge behavioural change. Slowly, slowly in Timor-Leste there was a major shift in donor behaviour. It was very painful, as it will be with the New Deal, but if it's done properly, it will be good.

I reject the notion that it takes 20 to 40 years for basic government transformations. I believe it can be done much quicker if we keep our eyes solidly on the end game, which is to build the state.

But at the same time, do not underestimate fragility. In our meetings of international dialogue, our partners are talking about concepts and indicators that are sometimes so complicated that the donors on the ground do not understand them. Now, how can they implement something they don't understand? I often tell the donors to go back to the basics.

The implementation of the New Deal will take time, and if it is not truly country-owned it will fail. If we give the pilot countries the time, the space and the support to broaden local and global consensus, we have a chance to get it right, just like we did in Timor-Leste. We have a chance to get some things right. It cannot be in your timeframe. It must be in ours. I know how frustrating that must be, but trust me—it is the only way.

Australia has been a remarkable donor in supporting the New Deal and a strong supporter of the g7+. This will help ensure the implementation of the New Deal and I believe it will have a positive impact on the development of many countries.

I would like to say thank you again to Harold Mitchell and to The Development Policy Centre at The Crawford School of Public Policy for hosting me and holding this event.

I would like to close with the words of my counterpart, Minister Kosti from South Sudan, who coined a phrase that resonates with all the g7+ members, "nothing about us, without us." Thank you.

Inauguration of the new integrated Border Post, Batugade

Malaysian FPU Asset TurnOver to the Government

The Year in Photos

MoF General Staff Meeting, 2012

"Marka Kareta de Estado Ceremony

Timor-Leste Fragility Assessment Workshop

National Priority Summing-Up

MoF with Dili-based staff members

Asset hand-over from UNMIT

Government &UNMIT Asset Liquidation Team at work

MoF with Baucau-based staff members

MoF's Visit to the Principality of Leichtenstein

Job Hand-over ceremony, 2012

MoF's District visit

Integrated Border Posts

Customs Service Anniversary, 2012

MoF Visit to Timor Gap

ICAPP-CAPDI Joint Conference on Peace and Reconciliation in Asia
Dili, Timor-Leste

MoF Scholars who graduated from Flinders University

Staff Meeting @CNE

Tomada de Posse with the President of the Civil Service Commission

Timor-Leste Country Presentation, 45th ADB Annual Meeting Manila, Philippines

Stakeholder's Consultation on post-2015 Development Agenda Melbourne, Australia

g7+ Technical Meeting Dili, Timor-Leste

g7+ members and new World Bank President, Tokyo, Japan

g7+ Meeting in Haiti

Paul Collier, Haiti

g7+ representatives, New York City

Timor-Leste Official Visit to South Sudan

ID Meeting, Juba, South Sudan

Bilateral Meeting with Somali Finance Minister, Mogadishu

MoF's Courtesy Call to Vice-President of South Sudan

IPI Session in New York City

Ministeriu Finansas

Halo ita nia mehi sai realidade

Ministry of Finance

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