REPÚBLICA DEMOCRÁTICA DE TIMOR-LESTE

State Budget 2014

Budget Overview

Book 1

"Be a Good Citizen. Be a New Hero to our Nation"

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Part 1: Prime Minister's Speech

Part 2: Description and Analysis of the 2014 State Budget

2.1: Executive Summary

2.1.1: The Government's Goals and Policies

The Annual State Budget lays out the Government of Timor-Leste's policies for the coming year in order to meet its priorities: namely a higher standard of living for all citizens achieved via strong, inclusive and high-quality economic growth. This means prioritizing the health, education and security sectors in the country, while developing infrastructure on a large and small scale. Budget Book 1 for 2014 will lay out how the Government intends to pursue these policies in the coming year.

Table 2.1.1.1: Combined Sources Budget 2012-2018, $ millions[1]

	2012 Actual	2013 BB1[2]	2014 Budget	2015	2016	2017	2018
Combined Sources Budget	**1,451.2**	**1,850.9**	**1,677.9**	**1,876.4**	**1,971.6**	**1,613.1**	**1,505.1**
Government Expenditures by Fund	*1,197.6*	*1,647.5*	*1,500.0*	*1,809.2*	*1,927.1*	*1,611.5*	*1,503.5*
CFTL	789.3	1,000.7	1,034.9	1,076.3	1,119.3	1,164.1	1,210.6
HCDF	32.2	42.4	40.0	45.0	45.0	49.0	49.0
Infrastructure Fund	376.1	604.4	425.1	687.9	762.8	398.4	243.9
Development Partner Commitments	*253.6*	*203.4*	*177.9*	*67.2*	*44.5*	*1.6*	*1.6*

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

Table 2.1.1.1 lays out the two sources of expenditure in Timor-Leste in 2014: the Government and Development Partners. The total expenditure is $1,677.9 million; $1,500.0 from the Government and $177.9 million from the Development Partners. This represents a continued decline in reliance on Development Partners; both in absolute terms and as a proportion of overall spending (10.6%, down from 11.0% in 2013). It should be noted that

[1] A note regarding data in tables and figures: Throughout the Budget book, numbers are generally given to one decimal place in tables and graphs, usually either in millions of US Dollars or as percentages. Occasionally on close inspection it may seem that minor errors have been made in the decimal place when adding up the figures in order to get to a 'total'. This is a result of rounding error, which is inevitable when displaying such large figures in a readable manner. A rounding error is not really an error it is just the way arithmetic works when long figures are displayed to a few decimal places.

[2] Throughout this Budget Book, the figures given for 2013 in various tables and charts are the same as those in the Budget Book 1 2013, unless noted. This is in because at the time of drafting, final 2013 data are not yet known and so these figures are used for consistency. However the trends seen in 2013 so far, especially in terms of expenditure and revenue, have been used to guide the budget process for 2014 and projections for outer years.

the steep decline in outer years is due to partners not yet knowing how much they will allocate in those years (see Budget Book 5 for more details).

Table 2.1.1.2: Fiscal Table with Memorandum Items, $ millions

	2010 Actual	2011 Actual	2012 Actual	2013 BB1	2014 Budget	2015	2016	2017	2018
Total Expenditure by Appropriation Category	**760.3**	**1,097.1**	**1,197.6**	**1,647.5**	**1,500.0**	**1,809.2**	**1,927.1**	**1,611.5**	**1,503.5**
Recurrent	*506.1*	*508.8*	*782.4*	*841.0*	*934.7*	*975.5*	*1,012.8*	*1,055.5*	*1,095.7*
Salary and Wages	91.5	111.5	130.9	160.5	166.9	173.6	180.6	187.8	195.3
Goods and Services (inc. HCDF)	245.9	254.4	341.9	441.5	475.6	498.1	516.2	539.0	558.6
Public Transfers	168.7	142.9	309.7	239.0	292.2	303.9	316.0	328.7	341.8
Capital	*254.3*	*588.3*	*506.4*	*806.5*	*565.3*	*833.7*	*914.3*	*556.0*	*407.8*
Minor Capital	38.3	27.3	42.0	49.6	39.7	41.3	43.0	44.7	46.5
Capital and Development (inc. IF)	215.9	561.0	464.4	756.9	525.5	792.4	871.4	511.3	361.3
Domestic Revenue	**96.6**	**111.7**	**137.7**	**146.3**	**166.1**	**181.0**	**196.1**	**211.2**	**226.4**
Non-Oil Fiscal Balance	**-663.7**	**-985.4**	**-1,059.9**	**-1,501.2**	**-1,333.9**	**-1,628.2**	**-1,731.0**	**-1,400.3**	**-1,277.1**
Financing	**663.7**	**985.4**	**1,059.9**	**1,501.2**	**1,333.9**	**1,628.2**	**1,731.0**	**1,400.3**	**1,277.1**
Estimated Sustainable Income (ESI)	502.0	734.0	665.3	787.0	632.3	638.7	628.4	616.0	612.8
Excess withdrawals from the PF	309.0	321.0	829.6	0.0	270.6	872.2	944.4	644.8	627.3
Use of Cash Balance	-147.3	-69.7	-478.1	670.6	379.9	0.0	0.0	0.0	0.0
Borrowing/Loans	0.0	0.0	43.1	43.6	51.0	117.3	158.2	139.5	37.0
Selected Economic Indicators									
Nominal GDP (Non-Oil Sector)	934.3	1,128.3	1,349.8	1,534.3	1,773.1	2,068.5	2,429.7	2,865.5	3,324.5
Fiscal Deficit / GDP (Non-Oil Sector)	71.0%	87.3%	78.5%	97.8%	75.2%	78.7%	71.2%	48.9%	38.4%

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

Table 2.1.1.2 lays out Government expenditure in more detail. The most notable aspect is that budgeted expenditure is being cut sharply for a second consecutive year, by $147.5 million[3]. This is part of the Government's policy of ensuring Fiscal Sustainability and refocusing fiscal policy on delivering high-quality, inclusive growth.

2.1.2: Economic Overview

Timor-Leste's economy grew by 7.3% in 2011 in real terms. The petroleum sector of GDP grew by 6.0%, half the rate of growth of the non-petroleum sector (12.0%)[4]. Nevertheless, the petroleum sector maintains its dominance of Timor-Leste's economy, representing 76.9% of the country's total GDP.

The very high growth rate of non-oil GDP in 2011 can be traced back to the strong increase in Government expenditures during that year, in particular capital and development expenditures. Some of this increased expenditure reflected the Government's "frontloading" policy intended to build the conditions necessary for the country's medium and long-term economic development via the short-term improvement of key infrastructure and human capital. This is in line with the Strategic Development Plan (SDP).

However, with this high rate of economic growth, inflation has increased substantially. At the end of December 2011, prices, as measured by the Consumer Price Index (CPI), were 15.4% higher than at the same period of the previous year, and thus well above the SDP target range of 4-6%.

With actual Government Capital and Development expenditures declining in nominal terms in 2012, mostly due to low execution rates, key economic sectors that had fostered growth in 2011, such as construction, are expected to have declined. The rate of growth of the non-petroleum sector of GDP, which is forecasted at 8.2% for 2012, is still strong but substantially below the 2011 rate. The rate of inflation decreased throughout 2012 and stood at 10.9% in December 2012.

In the medium term, the Government expects that the frontloading policy, along with a various reforms (e.g. passing of a Land Law, SERVE-One Stop Shop, Public Private Partnerships, etc.) will create an environment for a strong private sector to emerge as the dominant source of growth and thus maintain high overall rates of economic growth and increased domestic revenue. The Government is therefore focused on high quality expenditures to support on one hand the private sector and on the other hand the country's social development. The 2014 budget was thus prepared within a framework of high quality expenditures consistent with curtailing inflation and returning to a fiscally sustainable spending path.

[3] Budgeted expenditure in 2011 was $1,806.5 million.
[4] Timor-Leste National Accounts 2000-2011, DGE (2013). In the text, when referring to 'Oil' both oil and gas are considered.

2.1.3: Expenditure

Total Government expenditure in 2014 is $1,500.0 million, a 9.0% decrease from 2013. The Government is determined to pursue policies leading to fiscal sustainability and high-quality economic growth. Therefore the decline is mostly driven by reductions in Capital and Development, particularly in the Infrastructure Fund which has itself been allocated $179.2 million or 29.7% less than last year. This is recognition of the fact that the Government realises that the ambitious infrastructure strategy program for Timor-Leste must be revised on an annual basis in order take account of conditions on the ground. The amount allocated for 2014 is more realistic and takes account of the Government's commitment to maximise the efficiency of the country's petroleum reserves. On the other hand, recurrent expenditure continues its upward trend, increasing by 11.1%, mostly driven by increases in Public Transfers and Goods and Services. The Government sees this expenditure as essential in order to have an efficient civil service and also to support those citizens who may be unable to help themselves. Indeed, as outlined in section 2.4.2, some of this expenditure could be viewed as either social or physical investment.

2.1.4: Revenue

The Estimated Sustainable Income (ESI) for 2014 is calculated at $632.3 million, which is $165.6 million lower than the 2014 ESI estimate in last year's budget. The downward revision is due to Bayu-Undan expected production to be lower than previously thought. The 2014 ESI calculations started using Brent crude oil instead of WTI crude oil as price benchmark, due to its better tracking of Bayu-Undan products. There are no other changes to the methodology of the ESI calculation.

Overall petroleum production peaked in 2012, but revenues remain strong in 2013 due to high oil prices. The Petroleum Fund balance is estimated to be $14.1 billion by the end of the year. Petroleum revenues are then forecasted to decline quite sharply to $1,443.1 million in 2014, before temporarily levelling off until 2016. The Petroleum Fund balance is estimated to reach $15.4 billion by the end of 2014, assuming $270.6 million of withdrawals in excess of the ESI.

In terms of domestic revenue, 2014 is set to continue its upward trend in terms of taxes and other charges, increasing to $166.1 million, or 13.6% more than the forecast for 2013 in last year's budget. This projected increase is mostly driven by increases in taxes, particularly indirect taxes such as Excise and Import tax. The Government is committed to increasing domestic revenues in order to move to a less petroleum-dependent economy and to better integrate into the global economy.

2.1.5: Financing

The financing section of the Budget Book outlines and explains the various components which pay for expenditure in 2014 and outgoing years. The financing of the 2014 State Budget highlights that all the expenditures incurred by the Government will ultimately be paid for through financing from the ESI, excess withdrawals from the Petroleum Fund, loans or the use of cash balance. It is also important to underline that the financing items are equal to the non-oil deficit (which is defined as domestic revenue minus total expenditure).

2.2: A Review of Recent Reforms

The Public Financial Management (PFM) system consists of the institutions, laws and information technology infrastructure through which the Government spends, collects and manages money. A strong and effective PFM system is essential for Timor-Leste to maintain strong economic growth, control corruption and efficiently deliver Government services.

In Timor-Leste, an effective PFM system is critical to transforming mineral resources into public wealth. The Government has implemented a broad-based and sustained PFM reform program. This reform program is complex and covers many different aspects of PFM and therefore only selected key aspects of it are described here. Other publicly available documents, such as the Ministry of Finance's Strategic Plan, describe the entire reform program in more detail. The key goals and components of the Government's reform program described here are: a) petroleum tax audit, b) providing budget documentation that transparently describes the State Budget, c) improving expenditure management, d) transparency and e) improving analysis and evidence-based policies and expenditures.

Among the abovementioned PFM reforms, the recent reforms includes: i) a new and unique paradigm for the "Annual General State Budget" introduced in 2013. This consists of a consensus between the Government and the Opposition. As the result, a commission that comprised representatives of committees from the National Parliament was established to discuss the proposed budget with the Government and the proposed 2013 General State Budget was unanimously approved by the National Parliament. This unique situation is representative of Timor-Leste's style and culture of democracy for development, as the country is still in the initial stage of development. The paradigm is not contradictory to the nature of "checks and balances" between the Government and the Parliament, because there remains debate at the committee level. ii) Maintaining the culture of "consensus for the national development program." For the first time the government invited members of National Parliament, including members of the Opposition, to participate in the "2013 Yellow Road Workshop" to discuss challenges and opportunities, and define national priorities and the fiscal envelope for 2014. The "2013 Yellow Road Workshop" was also expanded to development partners and other relevant entities. iii) The establishment of an "Audit Court" for Government projects with contract values exceeding $5.0 million.

2.3: Economic Overview

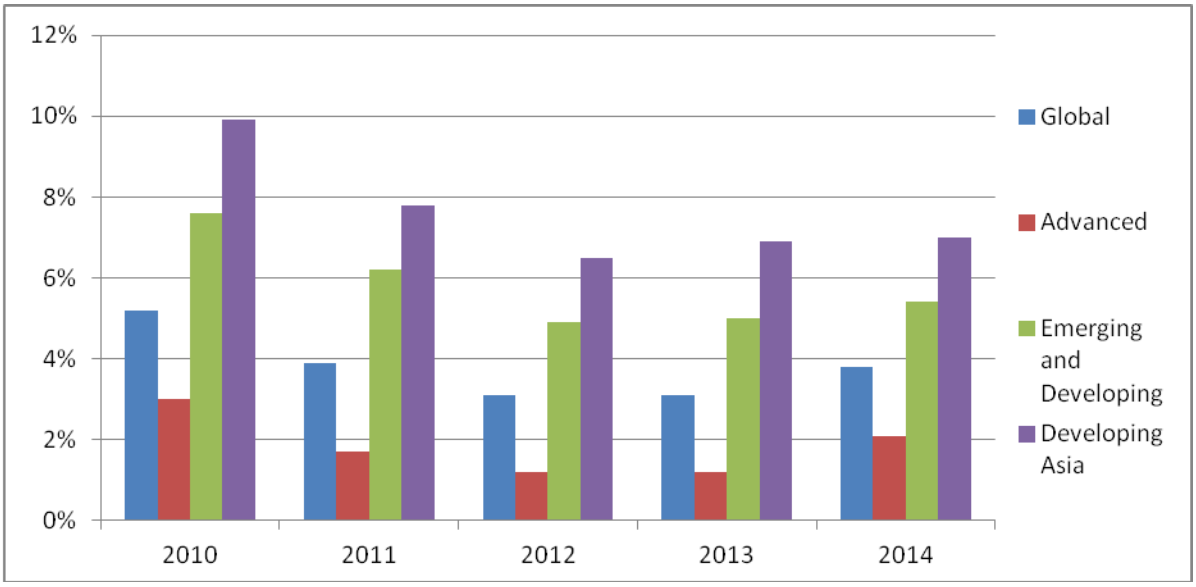
2.3.1: International Economy

2.3.1.1: Trends in International Growth

After growing by 5.2% and 3.9% in 2010 and 2011 respectively, global growth in 2012 continued to slow, increasing by 3.1% (Figure 2.3.1.1.1). This was due mainly to a reduction in growth from the countries that had been leading the global recovery from the financial crisis; that is the so-called 'emerging and developing economies'. Growth in emerging and developing economies fell below 5% in 2012, the lowest rate since 2001, if one excludes the year of the global recession (2009). This reduction was due mainly to lower demand from key importing advanced economies and to domestic policy tightening (e.g. credit tightening in China due to fears of a real estate bubble and interest rate hikes to control rising inflation in India and Brazil).

Global growth is projected to remain sluggish in 2013 and 2014, at 3.1% and 3.8% respectively. These low rates reflect continued expected underperformance of emerging and developing economies due to both external (e.g. low demand from advanced economies, low commodity prices) and internal (e.g. policy tightening) factors as well as the prolonged Eurozone recession and weaker than expected growth in the US.

Figure 2.3.1.1.1: Real Economic Growth 2010 – 2014



Source: National Directorate of Economic Policy and IMF WEO July 2013

Table 2.3.1.1.1 illustrates GDP growth rates of the major economies in Asia/Australia and Timor-Leste. This area includes economies that are growing at very high rates and Timor-Leste is no exception, leading the region in 2011. For most of these countries, projections for 2013-2014 are in line with 2011-2012 and thus below the rates in 2010 and before the financial crisis. The main reasons are similar to those reported above for the emerging and

developing region; that is a combination of domestic factors (policy tightening) and external ones (lower demand from importers; lower commodity prices).

Table 2.3.1.1.1: Real Regional GDP Growth Rates (%)

Country	Actual			Projection	
	2010	2011	2012	2013	2014
China	10.4%	9.3%	7.8%	8.0%	8.2%
Australia	2.6%	2.4%	3.6%	3.0%	3.3%
Singapore	14.8%	5.2%	1.3%	2.0%	5.1%
ASEAN-5	7.0%	4.5%	6.1%	5.9%	5.5%
Indonesia	6.2%	6.5%	6.2%	6.3%	6.4%
Vietnam	6.8%	5.9%	5.0%	5.2%	5.2%
Philippines	7.6%	3.9%	6.6%	6.0%	5.5%
Thailand	7.8%	0.1%	6.4%	5.9%	4.2%
Malaysia	7.2%	5.1%	5.6%	5.1%	5.2%
Timor-Leste*	**9.5%**	**12.0%**	**8.2%****	**8.0%****	**8.8%*****

Source: National Directorate of Economic Policy, Ministry of Finance 2003 and IMF WEO April 2013
* Timor-Leste GDP refers to the non-petroleum sector only
** Preliminary forecast
*** Target

2.3.1.2: Trends in International Prices

Global inflation has been subdued during 2012 and is expected to remain below 4% throughout 2013 and 2014. In 2012, the rate of increase of consumer prices in advanced and emerging and developing economies has decreased to 2.0% and 6.1% respectively, from 2.7% and 7.1% in 2011. IMF projections[5] indicate that this rate is expected to further decline in emerging and developing economies in 2013 and 2014, reaching 5.5% in 2014, mainly because of decreases in both food and energy prices. However, consumer prices are expected to start increasing in 2014 in advanced economies, pulled up by the expected rise in prices in Japan due to increases in the consumption tax.

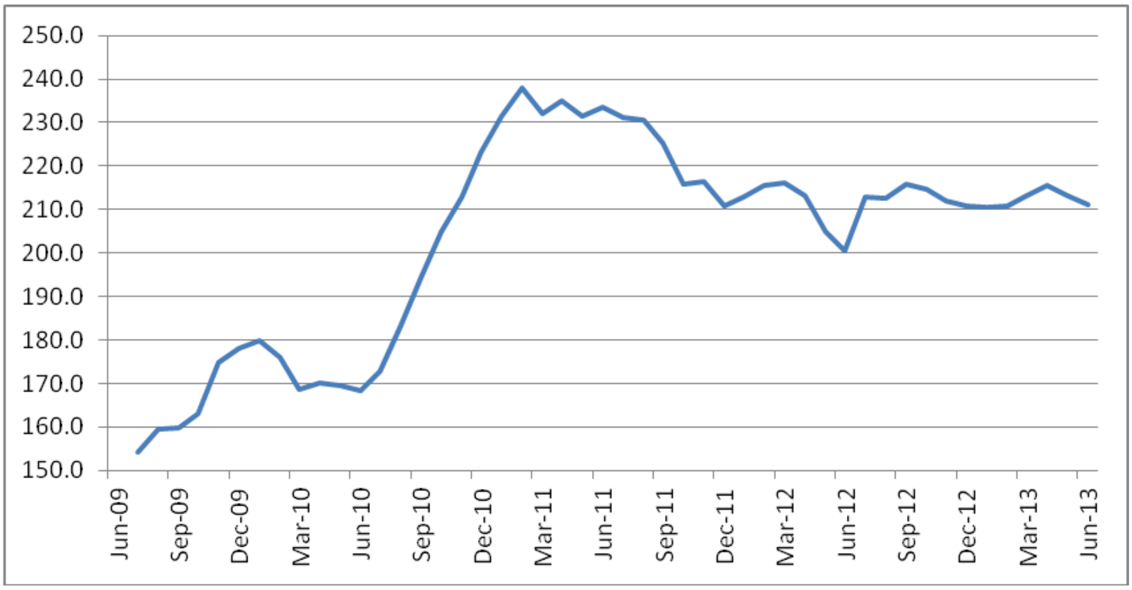
Oil Prices[6]
After increasing by 31.6% in 2011, oil prices rose by only 1.0% in 2012. Nevertheless, prices remained high, at $105.0, mostly because of geopolitical instability in the Middle East and Northern Africa region as well as embargoes and sanctions from Western countries towards Iran and Syria. Prices in 2013 and 2014 are expected to moderate due to increased production in non-OPEC countries and a reduction in demand from advanced economies. Futures markets indicate reductions of almost 5% for both 2013 and 2014. By 2014, oil prices should therefore fall back below the $100 mark to $95.36.

[5] IMF WEO April and July 2013
[6] For a description of how petroleum prices affect revenues in Timor-Leste see section 2.5.3 'Petroleum Revenues and Investments'

Agricultural Commodity Prices

After the June 2012 dip and the subsequent rise in July 2012 of international agricultural commodity prices, which alerted markets worldwide to the possibility of a food price crisis, prices stabilized at the end of 2012 and at the start of 2013. After increasing in the months of March and April 2013 because of increased dairy prices due to low production in New Zealand, the FAO food price index declined in May and June 2013 (Figure 2.3.1.1.2), reflecting lower prices of cereals such as maize and wheat. Global production of these commodities is forecast to be strong this year. Rice prices have been stable overall since the beginning of the year, though prices have varied depending on the origin. By the end of 2013, global production, spurred by favourable weather conditions in key producing countries in Asia, is forecasted to rise by 2.0%. This should exert downward pressure on prices.

Figure 2.3.1.1.2: Food Price Index June 2009-June 2013



Source: Food and Agriculture Organization (FAO)

2.3.2: Domestic Economy

In May 2013, the 2000-2011 National Accounts for Timor-Leste were published[7]. This publication reflects the strong effort by the Government, through the Ministry of Finance and the General Directorate of Statistics (DGE), to provide a consistent time series of data from 2000-2011. The 2000-2011 National Accounts present three important additions to the previous publication in 2012. First, they extend the 2004-2010 series back to 2000, thus offering to the public four additional years of data for the three approaches to GDP measurement (production, expenditure and income). Second, the availability of new source statistics enabled DGE to update the 2004-2010 series and thus provide a more accurate depiction of the economy during these years. Finally, the publication offers the first official

[7] General Directorate of Statistics (DGE), 2013.

national accounts data for the year 2011. This section therefore provides information based primarily on the 2000-2011 National Accounts release.

2.3.2.1: Total Gross Domestic Product

The National Accounts 2000-2011 reinforce the fact that Timor-Leste's economy remains very reliant on the petroleum sector. Table 2.3.2.1.1 shows that more than 75% of Gross Domestic Product (GDP) originated from the petroleum sector in 2011.

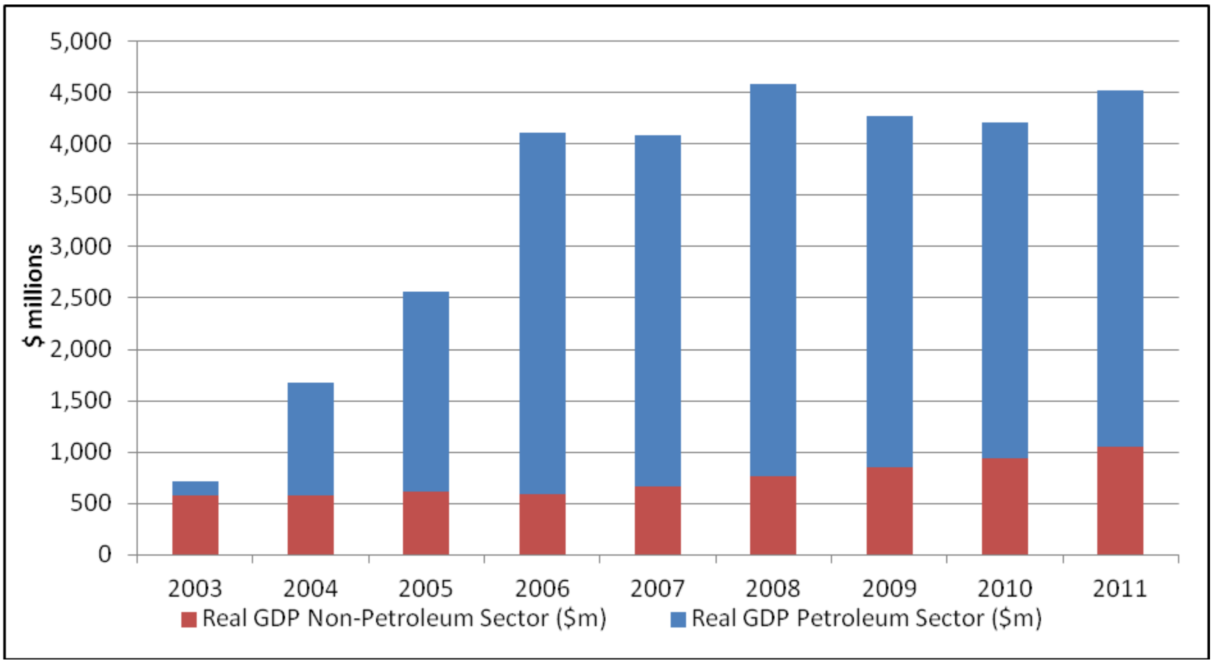
Table 2.3.2.1.1: GDP by Sector, Timor-Leste 2011

	GDP, $ millions	Percent of Whole
Whole Economy	**4,525.1**	**100.0%**
Petroleum Sector	3,478.4	76.9%
Non-petroleum Sector	1,046.7	23.1%

Source: National Directorate of Economic Policy and Petroleum Fund Administration Unit

This is further depicted in Figure 2.3.2.1.1., which shows the evolution of GDP at constant prices by overall sectors (petroleum and non-petroleum) between 2003 and 2011. During 2004, the year in which production in the petroleum sector came on-stream, the petroleum sector overtook the non-petroleum sector in terms of contribution to total GDP. The dominance of the petroleum sector became more marked in 2005 and reached its peak in 2006. The contraction of non-petroleum GDP during that year and the further expansion of the petroleum sector made the latter reach a share of 87.4% of total GDP. Since then it has stabilized at around 80% of total GDP.

Figure 2.3.2.1.1: Real GDP 2003 – 2011, $ millions



Source: National Directorate of Economic Policy and Petroleum Fund Administration Unit

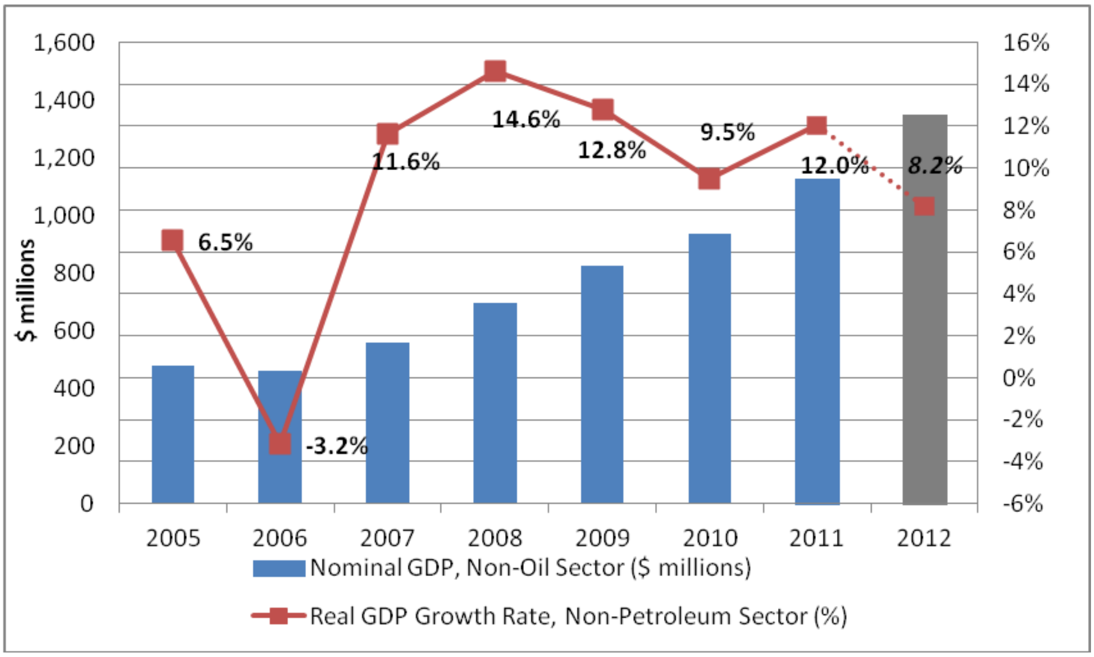
2.3.2.2: Non-Oil GDP

Figure 2.3.2.2.1 illustrates the evolution of actual GDP (non-petroleum sector) from 2005 to 2011 and the preliminary projections for 2012. As seen in the chart, the growth rate of GDP (non-petroleum) has been impressive, averaging 12.1% between 2007 and 2011.

The latest actual data available reveal that the non-petroleum sector of GDP reached $1.1 billion, having grown 12.0% in real terms since 2010. This growth compares positively to the preliminary estimates for non- petroleum GDP growth in 2011 published in Budget Book 1 2013, which projected a 10.8% real growth rate. The revision was mainly due to an increase in the level of capital expenditures from the Government which had previously been underestimated and, to a lesser extent, a reduction in the trade deficit.

2012 saw a substantial reduction in the growth rate of Government expenditures, and in particular negative growth in capital and development expenditures because of low execution rates. This has consequently exerted downward pressure on economic growth (via a decline in construction activities in the production side of the economy). Moreover, other activities within the formal private sector have not been especially strong, with low growth rates expected for manufacturing, retail and wholesale trade. The strong rebound in the agriculture sector seen in 2012 after a dramatic decrease in 2011, however, along with the continued high growth of Government recurrent expenditures and of consumption of fixed capital are expected to have led to a high rate of growth in 2012 of just over 8%.

Figure 2.3.2.2.1: GDP, Non-Petroleum 2005-2012



Sources: General Directorate of Statistics (DGE) and National Directorate of Economic Policy (DNPE)
2012 Preliminary forecast

The three broad sectors presented in Table 2.3.2.2.1. are the primary sector, which comprises the activities related to the goods obtained from the earth (e.g. subsistence and

commercial agriculture, forestry, fishing, mining and quarrying), the secondary sector, which includes construction activities and the production of manufactured goods, and the tertiary sector, which is composed of the service industry (both private and public).

Table 2.3.2.2.1: Real GDP, Sector Shares in Non-Petroleum Economy (%), 2005-2011

	2005	2006	2007	2008	2009	2010	2011
Real Non-Petroleum GDP	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Primary	30.0%	32.5%	28.5%	25.1%	24.1%	21.6%	15.9%
Secondary	8.2%	6.5%	9.2%	15.5%	19.9%	19.5%	23.3%
Tertiary	60.7%	62.5%	61.3%	58.4%	58.8%	59.6%	59.4%
Plus Taxes less Subsidies on Products	1.1%	-1.5%	1.0%	1.0%	-2.8%	-0.7%	1.4%

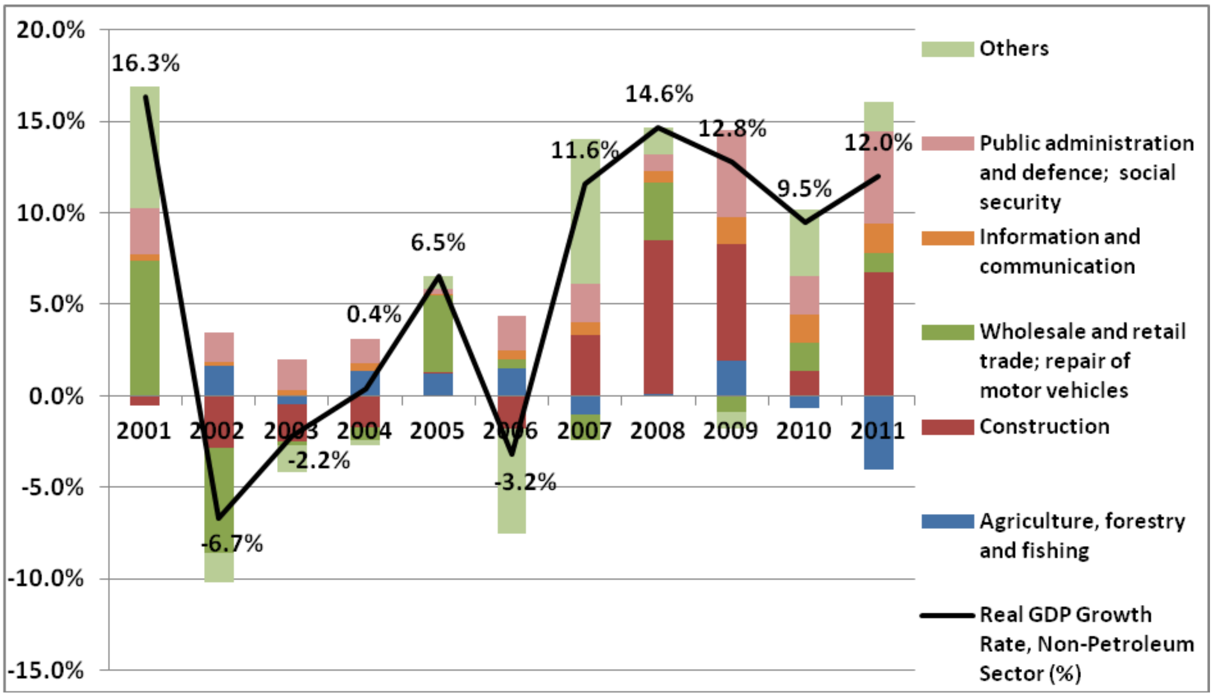
Sources: National Directorate of Economic Police and Statistics Directorate, Ministry of Finance.

This table shows that the tertiary sector still dominates the non-petroleum economy, with a share of about 60%. The primary sector's share of GDP (non-petroleum) has declined during the past five years to the benefit of the secondary sector, which has seen its share increase from 6.5% in 2006 to over 23% in 2011. Although declining slightly in 2010, the secondary sector's share of GDP (non-petroleum) rebounded spectacularly in 2011 and surpassed the primary sector's share for the first time. This is a potentially positive development for Timor-Leste's economy, as a move away from the primary to the secondary sector is a common characteristic of economies on the pathway to higher-income status. However, two caveats must be made concerning this evolution in Timor-Leste's context.

The first concerns the reasons underlying the decline of the primary sector's share and the second regards the nature of the increase of the secondary sector's share in GDP (non-petroleum). In Timor-Leste, the primary sector is dominated by agriculture, which represents over 90% of this sector. The usual way a decline in the *share* of the primary sector to the benefit of secondary or tertiary sectors can be seen as a positive development is if an there has been an *increase* in the *levels* of the secondary or tertiary sectors above the *increase* in the *levels* of the primary sector. This does not seem to have occurred in Timor-Leste: there has indeed been a buoyant expansion of the *levels* of the secondary sector in the last five years but this has been accompanied by a poor performance of agriculture activity. Between 2006 and 2011, agriculture (which also encompasses forestry and fishery activities) declined in absolute terms (and at constant prices – or volumes) by more than 18%, with only one year in this time period registering significant growth (2009 with approximately 8% growth). Moreover, this decline has been due to bad weather conditions. Therefore, the relative growth of the secondary sector in 2011 seems to be due in large part to the poor agriculture activity over the past five years. In other words, had agriculture growth kept pace with the growth of GDP (non-petroleum), the primary sector would have maintained its previous dominance over the secondary sector.

The second caveat pertains to the nature of the growth within the secondary sector. As mentioned above, this sector groups both manufacturing and construction activities. Many developing countries, and notably several Asian developing countries in recent decades, have seen an increase in their GDP with the expansion of manufacturing activities. In Timor-Leste, however, manufacturing represents a small portion of economic activity which has actually decreased in real terms between 2009 and 2011. The growth of the secondary sector is therefore the result of the increase in construction activities. This distinction is important because, on the one hand, growth originating from manufacturing can be sustained in the medium to long run (as long as the industries remain competitive, or as long as new industries emerge), while on the other hand growth from construction activity, particularly in a small country such as Timor-Leste and if financed largely by Government expenditures, will eventually slow down. This implies that for growth to remain strong in the future, a transition to other growth drivers is necessary. In particular, the private sector will need to become the leading force behind economic activity.

Figure 2.3.2.2.2: Sectoral Contribution to Real GDP growth rates (Non-Oil Sector) 2001-2011



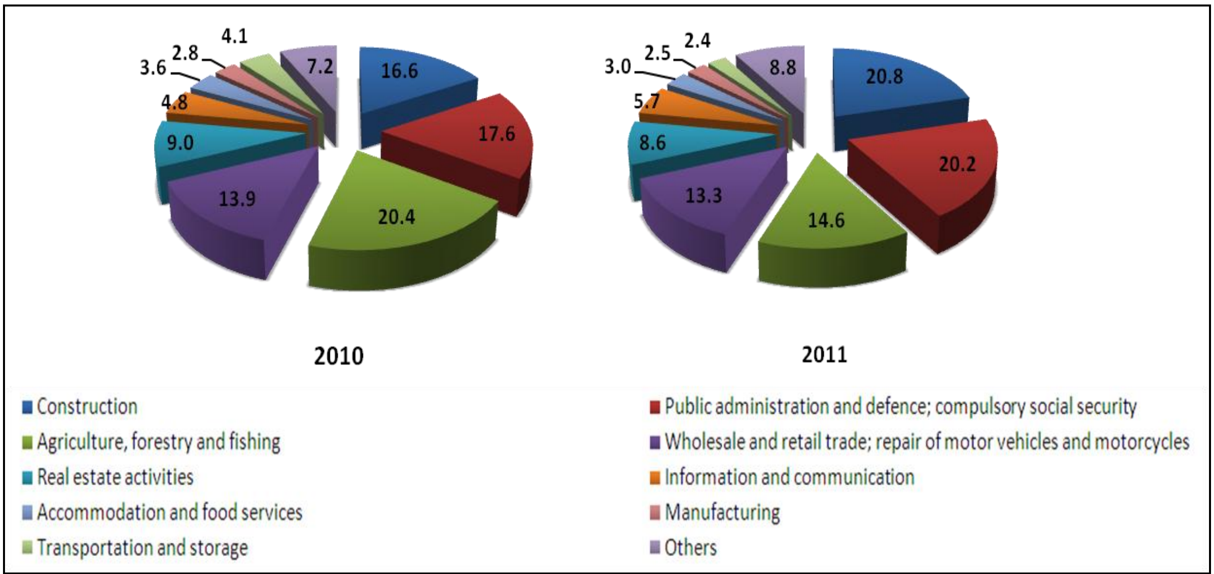
Sources: National Directorate of Economic Police and Statistics Directorate, Ministry of Finance.

Figure 2.3.2.2.2 shows that the two main drivers of growth in the last five years have in fact been 'Public Administration' and 'Construction', both bolstered by Government expenditures. Other categories have been inconsistent in their contribution to economic growth. Though 'Agriculture' provided a boost to growth in 2009, it was a negative contributor in the two subsequent years. Similarly, 'Wholesale and Retail trade' contributed positively in 2008, 2010 and 2011 but negatively in 2007 and 2009. The only other category with a consistent positive record in the last five years has been 'Information and

Communication', which is expected to continue on a positive path in the medium term due to the liberalization of the telecommunications sector in 2012.

Figure 2.3.2.2.3 presents the contribution of the main categories in 2010 and 2011 GDP (non-petroleum). In 2011, 'Construction' overtook 'Agriculture' as the leading category with a share rising from 16.6% to close to 21% of GDP (non-petroleum). In fact, due to bad weather leading to a dramatic decrease in production during 2011 (notably of maize), agriculture was only the third largest category in 2011 with its share declining to 14.6%. The other categories appear to have remained relatively in line with the previous year, with only the 'Information and Communication' category increasing its share and 'Transportation and Storage' declining sharply, mostly because of high inflation leading to higher transport costs during 2011.

Figure 2.3.2.2.3: 2010 & 2011 GDP, Non-Petroleum Sector by Category (%)



Sources: General Directorate of Statistics (DGE) and National Directorate of Economic Policy (DNPE)

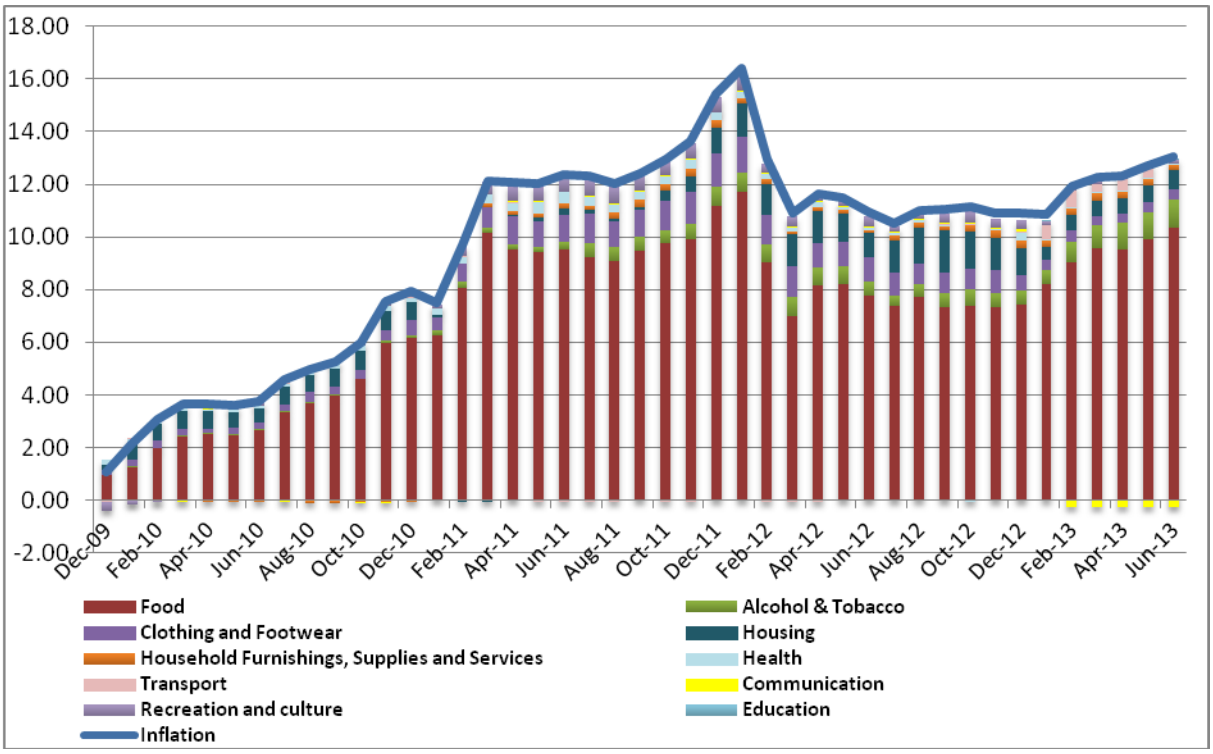
In conclusion, in recent years Timor-Leste has achieved one of the world's highest economic growth rates. The year 2011 was no exception with a 12.0% growth rate (in the non-petroleum sector). However, most of this growth was due to Government expenditure. This is justifiable given the need to kick-start the economy and is in line with the Government's frontloading policy, reflected in investments for infrastructure improvements and human capital development, both fundamental conditions for long-term development. However, very high rates of economic growth cannot be sustainably upheld by Government expenditures alone, as this would impair on one hand long-term fiscal sustainability and, on the other hand, rates of inflation in line with the SDP target range (i.e. 4-6 percent).

2.3.2.3: Domestic Inflation

Recently, Inflation in Timor-Leste has consistently been above the 4-6% target range set in the Strategic Development Plan. For the last two years, inflation has always been double

digits, even though the inflation rate now is considerably lower than it was at its peak. December 2012 year-on-year inflation in Timor-Leste was 10.9% compared to an inflation rate of 15.4% in December 2011 (Figure 2.3.2.3.1). High inflation rates negatively impact the competitiveness of the country as well as the purchasing power of the population of the country. Hence, low inflation is likely to be in line with sustained, inclusive growth.

Figure 2.3.2.3.1: Change in CPI Dili Year-on-Year by Category (%)



Sources: National Directorate of Economic Policy and Statistics Directorate

The overall increase from December 2011 to December 2012 was in double digits in both the districts and Dili, though slightly higher in Dili. However, not all categories which contribute to the overall inflation rate have grown at the same rate. The fact that "food and non-alcoholic beverages" category has witnessed a disproportionately high 33.5% increase between December 2010-2012 is worrying, as this is composed of a number of essential goods and is likely to have a broad impact on average consumers.

Sub-categories within the "food and non-alcoholic beverages" that have witnessed substantial increases in their price levels have been the subcategories "rice", "non-alcoholic beverages", "fruits" and "vegetables".

Apart from food, other categories that have witnessed increases include the "transport" and "clothing and footwear" categories. The former, over the course of 2012, witnessed an increase of 10.6% for the whole of Timor-Leste which nevertheless reflects a slowdown of the rate of increase compared to 15.5% increase between December 2010 and December 2011. With regards to the "clothing and footwear" category, there are substantial differences in the rate of increase of prices between Dili and the Districts. While the overall

inflation rate in this category has been moderate (6.0% from December 2011 to December 2012), it has been much higher in Dili (16.3% over the same period), largely driven by the increase in prices in garments for men. However, this also represents a lower rate of increase than that witnessed from December 2010 to December 2011 (19.8%).

Therefore, in general, while most categories have witnessed a slowdown in the rate of inflation compared to that witnessed over the course of 2011, the fact that high food inflation persists is worrying, especially given that, despite efforts to control inflation in the prices of some of these goods, they continue to increase at very high rates. It would perhaps be advisable to further investigate factors underlying this increase.

These trends are likely to be explained by the joint effects of domestic and international factors, although it is likely that inflation in 2012 was mostly caused by domestic factors as international factors have, overall, been reasonably favorable (compared to 2011), such as the (mostly) appreciating dollar and declining international food prices.

In the course of 2012, while international food prices were quite volatile, they remained by and large below their 2011 or 2010 peaks, which should imply lower food price increases in 2012 (even though some of the high price levels from 2011 may have fed into 2012).

Additionally, overall, the dollar appreciated over the course of 2012, especially in the first six months, which would also be expected to relieve the inflationary pressure, especially for imported goods.

International oil prices spiked in the first quarter of 2012 but on the whole remained below their 2011 levels.

It is thus very likely that domestic supply and domestic demand have driven inflation in 2012. High government expenditure in 2011 and throughout 2012, especially in recurrent expenditures, may explain part of the inflation by stimulating domestic demand. Therefore, the aim of the government of moderating government expenditure would be in line with lower rates of inflation.

In the first half of 2013, year-on-year inflation has consistently remained in double digits. Moreover, a number of items have continued to increase. For instance, in June the price of the “food and non-alcoholic beverages” has increased 5.6% since December 2012. It is also noteworthy that the CPI was revised at the start of 2013, in terms of changing some of the weights and classification of certain goods. These alterations are likely to lead to a more accurate consumption basket, thus portraying inflation better.

2.3.2.4: Employment

Together, the 2004 and 2010 Censuses and the 2010 Labour Force Survey suggest an interesting pattern in terms of agricultural employment. In 2004, the census estimated that 76.2% of the population was dependent on agriculture. However, in 2010, the estimates

ranged from 51.2% (2010 Labour Force Survey) to 63.1% (2010 Census). This implies that, despite diverging estimates, both studies seem to agree that there has been a shift out of the "traditional" sector without a loss in the production of most major crops, suggesting an increase in productivity in the agricultural sector.

In terms of Government employment, the 2010 Census suggests that 15% of the population is now employed by Government as opposed to 5% in 2004 which also seems to highlight the increasing importance of the Public Sector in the Economy. The 2010 Census also estimates an increase in the proportion of the population employed by privately owned firms at 11.5% (vs. 3% in 2004) and decreases in the proportion of self-employed non-agriculture at 6.1% (vs. 10% in 2004). Finally, the Labour Force Survey suggests that 5.2% and 17.7% of the labour force are employed in the 'Construction' and 'Wholesale and Retail' sectors respectively. These studies suggest two important trends. First, the public sector has become more prominent in terms of employment since 2004. Secondly, the private sector seems to be increasing in importance as the share of employment (as % of the labour force) in the private sector is estimated to almost have quadrupled in six years. Therefore, these studies also seem to corroborate the fact that Timor-Leste has witnessed a diversification in terms of the sectoral composition of its employment between 2004 and 2010 and that the private sector is becoming an increasingly important sector of employment in Timor-Leste.

In terms of the private sector, the recent publications of the General Directorate of Statistics, namely the "Business Activity Survey 2010" and the "Business Activity Survey 2011" enable us to further investigate the current structure of the private sector in Timor-Leste. These studies suggested the creation of almost 10,000 jobs in non-petroleum businesses between 2010 and 2011. However, employment in the private sector is still much skewed towards the Construction and Wholesale and Retail sectors which, in 2010 together employed 42.1% of the population working in businesses. This was further reinforced in 2011 due to a marked increase in employment in construction. In 2011, the Construction sector alone employed 31.9% of all the people employed in non-petroleum producing businesses, whereas the percentage employed in the Retail and Wholesale sector remained fairly constant (approximately 23%). Therefore, while the number of jobs created is encouraging, employment in the private sector seems to be driven by two sectors and fuelled by Government spending.

Moreover, while data seems to suggest that employment in Timor-Leste has improved both in terms of size and structure, an estimated 175,000 people remain in "vulnerable employment" (Labour Force Survey 2010). This was largely driven by individuals employed in agriculture and is likely to decrease as the country's employment moves away from agriculture-dependency.

Regarding the medium and long-term prospects in terms of employment in Timor-Leste, a number of challenges are apparent. Firstly, according to the Labour Force Survey 2010, there are currently 366,000 individuals over 15 years of age who are considered "inactive";

a large portion of them being students. Secondly, according to the same document, there are 458,000 people below the age of 14 years of age, implying that within the next 10-20 years, Timor-Leste will have a very substantial inflow of jobseekers

The stimulation of economic activity through Government expenditures will translate to job creation in Timor-Leste. The 2014 State budget guarantees sufficient funding for the financing of the Government wage bill. This includes a number of additional civil servants that will be hired and/or become permanent staff in 2014, as detailed in the expenditure section.

The State budget also contains a substantial amount for infrastructure development throughout the country. These projects have the potential to create, overall, an estimated 16,000 direct jobs[8]. In addition, a number of indirect jobs will be created, although estimating these becomes very complicated given the unpredictable nature of the results of new infrastructure and a scarcity of data available at this point.

2.3.2.5: Millennium Development Goals

The Millennium Development Goals (MDGs) consist of several broad goals measured by a series of economic and social indicators, which roughly track a given country's development path. This section will provide an overview, using the latest available data of each of the MDGs and related statistics.

Eradicate Extreme Poverty and Hunger

In terms of poverty, the 2007 Timor-Leste Living Standards Survey indicated that 49.9% of Timorese people lived under the national poverty line of $0.88 per day. The incidence of poverty, as measured by the World Bank in 2010, decreased to around 41%. This decrease was largely attributed to post-2007 growth. Efforts are underway to obtain a more recent estimation of poverty in Timor-Leste which can be directly compared to the figure derived from the 2007 TLSLS.

With regards to hunger, the Government's objective was to achieve food security and sustainability by 2014. A pronounced increase in both the production and productivity of both rice and maize occurred in 2012 compared to 2011. This number, however, remained below the production and productivity levels of 2010.

Regarding the prevalence of hunger (not enough food) and malnutrition (deficiency of appropriate nutrients) in Timor-Leste, the 2009-2010 Demographic Health Survey indicated that 53% of all the children under 5 were stunted and 33% were severely stunted. It also stated that 52% of the children under five were underweight. More recent data is not available. This is likely to be highly correlated with the production, distribution and price of food - all issues that the Government views as high-priority. Other likely contributing factors

[8] NDPE Estimation (based on both country case studies and preliminary figures from Timor-Leste Data Collection Survey on Pragmatic Framework Study of Labour Force Plan – JICA).

are poor education regarding the benefits of nutrition, as well as cultural attitudes, such as the overemphasis on staples.

Universal Primary Enrolment

In terms of the goal of universal primary school enrolment, there has been a marked improvement in primary enrolment rates. In 2007, the Timor-Leste Standard of Living Survey estimated a net enrolment rate of 65.6%. In 2009, the Ministry of Education estimated a net primary enrolment rate of 82.7% with a girls-to-boys ratio of 0.92. The 2011 Household Income and Expenditure Survey gave the net enrolment rate to be 84.7%. Additionally, it is noteworthy that, according to the Household Income and Expenditure Survey 2011, the net enrolment rates are higher for female than for male in both primary and (especially) secondary education.

Promote Gender Equality and Empower Women

Furthermore, in terms of gender equality, the percentage of seats occupied by women in Parliament now exceeds the Government's target of 35% (at 38.5%) and currently ranks 16th in the world. In terms of domestic violence, the trends from the PNTL's Vulnerable Unit show a decrease in *reported* domestic violence cases, decreasing from 629 cases in 2010 to 530 in 2012.

Reduce Child Mortality

Timor-Leste has already achieved its goal of reducing the under-five mortality rate by two thirds. According to the DHS 2009-2010, the infant mortality rate decreased to 64 per 1000 live births, below the target of 96 per 1000 live births.

Improve Maternal Health

Maternal health, however, remains a serious issue with the DHS 2009-2010 indicating 557 deaths per 100,000 live births (vs. the goal of 252 deaths per 100,000 live births). More worryingly, the DHS highlighted that roughly 40% of all women aged 15-49 that had died in the seven years preceding the survey died from pregnancy or pregnancy-related complications. Nevertheless the current scenario is a slight improvement compared to the estimates in 2000, which had maternal mortality at 660 deaths per 100,000 live births.

Combat HIV/AIDS, Malaria and other diseases

Malaria is the one of the chief public health concerns as more than 80% of the population is at high risk and a high percentage of the cases concern children.

In terms of HIV/AIDS while the infection rate is still quite low, there has been a substantial increase in the number of HIV reported cases, from 1 case in 2001 to 317 in 2012.

Ensure Environmental Sustainability

With regards to environmental sustainability, according to a WHO–UNICEF JMP study in 2011, 69% of the population had access to an improved drinking source.

Also, according to the JMP update, only 39% of the population has access to an improved sanitation facility.

The 2010 Census suggests that close to 96% of households use wood as source of energy for cooking which might be contributing to the slight loss of forest cover witnessed between 2001 and 2009, from 51% to 50%. This implies that it is unlikely that Timor-Leste will reach the 55% land covered by forest by 2015.

Develop a Global Partnership for Development

In terms of access to new information and communication technology, Timor-Leste has witnessed dramatic improvements with approximately half of the population now enjoying access to a mobile phone. There are also similar improvements in terms of internet access where currently approximately 25% of the population are able to get online.

2.3.3: Short to Medium-Term Prospects (2013-2018)

The rates of economic growth presented in Table 2.3.3.1 reveal the Government's economic growth targets for the medium term.

Table 2.3.3.1: Economic Targets and Forecasts 2013-2018

	2013	2014	2015	2016	2017	2018
Real Economic Growth, Non-Petroleum Sector (%)	8.0%	8.8%	9.4%	10.0%	10.2%	10.3%
Inflation (rolling year, %)	7.6%	7.7%	7.7%	7.7%	7.7%	6.0%
Domestic Revenues ($ millions)	146.3	166.1	181.0	196.1	211.2	226.4

Source: National Directorate of Economic Policy, Petroleum Fund Administration Unit and Statistics Directorate

Strong growth is targeted in the next five years, averaging 9.3% per year. The milder rates reported for 2013 and 2014 are a consequence of the Government's intention to increase the effectiveness and efficiency of public spending, to budget expenditures more effectively, and to return to a sustainable fiscal path. The higher growth rates of 2015-2018 reflect the planned scenario where strong policy reforms and effective investments in both human and physical capital by the Government would foster private sector led growth.

Focus Box: Household Income and Expenditure Survey 2011

This focus box will highlight some of the most important aspects of the Household Income and Expenditure Survey 2011 recently made available by the General Directorate of Statistics. This publication sheds some light on important consumption, income and expenditure decisions and patterns in Timor-Leste.

The survey highlights a number of expenditure patterns, some of which seem to stress a non-negligible “cultural” economic cost. This is illustrated by the proportion of expenditures (excluding rent) allocated to festivities and other ceremonies which amounts to an estimated 21.2% in urban areas and 25.9% in rural areas. These numbers indicate a sizeable economic cost which is induced by socio-cultural phenomena and the implicit social rules underpinning them. It is also noteworthy that about 46% of this expenditure is spent on funerals, the timing of which are usually uncertain and unpredictable, leaving the household in a vulnerable position. Moreover, since this expenditure is an average, it is therefore likely that this amount is much higher in the households that have actually suffered a recent bereavement.

Apart from this, the survey also provides an idea of the food basket of the average Timorese citizen, which is by far the largest recurrent expenditure undergone by Timorese households. It shows that the main expenditure categories for the average household are cereals and vegetables and also highlights that, even in rural areas, the main expenditure is on foreign rice, possibly as a result of the high price of local rice. However, surprisingly, Timorese people seem to spend very little on maize, in comparison to rice, despite large parts of the country being suited to maize production.

In terms of education, the household survey also shows quite a high correlation between income and education. Those with a university education earn, on average, close to twice that of those who have only attended primary school, suggesting that there might be a wage premium arising from education.

Another interesting factor highlighted by the report is that if the head of a household speaks Portuguese or English, they earn substantially more on average than households that do not. This is likely to reflect the high demand for individuals having these language skills relative to the (relatively) scarce supply.

Finally, the survey also indicates a large disparity between urban and rural areas in terms of expenditure on certain items. The value of the durable goods owned by average urban household is more than seven times higher than that held by rural households. This is notable in all the categories used in the study but is particularly salient in terms of “transport”, “information and entertainment” and “appliances for cooking, laundry and sewing” where the value of the durable goods held by the urban household is at least six times higher than the value of that held by the rural household.

The Government has actively attempted to reduce the urban-rural disparities as well as the development of rural areas through programs including, but not limited to, the PNDS, the PDID, the rice subsidy program and the PDD which aim to support the targets of sustainable and inclusive growth.

2.4: Expenditure and Development Partner's Commitments

2.4.1 Expenditures by Fund

Table 2.4.1.1 shows expenditure by fund; by actual spending in 2012, according to last year's Budget Book figures for 2013, budgeted expenditure for 2014 and projections for outer years. CFTL, the Infrastructure Fund and HCDF will account for 69.0%, 28.3% and 2.7% of total Government expenditure in 2014, respectively. Overall expenditure is set to fall, driven primarily by reductions in the Infrastructure Fund, as the Government pursues policies which will lead to high-quality, inclusive economic growth, fiscal sustainability and the effective implementation of ongoing infrastructure projects. The downward trend in development partner commitments is set to continue.

Table 2.4.1.1: Expenditure by Fund, $ millions

	2012 Actual	2013 BB1	2014 Budget	2015	2016	2017	2018
Combined Sources Budget	**1,451.2**	**1,850.9**	**1,677.9**	**1,876.4**	**1,971.6**	**1,613.1**	**1,505.1**
Government Expenditures by Fund	**1,197.6**	**1,647.5**	**1,500.0**	**1,809.2**	**1,927.1**	**1,611.5**	**1,503.5**
CFTL	789.3	1,000.7	1,034.9	1,076.3	1,119.3	1,164.1	1,210.6
HCDF	32.2	42.4	40.0	45.0	45.0	49.0	49.0
Infrastructure Fund	376.1	604.4	425.1	687.9	762.8	398.4	243.9
Development Partner Commitments	**253.6**	**203.4**	**177.9**	**67.2**	**44.5**	**1.6**	**1.6**

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

2.4.2 CFTL Expenditures

The CFTL provides the funding for the running of the Government of Timor-Leste. All line ministries' budgets are included in this fund, in five different appropriation categories divided between recurrent and capital expenditure. This is laid out in Table 2.4.2.1. Although overall CFTL expenditure has increased modestly from 2013 to 2014 (by 3.4%), the individual categories are more variable, with recurrent expenditure increasing by 12.0% and capital expenditure decreasing by 30.7%. Individual appropriation categories will be discussed in the following sections.

The Government recognizes that increased CFTL expenditure, especially the recurrent part, can be seen as irreversible increases to the size of the civil service and Government, contrary to the policy of fiscal sustainability. However, due to the accounting framework used in the budget process, a significant amount of this expenditure can be classified as investment, with either social or physical characteristics. This investment is in line with the

goal of high, inclusive growth. This will be made explicit where applicable when discussing the various appropriation categories.

Table 2.4.2.1: CFTL Expenditure by Appropriation Category, $ millions

	2012 Actual	2013 Budget	2014	2015	2016	2017	2018
Total CFTL Expenditure	**789.3**	**1,000.7**	**1,034.9**	**1,076.3**	**1,119.3**	**1,164.1**	**1,210.6**
Recurrent	**659.0**	**798.6**	**894.7**	**930.5**	**967.8**	**1,006.5**	**1,046.7**
Salary and Wages	130.9	160.5	166.9	173.6	180.6	187.8	195.3
Goods and Services	309.7	399.1	435.6	453.1	471.2	490.0	509.6
Public Transfers	218.5	239.0	292.2	303.9	316.0	328.7	341.8
Capital	**130.3**	**202.1**	**140.1**	**145.7**	**151.6**	**157.6**	**163.9**
Minor Capital	42.0	49.6	39.7	41.3	43.0	44.7	46.5
Capital and Development	88.3	152.5	100.4	104.4	108.6	112.9	117.5

Source: National Directorate of the Budget

2.4.2.1: Salaries and Wages

Salaries and Wages are set to grow modestly to $166.9 million in 2014, an increase of 4.0% compared to the 2013 Budget. This is in line with the Government's policy of developing a dynamic, effective and efficient civil service, without letting the Salaries and Wages bill escalate uncontrollably. The main measures are outlined below.

- $4.7 million to the Ministry of Health for the special career regime for medical professionals. As in the education sector, the Government believes it is important to motivate staff in this crucial sector in order to rapidly develop healthcare standards in the country.

- $1.0 million to the Ministry of Foreign Affairs to staff new embassies in Laos, Cambodia, Brunei and Myanmar. The Government believes that the establishment of these embassies is essential to increase Timor-Leste's reputation and influence in the region, especially at a time where it is applying to join ASEAN.

2.4.2.2: Goods and Services

Goods and Services expenditure is set to increase to $435.6 million in 2014, a 9.2% increase on 2013's total of $399.1 million. It remains by far the largest category in CFTL. The main measures and investment details are laid out below.

Policy Measures

- $100.8 million to the Ministry of Public Works and EDTL for the power plants in Hera and Betano, which was recently opened. This expenditure will be on operational and maintenance costs, as well as to provide fuel for the generators. The Government

prioritizes consistent electrical power as a key component in the development of the country, in terms of raising the standard of living of citizens and attracting foreign investment.

- $26.9 million to the Ministry of Education for the school-feeding program. This is a reflection of the fact that malnutrition is a serious problem in Timor-Leste, especially for younger citizens. As such, the amount spent on this program is increasing from $0.15 to $0.25 per student per day.

- $24.7 million for the Contingency Fund, which is used by the Government if unplanned expenditures occur during the year.

- $13.0 million to the Ministry of Health in order to purchase essential medicine and drugs. The Government sees this as essential expenditure in order to improve healthcare and improve conditions for its sick and disabled citizens.

- $9.5 million to the Ministry of Education to pay salaries to voluntary teachers. This measure will apply to 4,220 teachers throughout the entire country. A well compensated workforce in the education sector will help to encourage and motivate teachers to create an educated population who can help Timor-Leste grow and develop in future generations.

- $7.8 million to the Ministry of Commerce, Industry and Environment in order to import rice and buy local produce from domestic sources. This expenditure contributes to the food security of Timor-Leste, as well as providing an essential link between local farmers and vendors. This will encourage agricultural development and the growth of a domestic private sector.

- $4.6 million to the Ministry of Agriculture in order to purchase seeds. This is essential for the development of the agricultural sector, to provide nutrition and for food security.

- $2.1 million to fund Timor-Leste's Presidency of the CPLP (Comunidade dos Países de Língua Portuguesa/Community of Portuguese Language Countries). This is a prestigious honour for Timor-Leste and will give it the opportunity to promote itself on an international stage among important trading partners.

- $3.0 million to the Ministry of Health in order to provide food for patients in hospitals. This is important in terms of providing adequate nutrition to sick citizens as well as improving standards of care in hospitals.

- $3.0 million to the Ministry of Agriculture for the 'Suku Ida Produ Ida' ('One Village-One Product) program. This seeks to encourage villages to specialise in the production of a particular good, which the government will then purchase.

- $1.0 million in order to conduct statistical surveys as part of a pilot scheme for the 2015 census.

Investments

The Government believes that it is important to provide context to the large figures being presented in the CFTL, and believes that a significant amount could be classified as investment, rather than increases in the size of the civil service or Government sector. In terms of Goods and Services, $163.9 million, or 37.6% of total Goods and Services spending can be classified as either social investment or physical investment. Broadly speaking, the former refers to programs designed to directly improve citizens' standards of living and the latter refers to essential investment in tangible objects which are essential for the smooth running of the country on large and small scales.

Social Investments

$51.5 million (or 11.8% of total Goods and Services expenditure) can be considered social investments. This comprises of the school feeding program, purchase of medicine, purchase of rice and local produce and food for hospital patients, all discussed in the previous sections. There is also $761,000 being provided to UNTL for direct scholarships.

Physical Investments

A further $112.4 million (or 25.8% of total) can be classified as physical investment. This is mostly comprised of the large payments to the power plants, but also includes the seeds and 'Suku Ida Produ Ida' programs in the Ministry of Agriculture, as discussed above. There are also additional payments by the Government for tax on loans of $4.0 million and $91,000 to SEAPRI to support the bamboo centre.

2.4.2.3: Public Transfers

The Public Transfers budget is increasing to $292.2 million in 2014 from $239.0 million in 2013, or by 22.3%; the largest increase in any CFTL appropriation category. This is driven primarily by the expansion of various social welfare programs.

Policy Measures

- $139.4 million to the Ministry of Social Solidarity for payments to veterans, the elderly, the 'Bolso de Mae' program for single mothers and for natural disasters. The Government believes it is important to reward those citizens who have served Timor-Leste in the past, and to provide support for those who may need it today.

- $25.0 million to the Ministry of Education to rehabilitate all schools in all 13 districts. This includes new furniture, water and sanitation facilities and electricity.

- $15.0 million to the Office of the Prime Ministers to support the various NGOs carrying out essential work in Timor-Leste.

- $13.6 million to the Ministry of State Administration to fund the PNDS village assistance program. Providing local assistance is part of the Government's policy of encouraging sustainable growth and development.
- $11.0 million to the Ministry of Justice for land compensation and the 'Ita nia Rai' ('Your Land') program.
- $10.0 million to provide loans for local private sector businesses. The Government sees this as part of its development strategy in order to foster high-quality, sustainable growth into the future.
- $10.0 million to SEFOPE for the rural roads program. This is an initiative to improve transport links between villages constructed by local labor.
- $9.0 million to the Ministry of Health in order to subsidise the various health clinics throughout Timor-Leste as well as to send ill citizens abroad for treatment. This reinforces the Government's commitment to improved healthcare.
- $5.5 million to the Secretary of State for Youth and Sport for community sports activities. The Government recognizes the importance of sporting events on a local level in order to foster community spirit and to provide activities for the youth, as well as on a country-wise level to create a sense of national pride and unity.
- $5.0 million in order to fund the pensions of former Prime Ministers, Presidents of the Republic and Presidents of Parliament, Government Ministers and Members of Parliament.
- $5.0 million in donations to other countries for humanitarian and development reasons and disaster relief.
- $3.6 million to MoTC to fund cooperative groups and support the development of small industries.
- $2.5 million in support to Guinea-Bissau.
- $2.0 million to SEPFOPE in order to support factories which produce locally made construction material. These materials are in turn used to build Millennium Development Goal project houses.
- $1.0 million to purchase solar panels for communities that do not have access to the national electricity grid.

Investments

The Government considers the majority of spending ($260.7 million, or 89.2% of total) in the Public Transfers appropriation category to be investment with either or social or physical characteristics. This follows from the fact that a lot of the expenditure in this category strives to improve the standard of living of many of the most disadvantaged citizens in Timor-Leste.

Social Investments
$195.7 million (67.0% of total) from this category can be classified as social investment, with most of that total coming from the large amount allocated to payments to veterans, the elderly, single mothers and disaster relief. The rest comprises of support to NGOs, land compensation and the 'Ita nia Rai' program, subsidies to health clinics, sporting activities, foreign donations and support (including to Guinea-Bissau) and purchasing solar panels, which have all already been discussed.

As well as this, $3.1 million is given to Ministry of Education to support universities and an additional $2.2 million to UNTL to provide scholarships with partners, $1.7 million to the Ministry of Tourism for national and international events such as the Tour de Timor, $200,000 for the various social occasions held by the Government, $124,000 for the First Lady's activities and $30,000 to the Ministry of Defense for sporting activities held by FALANTIL on the 20th of August.

Physical Investments
A further $65.0 million (22.2% of total) is considered to be expenditure on physical infrastructure. This incorporates school refurbishments, PNDS, support for the rural roads and local factory programs, loans to the private sector, and support to the cooperatives and small industries. There is also $750,000 allocated to the Ministry of Agriculture and Fisheries for a reforestation program.

2.4.2.4: Minor Capital

In 2014, Minor Capital is set to decrease to $39.7 from $49.6 in 2013, or by 19.9%. This is in line with the Government's aim to control expenditure in this category.

Policy Measures

- $5.0 million to MTC to purchase a new ferry for Timor-Leste in order to supplement the service currently provided by the 'Berlin-Nakroma', as well as to provide operational and maintenance costs for both ferries.
- $3.0 million to the Secretary of State for the Council of Ministers to fund national printing.
- $1.5 million to purchase CCTV system for the Betano and Hera power plants.

- $1.2 million to the Ministry of Health to purchase important medical equipment. This once again reinforces the Government's determination to rapidly improve healthcare in Timor-Leste.

Investments

Obviously all of the Minor Capital expenditure is on physical goods. However, it can be argued that $8.1 million of this expenditure (20.5% of total) has social characteristics. The new ferry and medical equipment make up the majority of this expenditure, as discussed. There is also $735,000 allocated to the Ministry of Health for 13 new ambulances, $660,000 for special vehicles for the army, $350,000 to the Secretary of State of Security for new fire trucks and $160,000 to the Ministry of Social Solidarity for funeral cars.

2.4.2.5: Capital and Development

The next table shows CFTL Capital and Development expenditures, which have shrunk by 34.2% from 2013 to 2014. The majority of expenditure is on district development programs. These programs build on the success of previous district development projects by continuing to finance the development of small scale infrastructure according to the needs of local communities. Roads, education facilities, health facilities, water supply and sanitation and irrigation systems will be constructed under these programs. Projects in these programs are tendered to Timorese owned construction companies; boosting local development and keeping profits within Timor-Leste. These programs also provide employment opportunities to many Timorese workers and are contributing to development, economic growth and poverty reduction in all districts throughout Timor-Leste.

Table 2.4.2.5.1: PDID and Other Capital and Development Expenditures, $ millions

	2012 Actual	2013 BB1	2014 Budget	2015	2016	2017	2018
Total Capital and Development	**88.3**	**152.5**	**100.4**	**104.4**	**108.6**	**112.9**	**117.5**
PDD1	24.7	9.4	14.1	14.6	15.2	15.8	16.4
PDD2	20.5	6.3	22.6	23.5	24.5	25.4	26.5
PDID Program	0.0	71.3	24.8	25.8	26.8	27.9	29.0
Ministries / Agencies	43.1	65.5	38.9	40.5	42.1	43.8	45.5

Source: National Directorate of Budget

The Government is committed to a fair and transparent distribution of PDID, PDD1 and PDD2 projects in districts throughout Timor-Leste. In this regard, meetings are organized with Suco chiefs, citizens and community leaders to identify the demand for different projects. These projects are then collated and reviewed by the Ministry of State Administration to ensure that spending on these programme is in line with fiscal sustainability. The Ministry of State Administration also determines the distribution of the

PDID, PDD1 and PDD2 budget between different districts using a formula that partly depends on population per district. The Budget Review Committee makes the final decision regarding the inclusion of projects in the State Budget proposed to Parliament. The Government is committed to transparently and clearly showing expenditure in different districts. Budget Book 3 shows total spending and spending per capita for PDID and ongoing PDD1 and PDD2 projects in each district.

Ministries and Agencies' CFTL capital and development expenditure continue to be relatively small. This matches with the Government's policy of mainly constructing new infrastructure through large multi-year projects which are included in the Infrastructure Fund.

2.4.3: Infrastructure Fund

Infrastructure is extremely important for Timor-Leste's development. Roads, reliable electricity supply and telecommunications systems are necessary to develop and support a modern, productive economy. Timor-Leste's current infrastructure is inadequate and may be constraining private sector growth. The Government is committed to improving this situation by building the core infrastructure necessary for high levels of economic growth. In order to construct these facilities, the Government established the Infrastructure Fund in 2011. The Major Projects Secretariat (MPS), the National Procurement Commission (NPC) and National Development Agency (ADN) were also established to evaluate, procure and monitor projects in the Fund.

Table 2.4.3.1 shows the distribution of the Infrastructure Fund budget by programme. Column A shows the 2013 original budget, after rollover. Column B then shows the recent update after rectification. The Government's current forecast of actual end of year 2013 expenditure is then shown in column C. The rollover from 2013 to 2014 is displayed in column D. The rollover is calculated based as the final budget minus forecasted end of year expenditure. Having evaluated ongoing projects in terms of timeframe and current allocations, it has been decided that some deductions are appropriate in order to provide a more realistic expenditure forecast. This is shown in column E. On the other hand, some additional appropriations to ongoing projects are also appropriate, as shown in column F. In order to increase transparency in the Infrastructure Fund budgeting process, this year the additional appropriations to ongoing and new projects are displayed separately, with the latter shown in column G. The 2014 final budget for each programme is shown in column H and is equal to the rollover from 2013 to 2014 (column D) less deductions (column E) plus the new appropriations (columns F and G). Table 2.4.3.2 shows forecasts for outgoing years.

Table 2.4.3.1: Calculation of Infrastructure Fund Expenditure by Programme in 2014, $ millions

	A. 2013 Budget Original	B. 2013 Budget after Rectification	C. 2013 Forecasted Actual	D. Rollover 2013 to 2014	E. Deductions to Ongoing Projects	F. Additions to Ongoing Projects	G. Additions for New Projects	H. 2014 Budget
Total Infrastructure	**604.4**	**659.1**	**248.9**	**410.2**	**189.1**	**109.8**	**94.3**	**425.1**
Total Infrastructure (excluding loans)	**560.8**	**615.5**	**238.7**	**376.8**	**173.9**	**78.9**	**92.3**	**374.1**
Agriculture and Fisheries	8.0	8.5	4.4	4.2	0.8	2.5	1.1	7.0
Water and Sanitation	10.1	12.1	4.3	7.8	4.0	0.3	3.7	7.8
Urban and Rural Development	6.6	6.6	1.5	5.1	2.8	0.0	5.0	7.3
Public Buildings	20.7	22.2	5.2	17.0	4.7	1.4	7.9	21.5
Financing and Supporting Infrastructure	24.0	27.1	14.0	13.1	4.2	4.8	6.2	19.8
Youth and Sport	2.5	2.5	0.8	1.7	1.1	0.0	1.2	1.8
Education	9.1	8.4	2.6	5.8	0.0	2.5	1.2	9.5
Electricity	123.7	126.4	86.0	40.3	0.0	7.3	8.7	56.4
Information Technology	4.0	4.0	0.2	3.8	0.0	0.4	0.0	4.2
MDGs	46.3	47.3	13.0	34.3	7.3	0.0	0.0	27.0
Health	2.0	4.8	1.4	3.4	0.6	2.3	0.0	5.0
Security and Defense	17.6	18.7	7.5	11.3	2.5	7.4	4.3	20.4
Social Solidarity	1.7	2.4	1.4	1.0	0.8	0.5	0.0	0.8
Tasi Mane Project	139.4	152.2	8.3	143.9	110.8	10.9	2.3	46.3
Roads	82.3	96.0	51.7	44.3	25.2	22.1	15.8	57.0
Bridges	24.1	26.9	19.2	7.7	3.8	1.9	14.1	19.9
Airports	8.5	7.0	0.0	7.0	1.0	0.0	4.6	10.5
Ports	11.0	11.0	5.5	5.4	1.3	9.0	0.0	13.2
Oecussi Development	0.0	12.1	3.8	8.2	3.0	2.2	13.5	20.9
Tourism Sector	0.0	0.0	0.0	0.0	0.0	0.0	2.9	2.9
Preparation, Design and Supervision of New Projects	19.4	19.4	7.8	11.6	0.0	3.4	0.0	15.0
Loans Program	43.6	43.6	10.2	33.4	15.3	30.9	2.0	51.0

Source: National Directorate of Budget and Major Projects Secretariat

Every effort has been made to forecast end of year expenditure accurately. The Ministry of Finance forecasted end of year expenditure separately for each project based on a detailed review of its stage in the procurement cycle and if applicable a review of relevant contracts and an evaluation of when payments to contractors were likely to fall due. Programmes may, however, under- or overspend due to factors which are impossible to forecast and which are outside of the Government's control. The Government may, for example, predict that a section of a road will be completed in November; with payment to a contractor falling due in December. Higher than normal rains in October and November may delay construction and mean the contractor is no longer entitled to payment in December. This in turn would result in the forecast being higher than actual expenditure.

The rolling over of the Infrastructure Fund's unspent balance is in accordance with international best practice and the Government's policies. For many large Infrastructure Fund projects multi-year contracts are signed between the Government and private sector contractors. These contracts normally specify multiple payments; with each payment depending on a component of the construction/project being finished. Delays in construction due to weather conditions or other events beyond the Government's control can cause payments to be delayed. This can result in the budget for one year not being fully utilised because it initially covered payments which have now been delayed to the next financial year. The Government, by rolling over the Infrastructure Fund's budget for each project, is ensuring that money to pay contractors on multi-year projects is effectively ring-fenced. This simplifies budgeting because projects' budgets do not have to be calculated anew each year. It can also increase execution because the budget after rollover should be large enough to cover payments which may become due. By securing budgets over many years, this system also provides a degree of security to contractors and reduces their perceptions of the risk of non-payment. Companies are often prepared to accept lower profit margins on projects where they consider that the risk of not being paid for work is low. In the long term rolling over the Infrastructure Fund's budget may then contribute to lower procurement costs and more efficient expenditure.

Table 2.4.3.1 also shows the distribution of Infrastructure Fund expenditure across different programmes. The largest three programmes (excluding loans) in terms of budgeted expenditure are Roads, Electricity and the Tasi Mane project which account for 13.4%, 13.3% and 10.9% of total expenditure respectively. This distribution of expenditure is in line with the Government's policies as stated in the SDP and programme of Government which strongly emphasize the importance of these sectors to the development of Timor-Leste.

Table 2.4.3.2: Infrastructure Fund Expenditures by Programme 2013-2018, $ millions

	2014 Budget	2015	2016	2017	2018
Total Infrastructure	**425.1**	**687.9**	**762.8**	**398.4**	**243.9**
Total Infrastructure (excluding loans)	**374.1**	**570.7**	**604.6**	**258.9**	**206.9**
Agriculture and Fisheries	7.0	13.7	24.6	19.2	2.3
Water and Sanitation	7.8	20.0	24.0	15.0	15.0
Urban and Rural Development	7.3	9.3	3.3	0.0	0.0
Public Buildings	21.5	63.6	73.3	16.6	1.8
Financing and Supporting Infrastructure	19.8	18.8	7.5	4.3	4.3
Youth and Sport	1.8	6.0	8.1	6.0	1.1
Education	9.5	49.9	51.8	30.7	4.5
Electricity	56.4	42.6	31.1	5.7	3.5
Information Technology	4.2	0.7	0.0	0.0	0.0
Millennium Development Goals	27.0	52.1	53.0	19.5	19.5
Health	5.0	3.9	0.4	0.0	0.0
Security and Defense	20.4	12.8	10.0	1.9	0.0
Social Solidarity	0.8	5.7	1.7	0.5	0.0
Tasi Mane Project	46.3	101.6	92.5	82.0	42.8
Roads	57.0	43.8	10.6	4.0	4.0
Bridges	19.9	10.7	1.2	0.0	0.0
Airports	10.5	55.1	71.1	30.8	100.0
Ports	13.2	21.9	112.2	10.2	0.0
Oecussi Development	20.9	28.0	17.8	4.5	0.0
Tourism Sector	2.9	2.5	2.5	0.0	0.0
Preparation, Design and Supervision of New Projects	15.0	8.1	8.1	8.1	8.1
Loans Program	51.0	117.3	158.2	139.5	37.0

Source: National Directorate of Budget and Major Projects Secretariat

2.4.4: Human Capital Development Fund

Table 2.4.4.1 shows the Human Capital Development Fund for 2014, comprising of a small rollover from 2013 based on forecasted actual, plus new appropriations. Although the total amount in this fund is similar to last year, with a relatively small $2.4 million reduction, the relative amounts given to the various programs have changed considerably. Although scholarships remain dominant, with over half the total budget, the amount allocated to vocational training has more than doubled, while the amount given to 'Other Training' has declined significantly. This allocation is in line with the Government's goals of rapidly increasing human capital in Timor-Leste.

As with some of the items in the CFTL fund, the Government considers the entire Human Capital Development fund to be social investment.

Table 2.4.4.1: Human Capital Development Fund by Programme, $ millions

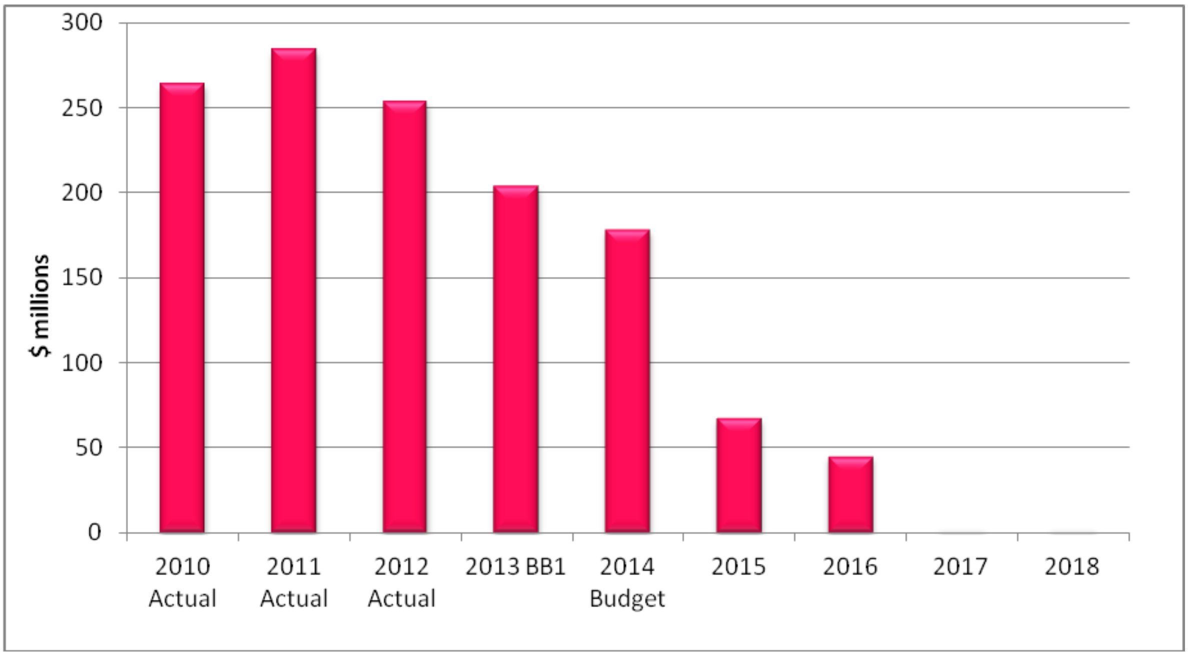
	2013 Budget	2013 F'casted Actual	Rollover 2013 to 2014	2014 Additional Appropriations	Final 2014 Budget	2015	2016	2017	2018
Total HCDF (by Program)	**42.4**	**39.4**	**3.1**	**36.9**	**40.0**	**45.0**	**45.0**	**49.0**	**49.0**
Vocational Training	4.8	4.7	0.1	10.0	10.1	9.9	9.9	10.8	10.8
Technical Training	3.1	3.0	0.1	4.4	4.6	4.1	4.1	4.4	4.4
Scholarships	23.3	21.2	2.1	20.1	22.2	23.0	23.0	25.0	25.0
Other Training	11.2	10.5	0.7	2.4	3.1	8.1	8.1	8.8	8.8

Source: National Directorate of Budget and Major Projects Secretariat

2.4.5: Development Partners

Development partners are set to contribute $177.9 million in 2014, continuing the recent downward trend in this category. The details of these commitments are set out in Budget Book 5. It should be noted that this figure does not include concessional loans.

Figure 2.4.5.1: Development Partners' Indicative Commitment 2010-2018, $ millions



Source: Development Partnership Management Unit

2.5: Revenues

2.5.1: Overview of Revenue Projections

Table 2.5.1.1 shows projections for total revenue, which is the sum of domestic revenues and petroleum revenues, up to 2018. Projected total revenue in 2014 is significantly less than 2013 (and indeed significantly less than the projection made for 2014 in that year). This decline is due primarily to the reduction in petroleum revenues for various reasons which are outlined in section 2.5.3. This overall decline is despite the fact that domestic revenues are projected to continue their upward trajectory, although their contribution to total revenue is still set to be dwarfed by petroleum for some time to come.

Table 2.5.1.1: Total Revenue 2012 – 2018, $ millions

	2012 Actual	2013 BB1	2014 Proj.	2015	2016	2017	2018
Total Revenues	**3,696.8**	**2,839.6**	**1,609.2**	**1,876.9**	**1,936.8**	**1,627.8**	**1,324.2**
Domestic Revenues	137.7	146.3	166.1	181.0	196.1	211.2	226.4
Petroleum Revenues	3,559.1	2,693.3	1,443.1	1,695.9	1,740.7	1,416.6	1,097.8

Sources: National Directorate of Economic Policy and the Petroleum Fund Administration Unit

2.5.2: Domestic Revenues

2.5.2.1: Overview

Table 2.5.2.1.1: Domestic Revenue 2012 – 2018, $ millions

	2012 Actual	2013 BB1	2014 Projection	2015	2016	2017	2018
Total Domestic Revenue	**137.7**	**146.3**	**166.1**	**181.0**	**196.1**	**211.2**	**226.4**
Direct Taxes	37.2	41.8	45.1	50.7	56.4	62.0	67.7
Indirect Tax	61.3	64.0	74.6	80.6	86.7	92.8	98.8
Other Tax Revenue	0.1	0.0	0.3	0.3	0.3	0.3	0.3
Fees and Charges	14.8	14.5	15.5	16.4	17.3	18.2	19.2
Social Game Receipts	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Rice Sales	4.4	2.5	6.4	7.4	8.5	9.5	10.5
Sales of Local Produce & Products	0.2	0.3	0.1	0.1	0.1	0.1	0.1
Interest	0.2	0.1	0.2	0.2	0.2	0.2	0.2
Electricity Revenue	0.0	0.0	19.0	20.0	21.0	22.0	23.0
Autonomous Agencies	19.4	22.8	4.8	5.0	5.4	5.9	6.3

Source: National Directorate of Economic Policy

Domestic revenues make up the largest source of funding for the Government after petroleum. Primarily composed of taxes, fees and charges and autonomous agencies, there has been robust growth in most major categories in recent years. This is set to continue in

2014, as shown in Table 2.5.2.1.1, which is projected to be 13.6% higher than the figure given for 2013 in last year's Budget Book 1. The Government is aware of the importance of increased domestic revenue in order to finance future expenditure as petroleum revenues decline and efforts continue to eliminate excess withdrawals from the petroleum fund.

2.5.2.2: Taxes

Taxes are the mainstay of any country's domestic revenues, and Timor-Leste is no exception, with total taxes comprising 71.6% of total domestic revenue in 2012, a share that is projected to grow gradually over coming years. Table 2.5.2.2.1 lays out tax projections.

Tax revenue as a percentage of (non-petroleum) GDP is quite low, at 7.1% in 2012. This is typical of a country at Timor-Leste's stage of development (and indeed of some petroleum-producing countries). However, given Timor-Leste's ambitious short and medium-term plans for infrastructure and other development initiatives, such as joining ASEAN, the Government is focused on faster growth and reform in the areas of tax revenue and collection.

In terms of projections, every effort has been made to use all available data and past trends in order to create the most realistic picture of revenues going forward. But with major shifts in Government expenditures, new tax reforms and updating of tax accounting methods happening on a regular basis in Timor-Leste, the figures presented should be approached with caution. This is particularly true in outer years, which are often an extrapolation of recent trends applied to the 2014 forecast.

In 2014, taxes are projected to increase to $120.0 million, a 13.5% increase on the 2013 figure. This is driven largely by increases in indirect taxes, particularly excise and import taxes, as well as corporate income tax.

Indirect taxes are increasing due to increased levels of imports, reflecting Timor-Leste's dependence on goods and services from abroad. The increases in the levels of these taxes do not necessarily reflect increasing purchasing power on the part of the average citizen, but more likely the increase in imported material for large infrastructure projects already under development and also improved efforts by customs officials to increase compliance with these taxes. Large infrastructure projects are also likely to explain the increases in corporate tax.

The decline in withholding tax is due to the fact that the execution of the Infrastructure Fund and the Budget have been lower than expected.

The overall level of income tax is set to continue its steady increase, though due to strengthening of application of the laws, the ratio between the 'Individual Income' and 'Individual income Other' categories has changed.

Table 2.5.2.2.1: Total Tax Revenue 2012 – 2018, $ millions

	2012 Actual	2013 BB1	2014 Projection	2015	2016	2017	2018
Total Tax	**98.6**	**105.8**	**120.0**	**131.7**	**143.4**	**155.1**	**166.8**
Direct Taxes	**37.2**	**41.8**	**45.1**	**50.7**	**56.4**	**62.0**	**67.7**
Income Tax	7.4	8.9	9.4	10.2	11.0	11.8	12.6
Individual Income	*0.8*	*1.1*	*3.7*	*4.0*	*4.3*	*4.6*	*4.9*
Individual Inc Other	*6.6*	*7.8*	*5.7*	*6.2*	*6.7*	*7.2*	*7.6*
Corporate Tax	6.5	7.6	13.5	14.0	14.6	15.2	15.8
Withholding Tax	23.4	25.3	22.2	26.5	30.8	35.0	39.3
Indirect Taxes	**61.3**	**64.0**	**74.6**	**80.6**	**86.7**	**92.8**	**98.8**
Service Tax	4.4	5.2	4.1	4.2	4.3	4.4	4.5
Sales Tax	16.3	15.9	17.8	18.6	19.3	20.1	20.8
Excise Tax	27.1	31.7	37.3	42.3	47.2	52.2	57.1
Import Duties	13.4	11.2	15.3	15.6	15.9	16.1	16.4
Other Tax Revenue	**0.1**	**0.0**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**

Source: National Directorate of Economic Policy

The slight decline projected in service taxes in 2014 is due to low projections for actual collections in 2013. Although it is projected to gradually recover, it emphasizes the fragile state of the private sector in Timor-Leste, as discussed in previous sections and also possibly the withdrawal of the UN at the end of 2012.

2.5.2.3: Fees and Charges

Fees and charges refer to a wide selection of categories which contribute to domestic revenue from non-tax sources. These include administrative fees, utility payments and endowments to the government from natural resources other than petroleum, as shown in Table 2.5.2.3.1. Most of the categories provide a negligible amount, perhaps a few thousand dollars, which is why the projections are rounded down to zero in some cases. However the list, which is updated with new categories regularly, reflects the work being done by various line ministries in terms of increasing administrative efficiency. Increased efficiency in the collection of these fees also ensures that citizens of Timor-Leste are compliant with various charges for Government services and make a contribution to domestic revenues.

Where possible, information was collected from the various line ministries responsible for each category and used to make projections. It should be emphasized that many of these categories are very small and highly variable and that the overall focus should be on the trend: slow but steady growth.

Table 2.5.2.3.1: Fees and Charges Projections 2012 – 2018, $ millions

	2012 Actual	2013 BB1	2014 Proj.	2015	2016	2017	2018
Total Fees and Charges	**14.8**	**14.5**	**15.5**	**16.4**	**17.3**	**18.2**	**19.2**
Business Registration Fees	1.4	2.2	1.5	1.6	1.6	1.7	1.8
Postage Fees	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Property Rentals	2.7	2.9	3.1	3.3	3.4	3.5	3.7
Water Fees	0.0	0.0	0.0	0.0	0.0	0.1	0.1
National University Fees	0.5	0.7	0.6	0.6	0.7	0.7	0.8
Vehicle Registration Fees	0.7	0.7	1.3	1.5	1.8	2.0	2.3
Vehicle Inspection Fees	0.3	0.3	0.4	0.5	0.6	0.7	0.8
Vehicle Inspection Imported	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Driver's License Fees	0.2	0.1	0.2	0.3	0.3	0.3	0.3
Franchising Public Transport Fees	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Transport Penalties	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Other Transport Fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ID and Passport	0.6	0.6	0.9	1.0	1.1	1.2	1.3
Visa Fees	1.0	1.0	1.2	1.2	1.2	1.2	1.3
Hospital and Medical Fees	0.2	0.3	0.1	0.1	0.1	0.1	0.1
Fines - Health professionals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Court Fees	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Dividends, Profits, and Gains	5.1	4.3	4.5	4.6	4.8	5.0	5.2
Fines and Forfeits	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Mining and Quarrying	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Radio and Television Fees	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Bid Document Receipts	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Auctions	0.5	0.4	0.1	0.2	0.2	0.2	0.2
Embassy Fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Illegal Logging Fines	0.1	0.2	0.0	0.0	0.0	0.0	0.0
Rental Government Property	0.1	0.1	0.1	0.1	0.1	0.1	0.1
EAIP	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment Registration Fee	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other Non-Tax Revenue	1.0	0.2	0.5	0.5	0.4	0.4	0.4

Source: National Directorate of Economic Policy

2.5.2.4: Other Revenue Streams

There are a few other categories of particular interest in terms of their contribution to domestic revenues. The major category here is revenue from electricity, which is now being collected the Ministry of Public Works, having formerly been under the autonomous agency EDTL. Using their internal projections shows steady growth in coming years due to the

second major power plant in Betano recently coming online and increasing numbers of meters ensuring more of their growing customer base is paying for their power.

Rice sales vary from year to year based on Government policy and the size of various subsidized food programs. The sale of local produce and products is based on the Government purchasing and subsequently selling on goods from small farmers to markets. Obviously this category will vary in response to the number of participants in the program and other factors such as climate.

Social Games Receipts are based on games of chance, which are forecast to increase in coming years due to the introduction of a new lottery. Finally, the total interest income is forecast to increase modestly, though is subject to changing international financial conditions.

2.5.2.5: Autonomous Agencies

The Autonomous Agencies have independent budgets from their line ministries and are partially funded by their own revenues, as laid out in Table 2.5.2.5.1.

Table 2.5.2.5.1: Autonomous Agencies' Revenues 2012 – 2018, $ millions

	2012 Actual	2013 BB1	2014 Projection	2015	2016	2017	2018
Total Autonomous Agencies	**19.4**	**22.8**	**4.8**	**5.0**	**5.4**	**5.9**	**6.3**
Equipment Management	0.1	0.0	0.3	0.3	0.4	0.4	0.5
Aviation	1.5	1.4	1.4	1.5	1.6	1.7	1.8
Port	2.7	3.3	3.1	3.2	3.5	3.7	4.0
EDTL	14.9	17.9	0.0	0.0	0.0	0.0	0.0
SAMES	0.2	0.3	0.0	0.0	0.0	0.0	0.0

Source: National Directorate of Economic Policy

A new port is set to open in Oecussi which should lead to increased growth in port revenues in outer years. An increase in airport charges should lead to a recovery in revenue growth there, especially if increasing rates of passenger numbers can be maintained. Equipment Management continues a low yet steady growth in its contribution as in recent years. After a restructuring in its functions, future revenues from SAMES are expected to be negligible in outer years. As discussed in the previous section, from 2014 EDTL is no longer an autonomous agency.

2.5.3: Petroleum Revenues and Investments

Petroleum revenues currently finance most of the state budget. The Petroleum Fund contributes to the wise management of petroleum resources for the benefit of both current and future generations.

2.5.3.1 Inflows of Petroleum Revenues

Overview

The factors driving the inflow of petroleum revenues are prices, production and costs. Compared with the 2013 General State Budget, the new oil price forecast is somewhat lower throughout the forecasting period. Costs are slightly higher, while there is a significant drop in production. Petroleum revenues from Bayu-Undan and Kitan are likely to have peaked at $3,559.1 million in 2012 and are now forecasted to decline, slowly at first in 2013, then more significantly to $1,443.1 million in 2014 (see Tables 2.5.3.1.1 and 2.5.3.1.2).

Table 2.5.3.1.1: Estimated Petroleum Revenues 2012 – 2018, $ millions

	2012 Actual*	2013 Estimate **	2014 Budget	2015	2016	2017	2018
Total Petroleum Revenue	**3,959.9**	**3,070.2**	**2,213.4**	**2,573.1**	**2,690.2**	**2,436.2**	**2,173.7**
Petroleum Fund Interest received	400.8	376.9	770.3	877.2	949.5	1,019.6	1,075.9
Total Petroleum Revenue Excluding Interest	**3,559.1**	**2,693.3**	**1443.1**	**1,695.9**	**1,740.7**	**1,416.6**	**1,097.8**
BU*** FTP/Royalties	196.9	168.6	115.1	118.6	108.6	100.1	84.7
BU Profit oil	1,594.9	1,282.9	681.1	760.3	798.9	733.6	557.3
BU Income Tax	508.0	444.8	303.2	296.2	276.7	254.3	189.7
BU Additional Profit Tax	533.9	436.5	204.5	335.8	304.7	286.2	217.2
BU Value Added Tax	6.5	21.3	28.0	19.4	17.8	17.9	24.1
BU Wages Tax	11.7	17.0	17.9	18.7	15.6	16.0	16.4
BU Pipeline Payments	8.6	8.4	8.4	8.4	8.4	8.4	8.4
BU Other Payments	240.5	141.8	0.0	0.0	0.0	0.0	0.0
BU Withholding Tax	15.2	0.0	0.0	0.0	0.0	0.0	0.0
Kitan	443.0	172.0	84.9	138.4	210.0	0.0	0.0

Source: Petroleum Fund Administration Unit
* Actual Cash flow for 2012
** Estimated 2013 as of June 2013. From 2013 onwards BU Withholding Tax is included in BU Value Added Tax
***BU: Bayu Undan

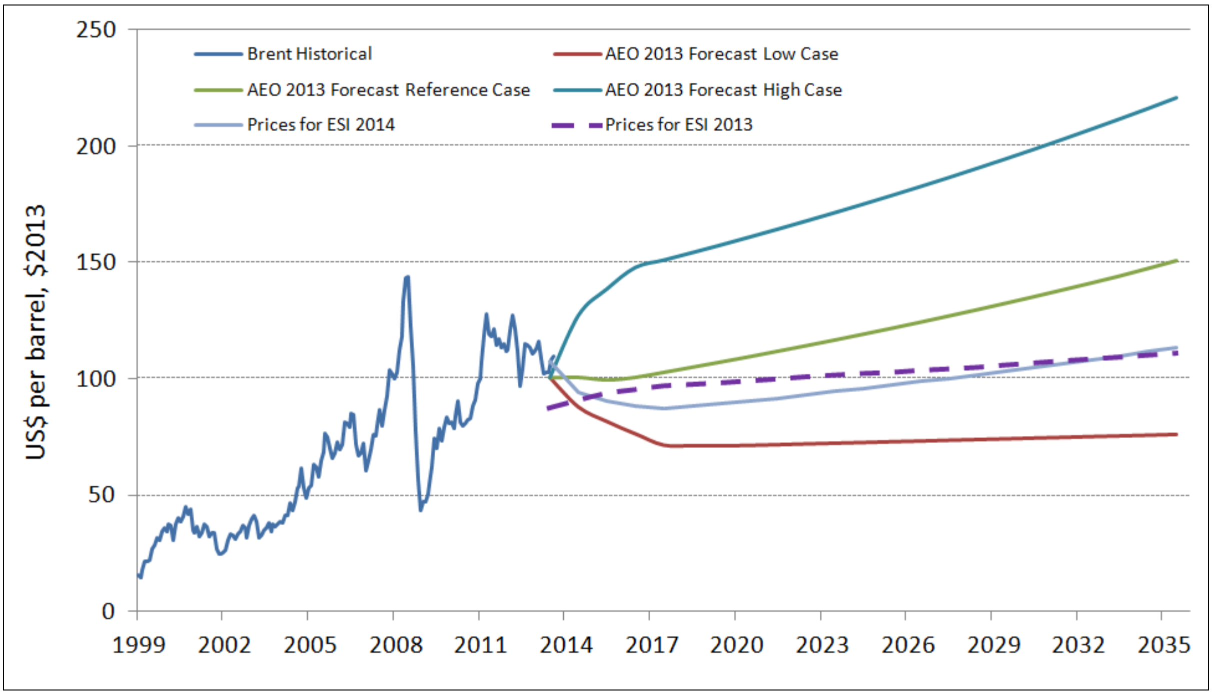
Petroleum Prices

In recent years the Brent benchmark has proved a better indicator of the price on Bayu Undan and Kitan liquid products (condensate and LPG) than the WTI benchmark used in previous years. For 2014, the benchmark oil price used in the petroleum wealth calculations has therefore been changed to Brent.[9] Section 2.5.3.2 on the Petroleum Wealth and ESI Calculation discusses this change further.

[9] The future prices on Bayu-Undan and Kitan liquids products (condensate and LPG) are estimated based on historical relationships with a benchmark price and the benchmark´s forecast. Liquefied Natural Gas (LNG)

The Petroleum revenue forecasts in the 2014 General State Budget are based on a benchmark oil price (Brent) of $107.5 per barrel in 2013, compared with (WTI) $86.6 per barrel in the 2013 Budget. However, in the years after 2014, the current oil price forecast is somewhat lower than previously forecasted (see Figure 2.5.3.1.1).

Figure 2.5.3.1.1: Historical Changes and Future Projections in the WTI Oil Price, $ per barrel



Source: Petroleum Fund Administration Unit, data from Energy Information Administration (EIA)

<u>Oil Production</u>

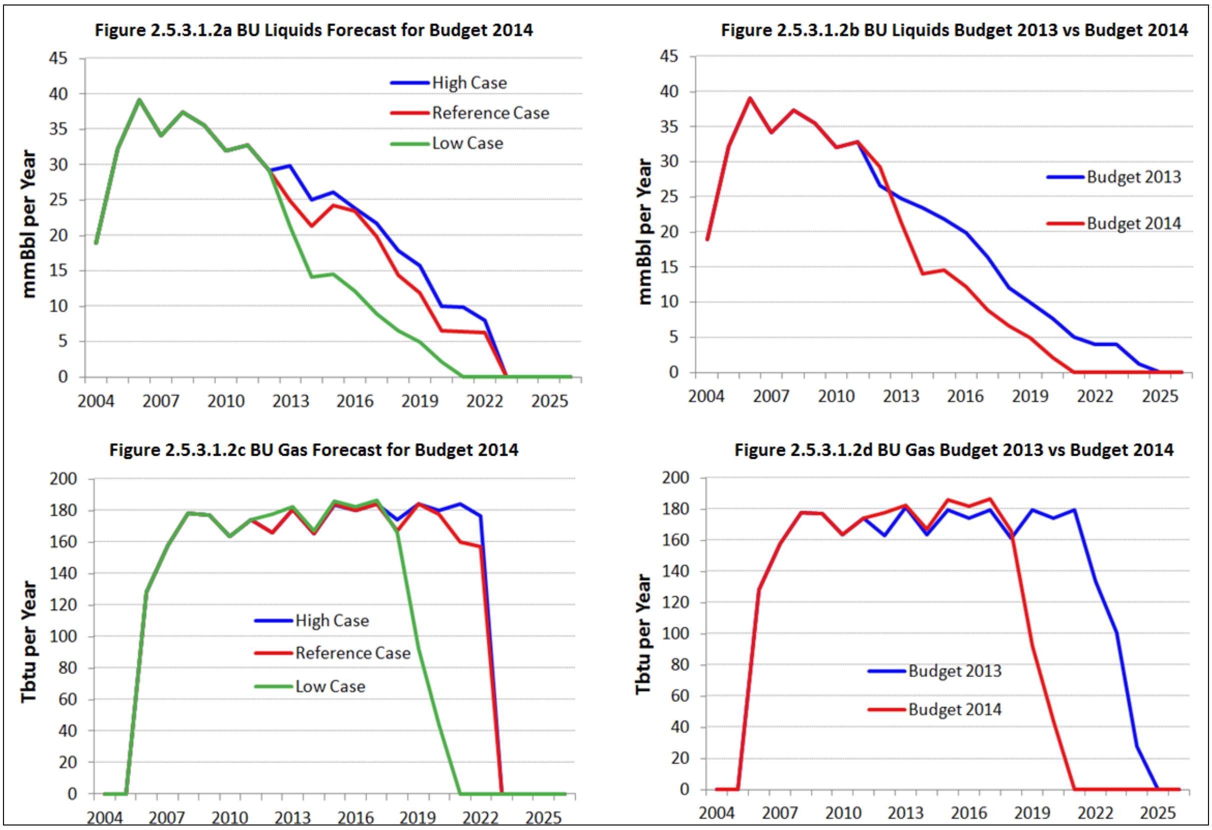
The production forecast of liquids (condensate and LPG) for Bayu-Undan has been significantly revised down compared with the 2013 Budget. Total petroleum production from Bayu-Undan (also including LNG) is estimated to have peaked in 2011 at 59 million barrels of oil equivalents and is now set to decline before ceasing in 2020. This is four years earlier than its projected end in 2013 (see Figure 2.5.3.1.2). According to the information provided by the BU Operator in June 2013, the worsening of the production outlook is caused by higher than previously expected lean gas breakthrough, pressure depletion and water production.

Figure 2.5.3.1.2 shows Bayu-Undan's liquids production and gas production forecast for 2014 compared with 2013. The liquids production (charts a and b) is forecasted to be about 13% lower in the 2014 Budget than in 2013. While the 2014 forecast of gas production

prices are forecasted using the provisional price formula negotiated between sellers and buyers. The price formula is renegotiated every three years.

(charts C and D) projects a significant decline, of approximately 23%, relative to last year's forecast.

Figure 2.5.3.1.2 BU Productions Forecasts for 2014 Budget



The Field Development Plan for the Kitan field was approved in 2010 and production commenced in the final quarter of 2011. The total production is modest compared to the Bayu-Undan field. The 2014 Budget forecasts Kitan's Low Case to be 56.1 million barrels of oil over the life time of the project until 2016. The total revenue stream based on the Low Production Case is estimated at $1,118.8 million, or some 5% of Bayu Undan.

Costs

The estimated costs for the Bayu-Undan and Kitan projects are forecasted slightly higher in the 2014 Budget than in 2013. The change in the cost projections between the two years is primarily from the capital expenditures related to corrosion, new drilling programs and other operational issues.

Table 2.5.3.1.2: Sustainable Income Calculations – Oil Price Assumptions, Production and Revenue Forecasts 2002-2025

	Average oil price, $/Barrel	Production , million barrels oil equivalent	Total Discounted Petroleum Revenues (Factor of 5.7%), $ millions	Total Undiscounted Petroleum Revenues, $ millions
Total	**0.0**	**779.7**	**7,017.8**	**26,050.5**
Total from 1 January 2014	**0.0**	**249.7**	**7,017.8**	**8,096.0**
to 2002	0.0	0.0	0.0	14.8
2003	0.0	0.0	0.0	10.2
2004	41.5	16.9	0.0	172.4
2005	56.6	29.0	0.0	332.6
2006	66.1	57.1	0.0	611.9
2007	72.3	57.7	0.0	1,258.5
2008	99.7	64.2	0.0	2,284.2
2009	62.0	61.8	0.0	1,660.2
2010	79.5	57.3	0.0	2,117.2
2011	94.9	61.7	0.0	3,240.1
2012	111.6	68.0	0.0	3,559.1
2013	107.5	56.4	0.0	2,693.3
2014	95.3	45.9	1,405.8	1,443.1
2015	93.0	51.6	1,563.3	1,695.9
2016	92.3	48.5	1,517.5	1,740.7
2017	92.3	39.7	1,167.4	1,416.6
2018	94.9	34.2	855.3	1,097.8
2019	97.6	20.2	393.5	534.0
2020	100.7	9.6	77.5	111.1
2021	104.0	0.0	37.5	56.8
2022	107.5	0.0	0.0	0.0
2023	111.1	0.0	0.0	0.0
2024	114.8	0.0	0.0	0.0
2025	118.7	0.0	0.0	0.0

Source: Petroleum Fund Administration Unit

2.5.3.2 Petroleum Wealth and ESI Calculation

According to the Petroleum Fund Law, the Estimated Sustainable Income (ESI) is the maximum amount that can be appropriated from the Petroleum Fund in a fiscal year which still leaves sufficient resources in the Petroleum Fund for an amount of equal real value to be appropriated in all later years. The ESI is set to be 3.0% of total Petroleum Wealth. However, the Government can withdraw an amount from the Petroleum Fund in excess of

ESI if a justification that it is in the long term interest of Timor-Leste is provided to and approved by the National Parliament.

Petroleum Wealth, which comprises the balance of the Fund and the Net Present Value of future petroleum revenue, is estimated to be $21,076.3 million as of 1 January 2014. Therefore, the ESI is estimated at $632.3 million for 2014. This is a decrease of $165.6 million compared with the 2014 ESI as estimated in last year's budget. The key assumptions behind the calculations are listed in Table 2.5.3.2.1.

Table 2.5.3.2.1: Key Assumptions behind ESI

Asset recognition	Forecast petroleum revenues are included only for projects with approved development plans. This includes Bayu-Undan and Kitan.
Petroleum Reserves and Production Forecasts	Production estimates are provided by project operators. Low case production is used, consistent with a 90 percent probability that actual will exceed the forecast.
Oil price forecast	ESI for Budget 2014 is prepared using the average of Energy Information Agency (EIA) low case and reference case for Brent.
Prices for specific petroleum products	Bayu Undan produces condensate, Liquefied Petroleum Gas (LPG) and Liquefied Natural Gas (LNG) while Kitan is producing only condensate. Forecast assumptions for each product are derived from historic differentials observed with Brent. Liquefied Natural Gas (LNG) prices are forecast using the provisional price formula negotiated between the Darwin LNG (DLNG) facility and Japanese LNG buyers. The price formula is renegotiated every three years.
Production costs	Central estimate of future capital and operating costs as provided by project operators.
Discount rate	Under Schedule 1 of the Petroleum Fund Law, the interest rate used to discount future petroleum revenue is the expected rate of return on the portfolio of financial assets held in the Fund.

Source: Petroleum Fund Administration Unit

Table 2.5.3.2.2 shows the estimated Petroleum Wealth and the ESI from 2013 onwards, assuming that withdrawals from the Fund are in line with the budget projection in Table 2.1.1.2.

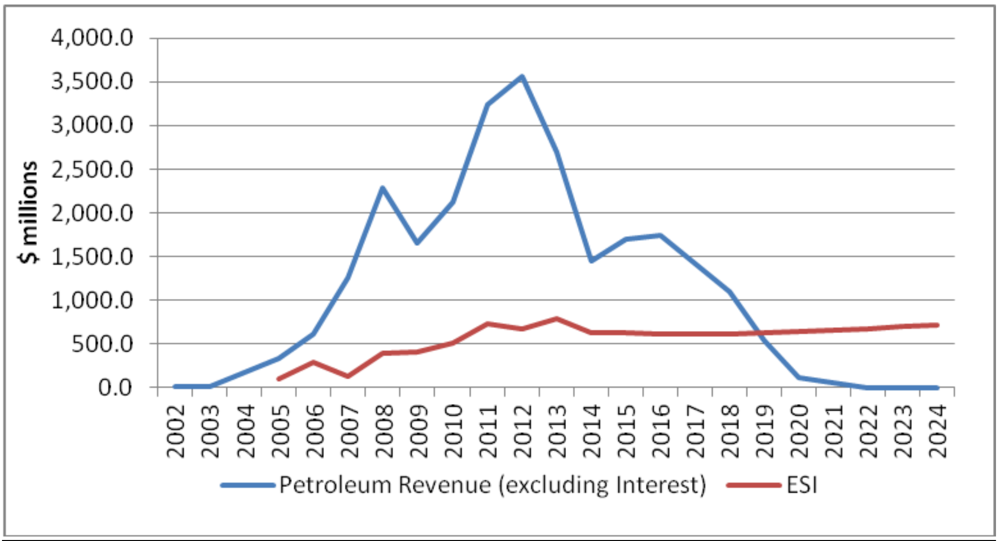
Table 2.5.3.2.2: Petroleum Wealth and the Estimated Sustainable Income (ESI), $ millions

	2013 BB1	2014 Budget	2015	2016	2017	2018
Estimated Sustainable Income (PWx3%)	**787.0**	**632.3**	**638.7**	**628.4**	**616.0**	**612.8**
Total Petroleum Wealth (PW)	**26,231.7**	**21,076.3**	**21,291.0**	**20,947.4**	**20,534.9**	**20,425.9**
Opening PF Balance	10,776.7	14,058.5	15,369.0	16,431.1	17,548.5	18,723.9
Net Present Value of Future Revenues	15,455.0	7,017.8	5,922.0	4,516.3	2,986.4	1,702.0

Source: Petroleum Fund Administration Unit

Figure 2.5.3.2.1 depicts the main rationale behind using the ESI as a tool in the fiscal policy, *i.e*. smoothing the spending of temporarily high petroleum income. The extraction path of a non-renewable resource is typically bell-shaped with significant shorter-term swings. The ESI is meant to shield against this volatility and safeguard a sustainable use of public finances.

Figure 2.5.3.2.1: Timor-Leste's Petroleum Revenues and Estimated Sustainable Income 2002-2025



Source: Petroleum Fund Administration Unit

Changes in ESI from 2013 to 2014

Overview

Figure 2.5.3.2.2 shows the key incremental changes in 2014 ESI since the 2013 Budget. The main driving factors include oil price, price differentials, petroleum production and costs.

Actual Data 2012

The current ESI for 2014 incorporates the actual development in 2012, which increases the 2014 ESI by $34.0 million. The change is mostly due to higher than expected oil prices.

Actual 2013 withdrawals from the Petroleum Fund

For 2013, the Government intends to withdraw from the Petroleum Fund an amount equal to the 2013 ESI which was $787.0 million as approved by the Parliament. Therefore, this has no impact on the 2014 ESI.

Liquids and Gas Production

As discussed and shown in Figure 2.5.3.1.2 in the previous section, liquids and gas production is forecasted lower in the 2014 Budget than in the 2013 Budget. The Operator has also indicated that production will end in 2020, which is 4 years earlier than previously assumed. These significant downward revisions reduce the ESI for 2014 by $160.0 million.

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

Oil Prices

The current ESI for 2014 assumes a benchmark oil price of $107.5 per barrel in 2013, based on the actual development for the first half of the year and EIA's forecasts going forward.[10] The 2013 Budget assumed a benchmark oil price of $86.6 per barrel for 2013. Although the oil price trajectory onwards is now forecasted somewhat lower than last year, the net effect involves a $5.0 million upward revision of the 2014 ESI.

Liquids Price Differentials (Condensate and LPG)

The price for Bayu-Undan condensate products is forecasted based on the historical relationship with a benchmark price. This historical relationship, the so-called price differential, is then projected forward on the back of the benchmark´s forecast (as determined by EIA) to give an estimate of the future price on the products sold in the Timor Sea. The change of the benchmark from WTI to Brent has impacted the price differentials and reduced the 2014 ESI by $20.0 million.

Cost

Production costs from the two operators (COP and ENI) are forecasted slightly higher in 2014 Budget than in the 2013 Budget. The increase in the cost forecasts reduces the 2014 ESI by $14.0 million.

Discount rate

Under Timor-Leste law, the discount rate used in the Net Present Value (NPV) calculation of future petroleum revenues must equal the expected rate of return of the Petroleum Fund

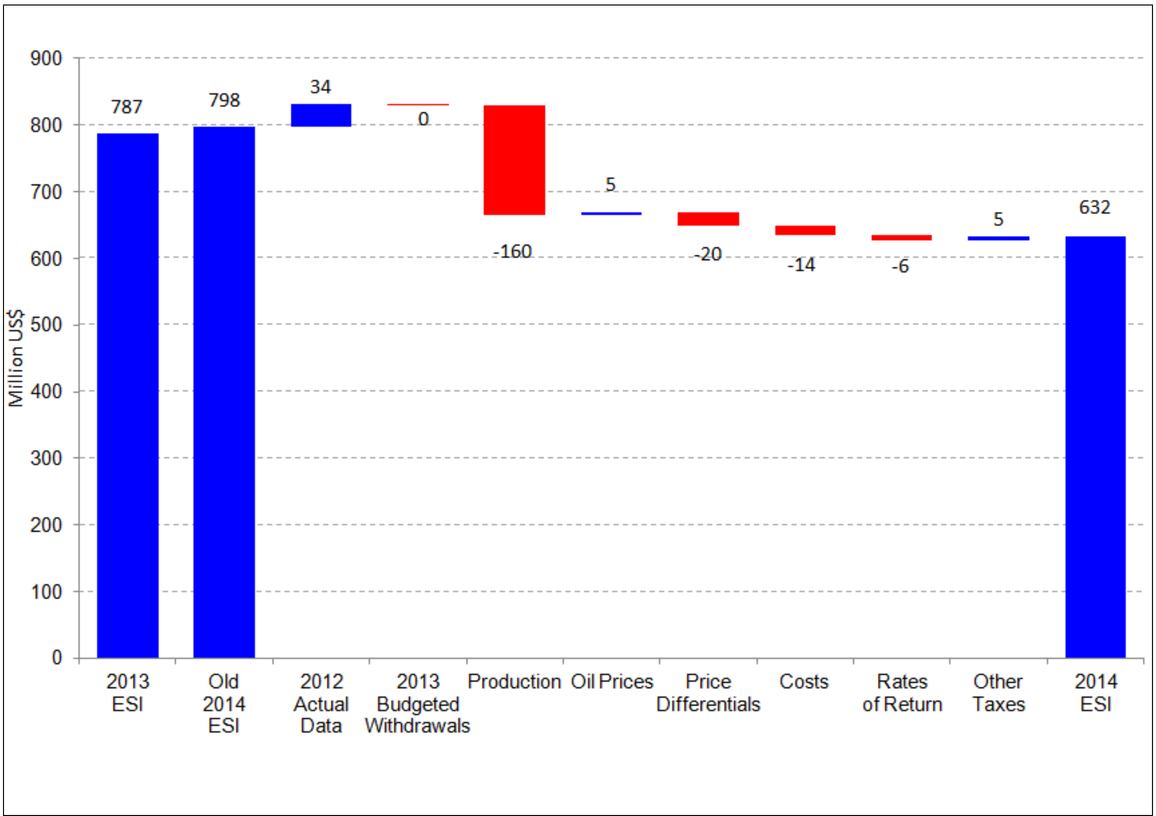
[10] These forecasts are reported by the EIA and also available from Annual Energy Outlook 2013: http://www.eia.doe.gov/oiaf/aeo/index.html.

portfolio. The expected long-term nominal return is 5.7%. The slight change in the NPV discount rate results in a decrease in 2014 ESI of $6.0 million.

Other Taxes

'Other Taxes' include wage taxes, tax collections from subcontractors and exploration drilling. These taxes are forecast for the 2014 Budget based on an analysis of recent collections and taking into account exploration work commitments as advised by Autoridade Nacional do Petroléu (ANP). The change in the forecast of other taxes increases 2013 ESI by $5.0 million.

Figure 2.5.3.2.3: Changes in the 2014 ESI (from Budget 2013 to Budget 2014), $ millions



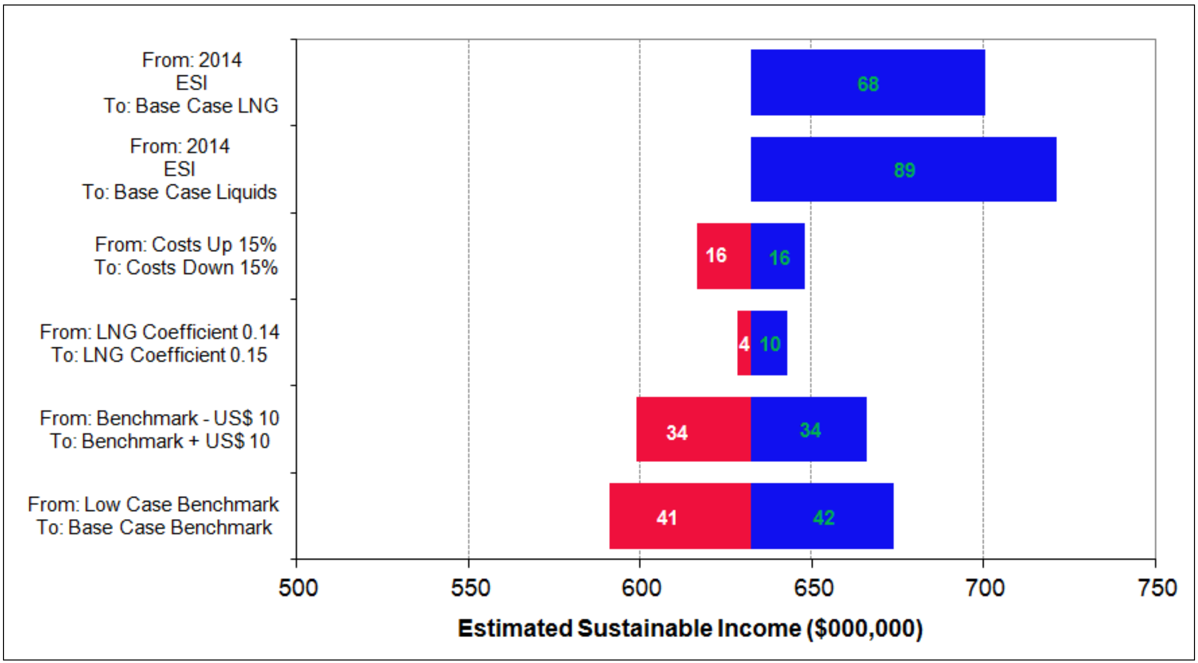
Source: Petroleum Fund Administration Unit

Sensitivity Analysis

The Government's objective is to prepare an ESI calculation that is prudent, as required by the Petroleum Fund Law. Although the calculations are based on the best information available and advice from experts, each input is inherently subject to significant uncertainty. Figure 2.5.3.2.3 shows how 2014 ESI changes when key assumptions are changed individually.

The sensitivity analysis starts with the 2014 ESI of $632.3 million and shows by how much the ESI would change if a different assumption for each key variable were used. The analysis shows that the oil price has by far the biggest impact on the ESI.

Figure 2.5.3.2.4: Sensitivity Analysis – Estimated Sustainable Income, $ millions



Source: Petroleum Fund Administration Unit

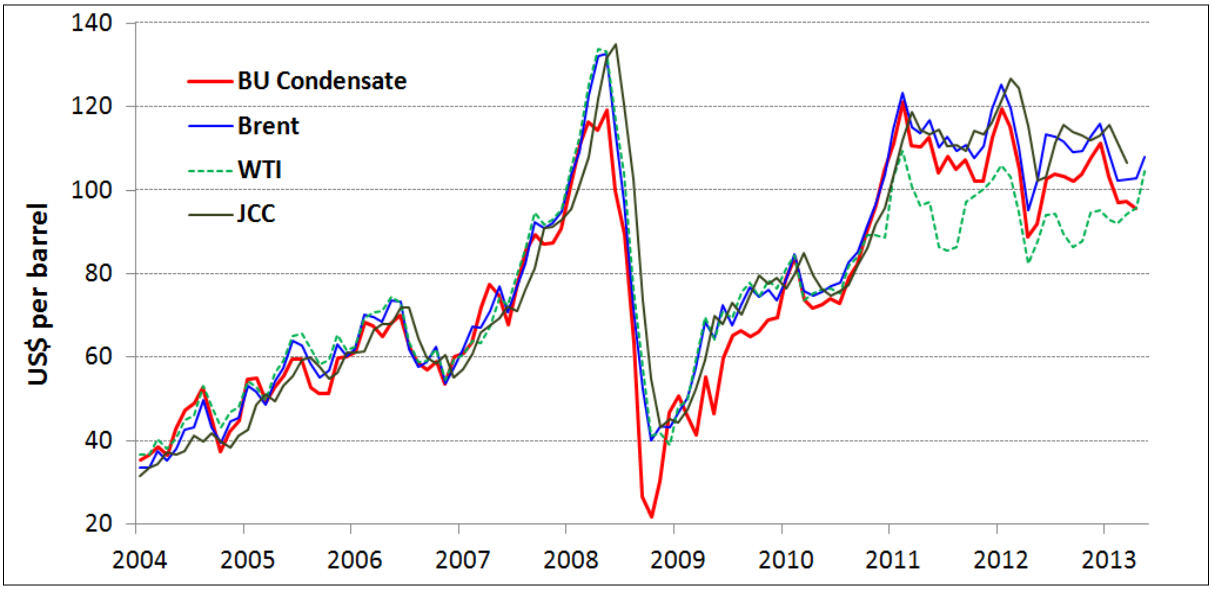
Review of Methodology

Schedule 1 of the Petroleum Fund Law requires the ESI to be estimated using prudent assumptions reflecting international best practice and based upon recognised international standards. The Ministry of Finance undertook a comprehensive review of the methodology for the ESI calculated in the 2011 Budget with technical assistance from the IMF. However, it should be borne in mind that the projections come from the operators and are subject to change post-audit. This year´s change in oil price forecast methodology is the first change of some significance since then.

The new methodology involves a change in oil price benchmark from WTI to Brent due to the latter´s better tracking of the Bayu-Undan products in recent years (see Figure 2.5.3.2.4). The Independent Auditor of the Petroleum Fund, Deloitte Touche Tohmatsu, raised this issue in the Management Letter dated 14 March 2013 as part of its certification of the ESI 2013. Lacking readily available alternative benchmarks that satisfied requirements in the Petroleum Fund Law, the Ministry of Finance found it necessary to continue using WTI as the benchmark for Budget 2013.

In 2013, the EIA started to publish three long-term forecasts of Brent benchmark prices, generally following the P90, P50, and P10 models. These new forecasts have made it possible to adopt Brent as the more suitable benchmark for ESI calculations starting with the 2014 ESI.

Figure 2.5.3.2.5: BU Condensate Price vs. World Oil Prices



Source: Petroleum Fund Administration Unit

2.5.3.3 Managing the Petroleum Fund

The Petroleum Fund Model

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

The petroleum fund mechanism implies that petroleum revenues are transferred in their entirety to the Fund and invested abroad in financial assets. The investment policy of the Fund aims at maximizing the risk-adjusted return. The Fund's only outflow is transfers to the central government budget, pursuant to parliamentary approval. The amount that may be transferred to the budget is guided by the Estimated Sustainable Income (ESI), which is defined as 3.0% of total petroleum wealth. The implied investment objective of the Fund is accordingly set at 3.0% real return, as a necessary condition to enable sustainability on the spending side in terms of maintaining the purchasing power of the petroleum wealth when spending is constrained by the ESI.

Governing the Petroleum Fund

Based on the "Santiago principles"[11], the Petroleum Fund governance model is one with a high degree of transparency and disclosure of information. This helps build public support for wise management of petroleum revenues and reduces the risk of bad governance. *Transparency* ensures that information can be used to measure the authorities' performance and also guards against any possible misuse of powers. One of the fundamental elements of the Fund's governance structure is that no one person or institution is responsible for making and implementing investment decisions because each party is formally accountable to another for their role in the decision-making process. This degree of transparency serves to encourage *consensus* and enable *accountability*, which means authorities and whoever handles public money can be held responsible for their actions.

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

Petroleum Fund Investment Policy

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

The Petroleum Fund Law amendments in 2011, which followed a long and thorough process involving all stakeholders, allowed for up to 50.0% allocation to public equities, not less than 50.0% in fixed income, and not more than 5.0% in alternative instruments. The rationale for these changes was two-fold:

1. *Diversification.* This is the process of exposing the portfolio to a number of different asset classes (for example bonds and equities) rather than being concentrated in any one of these alone. The key to the diversification process is that different asset

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

classes usually do not move together. Combining assets with returns that are less than perfectly correlated can therefore mitigate overall volatility.

2. *Enable sustainable spending*. The Government believes that a target allocation to equities of 40.0% over time will enable the Fund to generate 3.0% real return with reasonable probability. This would be a necessary condition to ensure the sustainability of public spending, which is guided by the Estimated Sustainable Income, set at 3.0% of Petroleum Wealth. The Government notes at the same time that the higher allocation to the traditionally more volatile asset class of public equities will involve more short-term fluctuations in the Fund´s investment returns. Having a long-term investment horizon, the Government is ready to accept this increased short-term risk to pursue its belief that equities will perform better than bonds in the long term.

Table 2.5.3.3.1 Petroleum Fund Portfolio and Managers Structure

Number	Managers and Mandates, as of June 2013	Weight	Market Values, $ millions	Return since inception*
Total Petroleum Fund Portfolio		**100.0%**	**13,624.0**	**3.9%**
International Fixed Interest Portfolio (Bonds)		***69.9%***	***9,516.4***	***3.3%***
1	Banco Central de Timor-Leste –BCTL			
	(1-3 years US Treasury bonds)	9.2%	1,250.7	0.4%
	(3-5 years US Treasury bonds)	40.6%	5,534.1	0.2%
2	Bank for International Settlement – BIS (5-10 years US Treasury bonds)	20.1%	2,731.6	0.4%
International Equity Portfolio		***30.2%***	***4,107.6***	***9.8%***
3	Schroders Investment Management - Schroders (MSCI world)	5.2%	709.8	10.1%
4	State Street Global Advisors - SSgA (MSCI world)	17.6%	2,395.1	14.3%
5	BlackRock (MSCI world)	7.4%	1,002.7	4.1%

Source: BCTL – Petroleum Fund Q2 2013 Report.
*Inception dates for different managers are not equivalent thus since inception returns are not directly comparable.

In pursuing its investment belief, the Government´s first order priority has been to gradually increase the equity allocation from 5.0% at the end of 2011 to 40.0% by June 2014, aiming, among other things, to buttress any adverse effects that bad market timing would incur. As of end of the 2nd quarter of 2013, the Fund´s allocation to equities was 30.0% with the rest remaining in US Treasuries. The Government is currently also exploring ways to diversify the bond portfolio. As a first step to reduce the concentration of US Treasuries, 10.0% of the Fund has been allocated to non-US developed market investment grade sovereign bonds.

The evolving investment allocation of the Petroleum Fund involves a sound and responsible process of introducing new investment mandates and external managers. Table 2.5.3.3.1 shows the Petroleum Fund portfolio and manager structure as of June 2013. The Government is conscious that increasing the number of asset classes and sub-asset classes requires a more sophisticated monitoring framework to ensure that each manager is performing well and in accordance with their guidelines. In general, a gradual development of the governance structure and capabilities are a prerequisite for a successful development of the investment strategy.

Projected Petroleum Fund Development

The Fund's balance is $13,624.0 million as of June 2013. This is an increase of $1,848.8 million from the start of the year. The Fund balance is expected to be $14,058.5 million by the end of 2013 after deducting the withdrawal of $787.0 million in 2013 adopted by Parliament.

The current forecast, as shown in Table 2.5.3.3.2, shows the total value of the Fund to be $14,058.5 million by the end of 2013 and $16,431.1 million by the end of 2015, assuming withdrawals in excess of ESI from 2014-2018, see Table 2.1.1.2.

Table 2.5.3.3.2 Estimated Petroleum Fund Savings 2011-2016, $ millions

	2012 Actual	2013 Estimate	2014 Budget	2015	2016	2017	2018
Opening PF Balance	**9,310.3**	**11,775.3**	**14,058.5**	**15,369.0**	**16,431.1**	**17,548.5**	**18,723.9**
Petroleum Revenue (excluding PF Interest)	3,559.1	2,693.3	1,443.1	1,695.9	1,740.7	1,416.6	1,097.8
Petroleum Fund Interest, Net*	400.8	376.9	770.3	877.2	949.5	1,019.6	1,075.9
Total Withdrawals	1,494.9	787.0	902.9	1,511.0	1,572.8	1,260.8	1,240.1
Closing PF Balance	**11,775.3**	**14,058.5**	**15,369.0**	**16,431.1**	**17,548.5**	**18,723.9**	**19,657.5**

Source: Petroleum Fund Administration Unit
*net of management and market revaluation

2.6: Financing

2.6.1 Introduction

The financing of the 2014 State Budget is shown in Table 2.6.1.1 which highlights that all the expenditures incurred by the Government will ultimately be paid for by either Domestic Revenue, the through financing from the ESI, excess withdrawals from the Petroleum Fund, loans or the use of cash balance. It is also important to underline that the financing items shown in the table below are equal to non-oil deficit (which is defined as domestic revenue minus total expenditure).

However, it is important that the source of financing is not innocuous. When the expenditure is financed mostly through domestic revenue, the increase in government expenditure is commensurate to the decrease in spending from firms and individuals (as they have to pay taxes). Hence, it is likely that in such a scenario, the total amount of money circulating in the economy remains constant. Aggregate demand is thus thought to remain roughly constant and any changes in demand patterns occur due to the nature of the spending done by government vis-à-vis those by firms.

On the other hand, should the expenditure be financed by withdrawals from the Petroleum Fund, then, extra money is being injected in the economy and this is thought to spur demand. However, if this demand is not matched by a similar increase in the supply of the economy, then this can result in high inflationary pressure. Nevertheless, if the supply is stimulated commensurately, then this can, at least partly, offset the inflationary pressure.

As shown in Table 2.6.1.1, the ESI, withdrawals from the Petroleum Fund, the use of the cash balance and borrowing will all contribute to the financing of the 2014 budget. For the 2014 budget, loans still represent a fairly minor proportion of the overall financing, although this number is predicted to increase in the future.

Table 2.6.1.1: Financing 2014 to 2018

	2014	2015	2016	2017	2018
Total Financing	**1,333.8**	**1,628.2**	**1,731.0**	**1,400.3**	**1,277.1**
Estimated Sustainable Income (ESI)	632.3	638.7	628.4	616.0	612.8
Excess Withdrawals from PF	270.6	872.2	944.4	644.8	627.3
Use of Cash Balance	379.9	0.0	0.0	0.0	0.0
Borrowing /Loans	51.0	117.3	158.2	139.5	37.0

Sources: National Directorate of Budget, Petroleum Fund Administration Unit and Major Projects Secretariat

The Financing section is further subdivided into four more sections. The first will focus on explaining the ESI, and the concept of excess Withdraws. The second and third sections will focus the use of loans and Cash Balance, respectively. Finally, the last section will look at the Public Private Partnerships (PPPs).

2.6.2 ESI and Excess Withdraws

The Estimated Sustainable Income (ESI) has been estimated at $632.3 million for 2014, as described in section 2.5.3.2. The estimated value for the ESI is lower than the 2013 ESI, estimated at $787.0 million. The main reasons which have prompted the decrease in the ESI are a decrease in forecasted production and also a slight increase in forecasted costs.

Please note, however, that the ESI is based on data provided by the Operator which will be subject to audit.

2.6.3 Loans

This section firstly describes the underlying rationale for taking loans and then describes loans signed in 2014.

When deciding on the method of financing for the required and agreed-upon infrastructure, if the required expenditure exceeds the ESI and domestic revenue together, the Government is confronted with two alternatives. First, they can finance this through excess withdrawals. However, when this alternative is taken, it can have a very high opportunity cost as the Government has to forego the returns from the Petroleum Fund's investments which, even more so recently, are considerable. The second alternative is to take concessionary loans when these are given at low interest rates and used to fund high quality and high return projects both from an economic and social perspective.

Two loans will be described in this section, namely the ADB Manatuto to Natarbora road upgrade loan and the World Bank Road Climate Resilience Project Loan (details shown in Table 2.6.3.1). Both projects feature in the Strategic Development Plan, which aims to rehabilitate all key arterial roads by 2017 and both projects have high associated Economic Internal Rates of Return, which is a measure used to compare the viability of an investment.

The total value of Manatuto to Natarbora road rehabilitation project, including the Government contribution of $73 million, is approximately $123 million. The $50 million of loans are obtained from two sources, the Special Fund (SDR 6,672,000, roughly equivalent to $10 million) and the OCR ($40 million), with interest rates of 2% and LIBOR + 50bps (+0.5 percentage points), respectively. Moreover, both loans have a grace period of 5 years (meaning that the debt starts to be repaid after 5 years). Both these rates are lower than what the Government would have had to pay in interests if it had borrowed from private institutions and this rate of interest is also lower than the forecasted yield accruing from Petroleum Fund investments which was at 4.07% this year but is expected to reach 5.7% in the long-term. Note however, that since the Special Fund component of the loan is in SDR (Special Drawing Right), an IMF basket of currencies composed of the Euro, the Yen, the Dollar and the British Pound, this loan is exposed to some exchange rate risk. Finally, it should also be mentioned that the estimated Economic Internal Rate of Return of this project is 9%.

During the course of 2013, the Government also signed its first World Bank loan which was aimed at funding the Road Climate Resilience Project between Solerema and Ainaro. The total value of the project is $87 million, including the government contribution of $47 million. The remaining $40 million has two components. The first component is a $25 million IDA loan with an interest rate of 2% and a grace period of 5 years whereas the second component is a $15 Million IBRD loan with a predicted interest rate of 3.7% and a 8 year grace period. Note, however that the interest rate on the IBRD loan cannot be forecasted with certainty although it is likely that the fixed rate will be somewhere between the 3.2-

3.8% range. Finally, given that this loan is fully in USD, it is not exposed to exchange rate risks.

Table 2.6.3.1: Information on Signed Loan Agreements

	Loan 1: ADB Manatuto to Natarbora	Loan 2: World Bank Solerema-Ainaro
Total Loan Value	**$50.0 million**	**$40.0 million**
Government Counterpart Contribution	73 million	47 million
Date signed	Not signed yet	Not signed yet
Grace Period	5 years	IDA 5 years IBRD 8 years-
Repayment Period	25 years	IDA 25 years IBRD 28 years
Interest rate	SF: 2% OCR:LIBOR + 0.5 bps	IDA: 2% IBRD: forecasted at 3.7%

Source: National Directorate of Budget and Major Projects Secretariat

In terms of the disbursement of the total loans, the flow is described in Table 2.6.3.2. Note, however, that the repayment of the loans does not start until 2017 which is the end of the grace period for part of the ADB loan signed in May 2012.

Table 2.6.3.2: Total Loan Disbursement, 2014 – 2018

	2014	2015	2016	2017	2018
Total Loan Disbursement	**42.1**	**58.0**	**52.0**	**27.0**	**5.0**
Government Counterpart Contribution	28.0	47.0	53.0	27.0	2.0

Source: National Directorate of Budget and Major Projects Secretariat

2.6.4 Use of the Cash Balance

The actual expenditure in 2013 is forecasted to be below the budgeted forecast, consequently implying a non-negligible cash balance in the Infrastructure Fund and the HCDF. This scenario provides a buffer of about three months which can accommodate some delays in the budget and is also likely to lead to reduced excess withdrawals in 2014.

The breakdown of this cash balance is shown in Table 2.6.4.1. The majority of it is the rollover from the Infrastructure Fund from 2013 to 2014. This amount excludes loans (which are shown separately) and is net of deduction to ongoing projects, in order to show exactly how much is being used in ongoing projects. The rollover from the Human Capital Development Fund is much smaller at $3.1 million. Finally, in order to account for the deductions being made from ongoing projects, and equivalent amount ($173.9 million) is being withdrawn from the Treasury Account.

Table 2.6.4.1: Use of Cash Balance 2014, $ millions

Total	**379.9**
Infrastructure Fund Rollover excluding loans, net of deductions	202.9
HCDF Rollover	3.1
Drawdown of Cash Balances from the Treasury Account	173.9

2.6.5 Public Private Partnerships

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

Having, completed a PPP policy and legal framework, Timor-Leste has now approved one PPP, namely the Tibar Port.

The Tibar Port project was approved by the Council of Ministers on August 2, 2013 and the deadline for the expression of interest was September 5, 2013. The Tibar Port is expected to meet international standards in areas such as efficiency and cargo operations. Consequently, it is widely believed that it will alleviate congestion as well as dealing with some of the limitations of the Dili Port, which has very limited expansion possibilities and is capable of berthing only small vessels. This is viewed as necessary due to the expected increase in demand for imports given the forecasted increase in economic growth in Timor-Leste. In terms of construction, the project has three main components; the preparation of the site, the installation of the port facilities and their respective maintenance, both during and after its implementation.

Part 3: 2014 General State Budget Law

3.1 General State Budget Law Text

FIFTH CONSTITUTIONAL GOVERNMENT

Legislation Proposal no. /2013

of ....

2014 State Budget

The 2014 State Budget covers all revenues and expenditure of the State of Timor-Leste.

Attachment I to the 2014 State Budget Law, henceforth called SB, sets the total estimated SB revenue from January to December 2014 derived from petroleum and non-petroleum sources, tax revenues, non-tax revenues and loans.

The total estimated revenue from all sources is $2,430.5 million.

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

1. $166.932 million for Salaries & Wages;
2. $475.636 million for Goods & Services;
3. $292.175 million for Public Transfers;
4. $39.713 million for Minor Capital;
5. $525.544 million for Capital Development.

Excluding autonomous funds and services, special funds and loans, the total budget appropriation is $1,020.620 million.

The State Treasury account includes all revenues and expenses from autonomous funds and services, namely Airport and Air Navigation Administration of Timor-Leste (ANATL), Port Authority of Timor-Leste (APORTIL – including Berlin-Nakroma), Equipment Management Institute (IGE) and Autonomous Medical Stores (SAMES). Revenues from those categories are included under the item for own revenues from autonomous funds and services in Attachment I. Attachment III contains the budget for proposed expenses.

The total estimated expenditure for self-funded autonomous funds and services in 2014 is $14.245 million, including $9.746 million transferred from the SB in order to subsidize expenditure exceeding the estimated own revenues.

The total budget appropriation for the Infrastructure Fund is $425.135 million including loans and $374.087 million excluding loans. The carryover from 2013, in accordance with the law, is $221.013 million.

The total budget appropriation for the Human Capital Development Fund is $40 million, including $3.078 million as carryover from 2013, in accordance with the law.

Total estimated SB expenditure is $1,500 million.

The maximum threshold approved for public debt in 2014 is $51.049 million.

Estimated non-petroleum revenue is $161.4 million.

Thus the tax deficit is $1,333.9 million, being funded by $902.9 million from the Petroleum Fund, $51 million from the use of public credit, $206 million from the Special Fund balance ($202.9 million from the Infrastructure Fund and $3.1 million from the Human Capital Development Fund) and $173.9 million from the Treasury Account balance.

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

Chapter I
Definitions and approval

Article 1

Definitions

For the purposes of the present Law:

a) "Expense Category" means the grouping of expenses under the five following categories:

   i) "Salaries & Wages", meaning the full amount a Body may spend on Salaries & Wages for the holders of political offices and for permanent, temporary and part-time staff;

   ii) "Goods & Services", meaning the full amount a Body may spend on the acquisition of Goods & Services;

   iii) "Public Transfers", meaning the full amount a Body may spend on public grants and consigned payments;

   iv) "Minor Capital", meaning the full amount a Body may spend on the acquisition of Minor Capital goods;

   v) "Capital Development", meaning the full amount a Body may spend on Capital Development projects.

b) "Expenses Offset by Revenues" means expenses met by the own revenues charged by autonomous funds and services, provided that the amount does not exceed the full value of the revenues entered in the relevant Treasury accounts;

c) "Budget Appropriation" means the full amount inscribed in the SB in favour of a Body towards the payment of a certain expense;

d) "Body / Bodies" is the generic term adopted in the SB to indicate the administrative public sector subjected to budget discipline and that, according to the organic classification, may be divided by such titles as: Office of the President of the Republic, Parliament, Government (Office of the Prime Minister, Presidency of the Council of Ministers, Ministries and Secretariats of State), Courts and Office of the Prosecutor General of the Republic, as well as other institutions featured in Attachment II;

e) "Expenditure Items" means the individual expenditure items within each Expense Category, based on the expenditure account code structure maintained by Treasury.

Article 2
Approval

The present Law approves the State Budget for the period from 1 January 2014 to 31 December 2014, which covers:

a) Total revenues per groupings, including own revenues from autonomous funds and services, special funds and loans featured in Attachment I to the present diploma, which is an integral part of it;

b) Total expenses per groupings, including the amounts to be transferred from the State General Budget for autonomous funds and services in 2014, featured in Attachment II to the present diploma, which is an integral part of it;

c) Total expenses from the autonomous funds and services to be funded from their own revenues and from the State General Budget, featured in Attachment III to the present diploma, which is an integral part of it;

d) Total expenses corresponding to the appropriation for the Infrastructure Fund in 2014, including carryover balance and expenses funded through public debt, featured in Attachment IV to the present diploma, which is an integral part of it;

e) Total expenses corresponding to the appropriation for the Human Capital Development Fund in 2014, including carryover balance, featured in Attachment V to the present diploma, which is an integral part of it.

Chapter II
Revenues

Article 3
Taxes and Fees

During 2014 the Government is authorized to collect taxes and other fees set by law.

Chapter III
Authorization to make transfers from the Petroleum Fund

Article 4
Authorized limit for crediting the SB

Under article 7 of Law no. 9/2005, of 3 August, ex vi the wording given to it by Law no. 12/2011, of 28 September, the Petroleum Fund Law, the transfer amount from the Petroleum Fund in 2014 may not exceed $902.9 million and may only take place after complying with the provisions of article 8 of the above law.

Chapter IV
Public Indebtedness, Public-Private Partnerships and Guarantees

Article 5
Maximum Threshold of Authorized Debt

1. In order to meet the funding needs related with the construction of strategic infrastructures for the development of the Country, the Government is authorized, under article 20 of Law no. 13/2009, of 21 October, on Budget and Financial Management, and article 3 of Law no. 13/2011, of 28 September, on the Public Debt Regime, to make use of external concessional loans up to a maximum amount of $270 million, with a maximum time frame of 40 years.
2. Subject to the provisions in the previous paragraph, funding from loans in 2014 may not exceed $51 million.

Article 6
Maximum Threshold Authorized for Public-Private Partnership Arrangements

In 2014 the Government is authorized to sign public-private partnership arrangements up until the maximum threshold of $500 million.

Article 7
Maximum Threshold Authorized for International Organization Membership Fee

1. In 2014 the Government is authorized to sign a guarantee concerning the payment of the fee as member of the International Monetary Fund, if requested, up until the maximum threshold of $55.5 million.
2. Any payment mentioned in number 1 above must be approved by the National Parliament.

Chapter V
Budget Execution

Article 8
Payment of taxes on imports

Treasury is authorized to establish and implement an accounting mechanism for registering and controlling revenues and expenses, corresponding to the payment of taxes on imports done by the Bodies or on their behalf.

Article 9
Appropriations for the Whole of Government

According to the criteria set for public expenses, the Government shall inscribe the following appropriations in the budget of Appropriations for the Whole of Government, to be managed by the Ministry of Finance:

a) Counterpart Fund;

b) External Audit;

c) Contingency Reserve;

d) International Organization Membership Fees;

e) Payment of pensions to former holders and former members of Sovereignty Bodies;

f) Construction of Integrated Border Posts;

g) Contribution Fund for Social Institutions;

h) Provision for the g7+;

i) Business Registration and Verification Service;

j) Large Project Secretariat;

k) Provision for Legal Services;

l) Community of Portuguese Speaking Countries – CPLP;

m) Provision for a Credit Line through a Banking Institution;

n) Financial Contribution;

o) Provision for Statistic Research Activities;

p) Provision for Transition by Education Professionals.

Chapter VI
Autonomous funds and services and special funds

Article 10
Own Revenues

1. Attachment I indicates the estimated revenues to be collected by autonomous funds and services.
2. Attachment II indicates the expenses resulting from transfers from the SB to the autonomous funds and services and to the special funds, as well as the estimate of the respective expenses.
3. Attachment III indicates the budgets by expense category concerning the autonomous funds and services partly funded by own revenues.
4. Attachment IV indicates the appropriation for the Infrastructure Fund.
5. Attachment V indicates the appropriation for the Human Capital Development Fund.
6. Expenditure Authorization Notices in favour of autonomous funds and services from own revenues may only be authorized after the State receives the respective revenues. The said authorizations must be of an equal or lesser value.

Chapter VII
Final Provisions

Article 11
Funding through independent donors

1. Each Body may only establish agreements with independent donors for the provision of additional or complementary resources to the funding contained in the budget allocations of the present Law, after hearing the mandatory opinion of the minister responsible for the area of Finance.
2. This funding must be managed in accordance with the directives issued by the Ministry of Finance and with the donor requirements.

Article 12
Accountability

1. Signing contracts without budget provision entails political, financial, civil and criminal accountability, in accordance with article 46 of Law no. 13/2009, of 21 October, on Budget and Financial Management, meanwhile changed by Law no. 3/2013, of 11 September.
2. For purposes of activating the financial accountability described in the previous paragraph, the holder of a political office is considered to have made an undue payment, subjected to being ordered to replace the corresponding amount, under article 44 and following of Law no. 9/2011, of 17 August, approving the Organic Structure of the Chamber of Accounts

under the High Administrative, Tax and Audit Court, meanwhile changed by Law no. 3/2013, of 11 September.

Article 13
Entry into force

The present law enters into force on the day after its publication and will have effect starting on 1 January 2014.

Approved by the Council of Ministers on the 22nd of October 2013.

Kay Rala Xanana Gusmão

Prime-Minister

3.2 Attachment I: Estimated Revenues to be collected by the State in 2014

Estimated revenues to be collected, loans and balances of special funds in the 2014 State Budget (US$ million)*

Table I – Estimated revenues and loans

1	**Total Revenues**	**2,430.5**
1.1	**Petroleum Revenues**	**2,213.4**
1.1.1	Taxes on petroleum profits	681.1
1.1.2	Taxes on the Timor Sea (including Kitan)	200.1
1.1.3	Income Tax	303.2
1.1.4	Additional Profit Tax	204.5
1.1.5	Other Taxes and Petroleum Fees	54.2
1.1.6	Petroleum Fund Interests	770.3
1.2	**Non-Petroleum Revenues**	**161.4**
1.2.1	Direct Taxes	45.1
1.2.2	Indirect Taxes	74.6
1.2.3	Other Revenues and Fees	0.3
1.2.4	Payments and Fees	15.5
1.2.5	Lottery Revenues	0.2
1.2.6	Selling of Rice	6.4
1.2.7	Selling of Local Products	0.1
1.2.8	Interests from the Treasury Account	0.2
1.2.9	Electricity Revenues	19.0
1.3	**Donations**	**0.0**
1.4	**Own Revenues from Autonomous Funds and Services**	**4.8**
1.5	**Loans**	**51.0**

Table II – Funding and revenues

Non-petroleum revenues, including own revenues from autonomous funds and services	166.1
Transfer from the Petroleum Fund	902.9
Loans	51.0
Use of the Balance of the Treasury Account	173.9
Balance of the Infrastructure Fund	202.9
Balance of the Human Capital Development Fund	3.1
Total	**1,500.0**

*Approximate figures

3.3 Attachment II: Budget Appropriations for 2014

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
Including Autonomous Funds and Services, Special Funds and Loans	**166,932**	**475,636**	**292,175**	**39,713**	**525,544**	**1,500,000**
Excluding Autonomous Funds and Services, Special Funds and Loans	**165,187**	**429,115**	**292,175**	**34,535**	**99,608**	**1,020,620**
Including Autonomous Funds and Services	**166,932**	**435,636**	**292,175**	**39,713**	**100,408**	**1,034,864**
Total Autonomous Funds and Services	**1,746**	**6,521**	**-**	**5,178**	**800**	**14,245**
Total Special Funds	**-**	**40,000**	**-**	**-**	**425,135**	**465,135**
Special Funds (Excluding Loans) New Appropriation	**-**	**36,921**	**-**	**-**	**171,181**	**208,102**
Special Funds (Excluding Loans) Carryover from 2013	**-**	**3,079**	**-**	**-**	**202,905**	**205,985**
Loans New Appropriation	**-**	**-**	**-**	**-**	**32,941**	**32,941**
Loans Carryover from 2013	**-**	**-**	**-**	**-**	**18,108**	**18,108**
Presidency of the Republic	**774**	**6,361**	**131**	**1,772**	**500**	**9,538**
Civilian House	-	750	-	-	-	750
Directorate-General	774	4,533	-	1,362	500	7,169
Military House	-	551	-	342	-	893
Post-CAVR Technical Secretariat	-	383	-	68	-	451
Task Force for Reform and Development	-	144	131	-	-	275
National Parliament	**4,337**	**7,585**	**748**	**830**	**-**	**13,500**
National Parliament	3,347	1,789	-	-	-	5,136
Office of the Speaker of Parliament	73	731	-	-	-	804
Parliamentary Benches	-	-	748	-	-	748
Secretariat of the National Parliament	917	3,193	-	826	-	4,936
Commission A	-	150	-	-	-	150
Commission B	-	141	-	-	-	141
Commission C	-	175	-	-	-	175
Commission D	-	151	-	-	-	151
Commission E	-	153	-	-	-	153
Commission F	-	237	-	-	-	237
Commission G	-	68	-	-	-	68
SNI Verification Council	-	283	-	3	-	286

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
Petroleum Fund Consultative Council	-	375	-	1	-	376
Women's Parliamentary Group of Timor-Leste	-	139	-	-	-	139
Prime Minister	**842**	**9,617**	**42,450**	**2,224**	**76,906**	**132,039**
Office of the Prime Minister	92	-	-	-	-	92
Secretariat of the Prime Minister	24	1,646	1,500	-	-	3,170
Inspectorate-General Office	288	569	-	29	-	886
Directorate-General	17	7	-	-	-	24
National Directorate of Administration and Finance	69	1,188	-	165	-	1,422
National Directorate of Human Resources	73	41	-	-	-	114
Civil Society Advisory	31	123	14,950	-	-	15,104
Official Residence of the Prime Minister	-	82	-	-	-	82
National Development Agency	-	1,920	26,000	1,615	-	29,535
Integrated District Development Planning	-	-	-	-	76,906	76,906
National Procurement Commission	-	2,625	-	75	-	2,700
National Intelligence Service	211	1,117	-	300	-	1,628
Strategic Investment Planning Agency	37	298	-	40	-	375
Vice Prime Minister, Coordinator of Social Affairs	**165**	**861**	**-**	**13**	**-**	**1,039**
Office of the Vice Prime Minister, Coordinator of Social Affairs	165	861	-	13	-	1,039
Minister of State and of the Presidency of the Council of Ministers	**354**	**5,710**	**500**	**229**	**-**	**6,793**
Office of the Minister	79	931	-	-	-	1,010
National Directorate of Administration and Support to the Council of Ministers	183	1,199	-	198	-	1,580
National Directorate of Translation Services	67	76	-	31	-	174
Legal Support Unit	26	504	-	-	-	530
Project for a Special Area of Social Market Economy	-	2,000	500	-	-	2,500
Ad hoc trilateral commission between Timor-Leste, Australia and Indonesia	-	1,000	-	-	-	1,000
Secretary of State for the Council of Ministers	**152**	**794**	**-**	**3,000**	**-**	**3,945**
Office of the Secretary of State	67	470	-	200	-	737
National Printing House	85	324	-	2,800	-	3,209
Secretary of State for Parliamentary Affairs	**89**	**159**	**-**	**-**	**-**	**247**
Office of the Secretary of State	89	159	-	-	-	248

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
Secretary of State for the Media	**248**	**1,379**	**100**	**126**	**-**	**1,852**
Office of the Secretary of State	63	537	-	39	-	639
Directorate of Information Socialization	82	452	100	74	-	708
Community Radio Centre	60	390	-	13	-	463
National Directorate of Administration and Finance	43	-	-	-	-	43
Secretary of State for Institutional Strengthening	**114**	**1,115**	**-**	**19**	**-**	**1,248**
Office of the Secretary of State	114	1,115	-	19	-	1,248
Secretary of State for Supporting and Promoting the Private Sector	**509**	**2,128**	**100**	**274**	**-**	**3,011**
Office of the Secretary of State	67	1,327	-	140	-	1,534
Institute for Supporting Business Development	432	495	100	94	-	1,121
Specialized Investment Agency	10	306	-	40	-	356
Secretary of State for the Promotion of Equality	**277**	**1,288**	**-**	**61**	**-**	**1,626**
Office of the Secretary of State	65	222	-	-	-	287
Directorate-General	51	167	-	5	-	223
National Directorate of Administration, Logistics and Finance	55	359	-	36	-	450
National Directorate of Gender Policy and Development	92	523	-	19	-	634
Inspector and Auditor	14	17	-	1	-	32
Secretary of State for Youth and Sports	**472**	**1,442**	**5,527**	**29**	**-**	**7,470**
Office of the Secretary of State	66	540	400	-	-	1,006
Directorate-General	12	21	-	-	-	33
National Directorate of Administration and Finance	176	648	-	29	-	853
National Directorate of Youth	42	17	624	-	-	683
National Directorate of Physical Education and Sports	39	23	3,591	-	-	3,653
National Directorate of Development Policy	30	39	456	-	-	525
National Directorate of Communication	47	123	-	-	-	170
National Directorate of Arts	30	11	456	-	-	497
Inspectorate and Internal Audit Office	34	20	-	-	-	54
Secretary of State for Professional Training and Employment Policy	**1,447**	**1,790**	**12,023**	**137**	**-**	**15,397**
Office of the Secretary of State	69	403	-	3	-	475
Inspectorate-General of Labour	189	181	-	99	-	469

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
Directorate-General	147	40	-	7	-	194
National Directorate of Administration and Finance	246	503	-	9	-	758
National Directorate of Procurement	21	16	-	-	-	37
National Directorate of Labour Condition	34	63	-	-	-	97
National Directorate for Preventing Occupational Hazards	28	56	-	-	-	84
National Directorate of Employment and Protection against Unemployment	28	30	-	4	-	62
National Directorate of Security and Social Protection	24	18	-	5	-	47
National Directorate of Professional Training	114	69	-	3	-	186
National Directorate of Employment	101	76	12,014	2	-	12,193
National Directorate of Labour Relations	82	62	9	6	-	159
Secretariat of Support to the National Labour Council	41	25	-	-	-	66
Legal Advisory Office	8	9	-	-	-	17
National Institute of Labour Development	19	65	-	-	-	84
Employment and Professional Training Fund Office	10	22	-	-	-	32
Attaché in South Korea	204	104	-	-	-	308
SENAI Training Centre	81	48	-	-	-	129
Ministry of Foreign Affairs and Cooperation	**11,442**	**17,276**	**2,068**	**1,446**	**-**	**32,232**
Office of the Minister	34	947	-	-	-	981
Inspectorate and Audit Office	-	220	-	-	-	220
Diplomatic Institute	-	272	-	295	-	567
National Organizer	-	84	-	65	-	149
Timor-Leste Cooperation Agency	-	432	2,068	-	-	2,500
Office of the Vice-Minister	27	252	-	-	-	279
Office of the Secretary of State for ASEAN Affairs	23	899	-	-	-	922
Directorate-General of ASEAN Affairs	-	100	-	-	-	100
Secretary-General	11,358	4,899	-	419	-	16,676
Dollar Devaluation	-	489	-	30	-	519
Celebration of National Holidays	-	123	-	-	-	123
Directorate-General of Protocol	-	27	-	-	-	27
Directorate-General for Asia-Pacific Bilateral Affairs	-	100	-	-	-	100
Directorate-General for America, Europe and Asia Bilateral Affairs	-	200	-	-	-	200

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
Directorate-General for Multilateral Affairs	-	200	-	-	-	200
Directorate-General for Consular Affairs and Timorese Communities	-	640	-	45	-	685
Permanent Mission in New York	-	435	-	-	-	435
Embassy in Lisbon	-	271	-	9	-	280
Embassy in Jakarta	-	221	-	-	-	221
Consulate in Denpasar	-	137	-	23	-	160
Consulate in Kupang	-	36	-	-	-	36
Land Border Demarcation	-	380	-	90	-	470
Embassy in Washington	-	424	-	53	-	477
Embassy in Canberra	-	233	-	-	-	233
Consulate in Sidney	-	101	-	-	-	101
Consulate in Darwin	-	222	-	-	-	222
Embassy in Kuala Lumpur	-	228	-	5	-	233
Embassy in Brussels	-	328	-	-	-	328
Embassy in Bangkok	-	124	-	-	-	124
Embassy in Tokyo	-	453	-	20	-	473
Embassy in Beijing	-	232	-	-	-	232
Embassy in Maputo	-	176	-	-	-	176
Embassy in Havana	-	149	-	22	-	171
Embassy in Manila	-	136	-	-	-	136
Embassy in Geneva	-	224	-	-	-	224
Embassy in the Vatican	-	216	-	10	-	226
Embassy in Brasilia	-	231	-	-	-	231
Embassy in Seoul	-	137	-	-	-	137
Embassy in CPLP/UNESCO	-	225	-	5	-	230
Embassy in Pretoria	-	224	-	-	-	224
Embassy in Luanda	-	234	-	2	-	236
Embassy in Singapore	-	447	-	6	-	453
Embassy in Vietnam	-	167	-	22	-	189
Consular Agent in Atambua	-	43	-	-	-	43
Embassy in London	-	271	-	-	-	271

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
Consulate in New Zealand	-	219	-	-	-	219
Embassy in Laos	-	106	-	81	-	187
Embassy in Myanmar	-	116	-	81	-	197
Embassy in Cambodia	-	107	-	81	-	188
Embassy in Brunei	-	139	-	82	-	221
Ministry of Defence and Security	**25,550**	**33,951**	**300**	**4,976**	**350**	**65,127**
Ministry of Defence and Security	**72**	**1,974**	**-**	**-**	**-**	**2,046**
Office of the Minister	72	1,974	-	-	-	2,046
Secretary of State for Defence	**762**	**1,790**	**300**	**191**	**350**	**3,393**
Office of the Secretary of State	58	424	180	-	-	662
Directorate-General	13	54	120	-	-	187
Inspectorate and Audit Office	24	51	-	-	-	75
National Directorate of Administration and Finance	50	579	-	153	350	1,132
National Directorate of Planning and International Exchange	518	420	-	14	-	952
National Directorate of Procurement	35	100	-	-	-	135
National Directorate of Legacy	42	84	-	-	-	126
National Directorate of Human Resources	22	78	-	25	-	125
FALINTIL – Defence Forces of Timor-Leste	**7,645**	**11,406**	**-**	**1,988**	**-**	**21,039**
FALINTIL – Defence Forces of Timor-Leste	-	10,357	-	1,988	-	12,345
F-FDTL Headquarters	7,645	1,049	-	-	-	8,694
Secretary of State for Security	**3,725**	**5,092**	**-**	**783**	**-**	**9,600**
Office of the Secretary of State	65	61	-	-	-	126
Directorate-General	53	169	-	-	-	222
Inspectorate and Audit Office	49	95	-	-	-	144
National Directorate of Administration	111	755	-	251	-	1,117
National Directorate of Finance	57	23	-	-	-	80
National Directorate of Civil Protection	1,006	685	-	383	-	2,074
National Directorate of Public Building Safety	1,817	2,209	-	65	-	4,091
National Directorate of Community Conflict Prevention	110	193	-	3	-	306
National Directorate of Procurement	68	40	-	-	-	108
Civil Migration Services	388	864	-	81	-	1,333

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
National Police of Timor-Leste	**13,201**	**12,416**	**-**	**1,859**	**-**	**27,476**
National Directorate of Administration and Finance	13,201	4,626	-	1,459	-	19,286
Special Police Unit	-	1,760	-	100	-	1,860
Border Patrol Unit	-	855	-	161	-	1,016
Maritime Unit	-	1,297	-	10	-	1,307
National Operational Command	-	910	-	94	-	1,004
Police Training Centre	-	922	-	34	-	956
Region I	-	904	-	3	-	907
Region II	-	522	-	-	-	522
Region III	-	518	-	-	-	518
Region of Oecusse	-	101	-	-	-	101
National Defence Institute	**145**	**1,274**	**-**	**154**	**-**	**1,573**
National Defence Institute	145	1,274	-	154	-	1,573
Ministry of Finance	**4,063**	**11,038**	**-**	**200**	**-**	**15,301**
Offices of the Minister and Vice Minister	95	-	-	-	-	95
Directorate-General of Corporative Services	688	11,038	-	200	-	11,926
Directorate-General of State Finance	381	-	-	-	-	381
Directorate-General of Treasury	353	-	-	-	-	353
Directorate-General of Taxes	313	-	-	-	-	313
Directorate-General of Customs	1,328	-	-	-	-	1,328
Directorate-General of Statistics	760	-	-	-	-	760
Ministry Organic Units	145	-	-	-	-	145
Whole of Government Appropriations	**-**	**59,782**	**22,700**	**-**	**-**	**82,482**
Counterpart Fund	-	4,000	-	-	-	4,000
External Audit	-	1,500	-	-	-	1,500
Contingency Reserve	-	24,713	-	-	-	24,713
Membership Fees in International Institutions	-	2,500	-	-	-	2,500
Pensions for Former Holders of Sovereignty Bodies	-	-	5,000	-	-	5,000
Construction of Integrated Border Posts	-	807	-	-	-	807
Contribution Fund for Social Institutions	-	-	5,200	-	-	5,200
Provision for the g7+	-	-	2,500	-	-	2,500

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
Business Registration and Verification Service	-	482	-	-	-	482
Large Project Secretariat	-	1,175	-	-	-	1,175
Provision for Legal Services	-	10,000	-	-	-	10,000
Community of Portuguese Speaking Countries - CPLP	-	2,086	-	-	-	2,086
Provision for a Credit Line through a Banking Institution	-	-	10,000	-	-	10,000
Financial Contribution	-	2,000	-	-	-	2,000
Provision for Statistic Research Activities	-	1,000	-	-	-	1,000
Provision for Transition by Education Professionals	-	9,519	-	-	-	9,519
Ministry of Justice	**3,379**	**4,335**	**11,000**	**777**	**450**	**19,941**
Office of the Minister	78	57	-	-	-	135
Office of the Vice-Minister	65	49	-	-	-	114
Office of the Secretary of State for Lands and Properties	63	39	-	-	-	102
Directorate-General	38	10	-	6	-	54
Inspectorate and Audit Office	63	80	-	6	-	149
National Directorate of Administration and Finance	270	708	-	587	-	1,565
National Directorate of Legal Advisory and Legislation	96	53	-	5	-	154
National Directorate of Human Rights and Citizenship	90	52	-	6	-	148
National Directorate of Registry and Notary Services	563	1,003	-	38	200	1,804
National Directorate of Prison Services and Social Reinsertion	734	928	-	13	250	1,925
Legal Training Centre	92	73	-	13	-	178
Public Defence	673	221	-	26	-	920
National Directorate of Lands, Properties and Mapping Services	530	971	11,000	71	-	12,572
National Commission on Children Rights	23	92	-	7	-	122
Ministry of Health including Autonomous Funds and Services	**27,283**	**28,857**	**9,000**	**2,077**	**-**	**67,217**
Ministry of Health excluding Autonomous Funds and Services	**26,967**	**28,339**	**9,000**	**1,937**	**-**	**66,243**
Office of the Minister	44	530	-	5	-	579
Office of the Vice Minister for Ethics and Service Delivery	43	161	-	4	-	208
Office of the Vice Minister for Management, Support and Resources	43	162	-	4	-	209
Office of Inspectorate, Verification and Audit	157	104	-	-	-	261
Directorate-General	92	268	-	-	-	360
National Directorate of Administration, Logistics and Procurement	633	1,401	4,550	195	-	6,779

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
National Directorate of Planning and Finance	476	975	150	52	-	1,653
National Directorate of Community Health	476	975	150	52	-	1,653
National Directorate of Policy, Planning and Cooperation	114	439	-	2	-	555
National Directorate of Hospital Services	449	13,252	3,900	42	-	17,643
National Laboratory	228	298	-	37	-	563
National Hospital Guido Valadares	5,422	2,655	-	443	-	8,520
Reference Hospital of Baucau	1,733	803	-	193	-	2,729
Reference Hospital of Maliana	1,091	670	-	93	-	1,854
Reference Hospital of Maubisse	1,088	640	-	103	-	1,831
Reference Hospital of Oecusse	1,064	600	-	103	-	1,767
Reference Hospital of Suai	1,351	604	-	103	-	2,058
District Health Services of Aileu	681	196	-	3	-	880
District Health Services of Ainaro	658	256	-	63	-	977
District Health Services of Baucau	1,163	212	-	3	-	1,378
District Health Services of Bobonaro	887	241	-	3	-	1,131
District Health Services of Covalima	905	224	-	63	-	1,192
District Health Services of Dili	1,159	257	-	3	-	1,419
District Health Services of Ermera	1,067	310	-	48	-	1,425
District Health Services of Lautém	1,013	310	-	3	-	1,326
District Health Services of Liquiçá	722	166	-	3	-	891
District Health Services of Manatuto	1,083	342	-	63	-	1,488
District Health Services of Manufahi	815	262	-	63	-	1,140
Health Science Institute	242	360	-	42	-	644
District Health Services of Oecusse	726	205	-	63	-	994
District Health Services of Viqueque	1,225	354	-	48	-	1,627
Office of Ethics and Quality Control	126	115	250	38	-	529
SAMES (Autonomous Fund and Service)	317	518	-	140	-	975
Ministry of Education	**47,506**	**53,447**	**3,060**	**2,605**	**-**	**106,618**
Office of the Minister	75	108	-	-	-	183
Office of the Vice Minister for Basic Education	65	52	-	-	-	117
Office of the Vice Minister for Secondary Education	65	52	-	-	-	117

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
Office of the Vice Minister for Higher Education and Sciences	65	50	-	-	-	115
National Institute of Science and Technology	75	-	-	-	-	75
Office of the Inspector-General	112	47	-	-	-	159
Protocol and Media Office	162	36	-	-	-	198
Directorate-General of Corporative Services	57	21	-	-	-	78
Directorate-General of Higher education	30	33	-	-	-	63
National Directorate of Finance and Logistics	336	9,611	-	1,321	-	11,268
National Directorate of Human Resources	1,423	185	-	-	-	1,608
National Directorate of Procurement	52	16	-	-	-	68
National Directorate of University Higher Education	88	828	2,560	48	-	3,524
National Directorate of Technical Higher Education	79	71	-	-	-	150
National Directorate of Science and Technology Development	80	82	-	-	-	162
National Directorate of School Social Action	120	23,159	-	-	-	23,279
National Directorate of Curriculum and School Evaluation	114	5,221	-	118	-	5,453
National Directorate of Pre-School Education	1,281	184	-	-	-	1,465
National Directorate of Basic Education	31,927	4,145	-	22	-	36,094
National Directorate of General Secondary Education	5,944	328	-	400	-	6,672
National Directorate of Technical and Vocational Secondary Education	1,526	1,844	500	674	-	4,544
National Directorate of Recurrent Education	169	2,051	-	-	-	2,220
Regional Directorate of Oecusse	230	41	-	-	-	271
National Institute for the Training of Teachers and Education Professionals (INFORDOPE)	387	3,765	-	-	-	4,152
District Education Services of Dili	427	39	-	-	-	466
District Education Services of Baucau	205	50	-	-	-	255
District Education Services of Aileu	191	48	-	-	-	239
District Education Services of Ainaro	228	41	-	-	-	269
District Education Services of Bobonaro	286	54	-	-	-	340
District Education Services of Ermera	198	60	-	-	-	258
District Education Services of Lautém	196	61	-	-	-	257
District Education Services of Liquiçá	188	51	-	-	-	239
District Education Services of Manatuto	161	48	-	-	-	209

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
District Education Services of Manufahi	213	52	-	-	-	265
District Education Services of Covalima	251	54	-	-	-	305
District Education Services of Viqueque	190	61	-	-	-	251
National Agency for Academic Assessment and Accreditation (ANAAA)	21	65	-	-	-	86
Directorate-General of Pre-school and Basic Education	45	38	-	-	-	83
Directorate-General of General Secondary Education	21	32	-	-	-	53
National Directorate of School Libraries	49	62	-	-	-	111
National Directorate of Educational Media and Printing Centre	67	608	-	22	-	697
National Directorate of Higher Education Curriculum	82	74	-	-	-	156
Infrastructure Unit	27	20	-	-	-	47
Ministry of State Administration	**5,712**	**8,587**	**20,908**	**1,043**	**721**	**36,970**
Office of the Minister	77	70	-	-	-	147
Office of the Secretary of State for Administrative Decentralization	64	1,286	-	170	-	1,520
Directorate-General of Administrative Decentralization	20	31	-	-	-	51
National Directorate of Municipal Planning and Finance	27	39	-	-	-	66
Office of the Secretary of State for Local Development	64	80	-	-	-	144
Office of the Inspector-General	99	59	-	-	-	158
Directorate-General	15	75	-	-	-	90
National Directorate of Administration and Finance	144	3,209	-	873	721	4,947
National Directorate of Planning, Evaluation and External Cooperation	141	71	-	-	-	212
Procurement Unit	21	60	-	-	-	81
National Directorate of Human Resource Management	44	74	-	-	-	118
National Directorate of Protocol and Media	34	48	-	-	-	82
National Directorate of Logistics and IT	55	158	-	-	-	213
National Archive	125	88	-	-	-	213
Technical Secretariat of Electoral Administration	413	380	-	-	-	793
National Directorate of Local Development	305	259	-	-	-	564
Technical Secretariat for the National Suco Development Programme (STPNDS)	1,605	371	13,637	-	-	15,613
Directorate-General of Development	10	31	-	-	-	41
National Directorate of Support to Suco Administration	60	147	-	-	-	207
National Directorate of Local Administration	308	49	-	-	-	357

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
District Administration of Dili	719	868	991	-	-	2,578
District Administration of Baucau	123	98	904	-	-	1,125
District Administration of Aileu	87	86	455	-	-	628
District Administration of Ainaro	97	86	370	-	-	553
District Administration of Bobonaro	117	98	684	-	-	899
District Administration of Ermera	106	92	833	-	-	1,031
District Administration of Lautém	100	92	498	-	-	690
District Administration of Liquiçá	73	81	389	-	-	543
District Administration of Manatuto	118	98	374	-	-	590
District Administration of Manufahi	91	92	437	-	-	620
District Administration of Oecusse	87	86	234	-	-	407
District Administration of Covalima	143	104	464	-	-	711
District Administration of Viqueque	113	92	640	-	-	845
Municipality Installing Committee	107	28	-	-	-	135
Ministry of Commerce, Industry and Environment	**2,339**	**14,239**	**3,700**	**640**	**-**	**20,918**
Office of the Minister	77	226	-	-	-	303
Office of the Vice-Minister	65	193	-	-	-	258
Office of the Secretary of State for Commerce	63	150	-	-	-	213
Office of the Secretary of State for Industry and Cooperatives	63	175	-	-	-	238
Office of the Secretary of State for the Environment	63	177	-	-	-	240
Internal Audit Office	42	39	-	-	-	81
Legal Office	14	102	-	-	-	116
Directorate-General of Administration and Finance	452	2,307	1,200	640	-	4,599
Directorate-General of Trade	567	896	270	-	-	1,733
Directorate-General of Industry and Cooperatives	342	1,104	1,950	-	-	3,396
Directorate-General of Environment	426	492	280	-	-	1,198
Food and Economic Inspectorate	98	462	-	-	-	560
Food Security Fund	67	7,916	-	-	-	7,983
Ministry of Social Solidarity	**1,850**	**3,839**	**139,425**	**1,101**	**501**	**146,716**
Office of the Minister	78	131	-	-	-	209
Office of the Vice-Minister	60	109	-	-	-	169

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
Office of the Secretary of State for Veteran Affairs	63	223	-	-	-	286
Office of the Secretary of State for Social Security	63	65	-	16	-	144
National Directorate of Non-Contributory Social Security Regime	107	12	34,900	54	-	35,073
National Directorate of Contributory Social Security Regime	43	11	3,300	101	-	3,455
Inspectorate and Internal Audit	40	55	-	23	-	118
Directorate-General	54	77	-	10	-	141
Social Solidarity Regional Centre of Dili	36	54	-	32	-	122
Social Solidarity Regional Centre of Baucau	113	113	-	31	-	257
Social Solidarity Regional Centre of Bobonaro	97	99	-	38	-	234
Social Solidarity Regional Centre of Ermera	78	60	-	33	-	171
Social Solidarity Regional Centre of Manatuto	44	36	-	42	-	122
Social Solidarity Regional Centre of Manufahi	71	71	-	72	-	214
Social Solidarity Regional Centre of Oecusse	76	77	-	26	-	179
National Directorate of Administration and Finance	151	736	-	35	-	922
National Directorate of Human Resource Management	83	849	-	24	-	956
National Directorate for Veteran Affairs	138	215	85,200	93	-	85,646
National Directorate of Social Assistance	164	134	1,659	249	501	2,707
National Directorate of Social Reinsertion	137	130	10,586	12	-	10,865
National Directorate of Disaster Management	133	180	3,780	44	-	4,137
National Rehabilitation Centre	21	402	-	168	-	591
Ministry of Public Works including Autonomous Funds and Services	**6,308**	**117,358**	**-**	**1,083**	**16,664**	**141,413**
Ministry of Public Works excluding Autonomous Funds and Services	**5,367**	**114,379**	**-**	**1,083**	**16,664**	**137,493**
Office of the Minister of Public Works	77	99	-	-	-	176
Office of the Secretary of State for Public Works	63	31	-	-	-	94
Office of the Secretary of State for Electricity	63	57	-	-	-	120
Office of the Secretary of State for Water, Sanitation and Urbanism	63	20	-	-	-	83
Directorate-General of Corporative Services	321	4,191	-	1,083	16,664	22,259
Directorate-General of Public Works	1,253	458	-	-	-	1,711
Directorate-General of Electricity	2,258	108,437	-	-	-	110,695
Directorate-General of Water, Sanitation and Urbanism	1,269	1,086	-	-	-	2,355
Equipment Management Institute (Autonomous Fund and Service)	941	2,979	-	-	-	3,920

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
Ministry of Transports and Communications including Autonomous Funds and Services	**1,700**	**6,682**	**-**	**6,419**	**2,830**	**17,631**
Ministry of Transports and Communications excluding Autonomous Funds and Services	**1,212**	**3,658**	**-**	**1,381**	**2,030**	**8,281**
Office of the Minister	73	60	-	-	-	133
Office of the Vice-Minister of Transports and Communications	94	84	-	10	-	188
Directorate-General of Corporative Services	226	2,515	-	162	-	2,903
Directorate-General of Transports and Communications	694	915	-	1,162	2,030	4,801
Civil Aviation Authority of Timor-Leste (AACTL)	125	84	-	47	-	256
Airport and Air Navigation Administration of Timor-Leste (Autonomous Fund and Service)	341	339	-	27	500	1,207
Port Authority of Timor-Leste (Autonomous Fund and Service)	147	2,685	-	5,011	300	8,143
Ministry of Agriculture and Fisheries	**6,504**	**15,500**	**750**	**2,493**	**-**	**25,247**
Office of the Minister	78	76	-	-	-	154
Office of the Vice-Minister	65	66	-	-	-	131
Office of the Secretary of State for Forests and Nature Preservation	63	43	-	-	-	106
Office of the Secretary of State for Fisheries	63	47	-	-	-	110
Office of the Secretary of State for Livestock	63	60	-	-	-	123
Office of the Director-General	29	22	-	-	-	51
National Directorate of Administration and Finance	1,049	1,555	-	1,906	-	4,510
Inspectorate and Audit	21	17	-	-	-	38
Legal Office	18	9	-	-	-	27
Protocol and Media Office	14	10	-	-	-	24
National Directorate of Special Services and Research	209	323	-	27	-	559
National Directorate of Quarantine and Biosecurity	84	123	-	-	-	207
National Directorate of Agricultural Technical Training	481	341	-	260	-	1,082
National Directorate of Policy and Planning	113	2,531	-	-	-	2,644
National Directorate of Agriculture and Horticulture	177	5,937	-	-	-	6,114
National Directorate of Plants, Industry and Agribusiness	185	365	-	-	-	550
National Directorate of Forestry	250	467	750	-	-	1,467
National Directorate of Irrigation and Water Use Management	136	617	-	300	-	1,053

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
National Directorate of Fisheries and Aquaculture	310	491	-	-	-	801
National Directorate of Livestock and Veterinary Services	276	1,186	-	-	-	1,462
National Directorate of Support to Agriculture Commercial Development	132	162	-	-	-	294
Agriculture Services in the District of Aileu	116	46	-	-	-	162
Agriculture Services in the District of Ainaro	153	64	-	-	-	217
Agriculture Services in the District of Baucau	275	94	-	-	-	369
Agriculture Services in the District of Bobonaro	308	115	-	-	-	423
Agriculture Services in the District of Covalima	258	107	-	-	-	365
Agriculture Services in the District of Ermera	165	62	-	-	-	227
Agriculture Services in the District of Liquiçá	163	71	-	-	-	234
Agriculture Services in the District of Lautém	257	99	-	-	-	356
Agriculture Services in the District of Manatuto	209	93	-	-	-	302
Agriculture Services in the District of Manufahi	252	97	-	-	-	349
Agriculture Services in the District of Oecusse	251	98	-	-	-	349
Agriculture Services in the District of Viqueque	281	106	-	-	-	387
Ministry of Tourism	**944**	**3,173**	**1,780**	**261**	**750**	**6,908**
Office of the Minister	72	314	-	12	-	398
Inspectorate and Internal Audit Office	49	51	-	12	-	112
Office of the Secretary of State for Arts and Culture	63	195	-	11	-	269
Directorate-General of Tourism	33	252	1,780	9	-	2,074
Directorate-General of Culture	74	379	-	32	150	635
Inspectorate-General of Lotteries	73	87	-	2	-	162
National Directorate of Museums and Libraries	53	62	-	3	-	118
National Directorate of Cultural Legacy	61	97	-	-	-	158
National Directorate of Arts, Culture and Creative Industries	54	89	-	-	-	143
National Directorate of Tourism Marketing	46	126	-	-	-	172
National Directorate of Tourism Planning and Development	35	177	-	-	600	812
National Directorate of Tourism Enterprises, Activities and Products	56	140	-	5	-	201
National Directorate of Museums	46	74	-	3	-	123
Academy of Cultural Creative Industries and Arts	-	37	-	3	-	40
Directorate-General of Administration and Finance	52	216	-	109	-	377

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
National Directorate of Human Resource Management	35	88	-	5	-	128
National Directorate of Finance Management	47	205	-	47	-	299
National Directorate of Procurement and Logistics	44	537	-	3	-	584
National Directorate of Research and Development	51	47	-	5	-	103
Ministry of Oil and Mineral Resources	**253**	**1,843**	**8,700**	**104**	**-**	**10,900**
Office of the Minister	60	589	-	-	-	649
National Directorate of Administration and Finance	127	816	8,700	104	-	9,747
National Directorate of Minerals	66	438	-	-	-	504
Courts	**1,014**	**2,082**	**-**	**991**	**-**	**4,087**
Superior Council of the Judiciary	31	7	-	-	-	38
Court of Appeal	642	1,865	-	991	-	3,498
District Courts	341	210	-	-	-	551
Office of the Prosecutor-General of the Republic	**1,422**	**1,622**	**-**	**348**	**236**	**3,628**
Office of the Prosecutor-General of the Republic	1,130	1,535	-	348	236	3,249
District Prosecution of Baucau	110	32	-	-	-	142
District Prosecution of Suai	91	36	-	-	-	127
District Prosecution of Oecusse	91	19	-	-	-	110
Office of the Provedor for Human Rights and Justice	**520**	**801**	**-**	**221**	**-**	**1,542**
Office of the Provedor for Human Rights and Justice	520	801	-	221	-	1,542
Public Radio and Television Broadcasting Service of Timor-Leste	**734**	**1,478**	**-**	**1,056**	**-**	**3,268**
Directorate of Information	234	152	-	-	-	386
Directorate of Administration and Finance	151	1,040	-	335	-	1,526
Directorate of Programming	149	190	-	-	-	339
Directorate of Technical Support	200	96	-	722	-	1,018
National Elections Commission	**542**	**659**	**5,000**	**2,727**	**-**	**8,928**
National Elections Commission	542	659	5,000	2,727	-	8,928
Anti-Corruption Commission	**388**	**1,252**	**-**	**178**	**-**	**1,818**
Anti-Corruption Commission	388	1,252	-	178	-	1,818
Civil Service Commission	**1,003**	**2,820**	**-**	**-**	**-**	**3,823**
Civil Service Commission	684	2,705	-	-	-	3,389

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
National Institute of Public Administration	319	115	-	-	-	434
National University of Timor-Leste	**6,697**	**4,789**	**2,205**	**254**	**500**	**14,446**
National University of Timor-Leste	6,697	4,789	2,205	254	500	14,445

3.4 Attachment III: Autonomous Agencies Partly Funded by Own Revenues

Autonomous Funds and Services partly funded from own revenues within the 2014 State Budget (US$'000)

	Expenses	Own Revenues	SB Funding
ANATL			
Salaries & Wages	341		
Goods & Services	339		
Minor Capital	27		
Capital Development	500		
Transfers	-		
Total	**1,207**	**1,433**	**-226**
APORTIL (Inc. Berlin-Nakroma)			
Salaries & Wages	147		
Goods & Services	2,685		
Minor Capital	5,011		
Capital Development	300		
Transfers	-		
Total	**8,143**	**3,074**	**5,069**
IGE			
Salaries & Wages	941		
Goods & Services	2,979		
Minor Capital	-		
Capital Development	-		
Transfers	-		
Total	**3,920**	**260**	**3,660**
SAMES			
Salaries & Wages	317		
Goods & Services	518		
Minor Capital	140		
Capital Development	-		
Transfers	-		
Total	**974**	**-**	**974**
Total Autonomous Funds and Services	**14,245**	**4,768**	**9,476**

3.5 Attachment IV: Budget Appropriations Infrastructure Fund

Programmes / Sub-programmes	Expenses funded by carry-over from 2013 $ 000	Salaries & Wages $ 000	Goods & Services $ 000	Transfers $ 000	Capital Development (to add in 2014) $ 000	Total Expenses $ 000
Total Including Loans	**221,013**	-	-	-	**204,122**	**425,135**
Total Excluding Loans	**202,905**	-	-	-	**171,181**	**374,087**
Total Loans	**18,108**	-	-	-	**32,941**	**51,049**
Programme for Agriculture and Fisheries (Irrigation and Fishing Port)	3,341	-	-	-	**3,624**	**6,965**
Programme for Water and Sanitation	3,800	-	-	-	**4,000**	**7,800**
Programme for Urban and Rural Development	2,250	-	-	-	**5,000**	**7,250**
Programme for Public Buildings	12,308	-	-	-	**9,228**	**21,536**
Programme for Infrastructures and Financial IT System	8,870	-	-	-	**10,950**	**19,820**
Programme for the Sector of Youth and Sports (sporting infrastructures)	650	-	-	-	**1,150**	**1,800**
Programme for the Sector of Education (Schools and Universities)	5,789	-	-	-	**3,700**	**9,489**
Programme for Electricity	40,323	-	-	-	**16,027**	**56,350**
Programme for IT	3,792	-	-	-	**408**	**4,200**
Millennium Development Goal (Water and Sanitation and Housing)	27,000	-	-	-	**-**	**27,000**
Programme for the Sector of Health (Hospitals and Health Posts)	2,729	-	-	-	**2,313**	**5,042**
Programme for Defence and Security	8,735	-	-	-	**11,696**	**20,431**
Programme for Social Solidarity (Monuments)	267	-	-	-	**500**	**767**
Programme for Developing Tasi Mane	33,070	-	-	-	**13,230**	**46,300**
Programme for Roads	19,159	-	-	-	**37,852**	**57,011**

Programme for Bridges	3,858	-	-	-	**16,001**	**19,859**
Programme for the Sector of Airports	5,967	-	-	-	**4,550**	**10,517**
Programme for the Sector of Sea Ports	4,200	-	-	-	**9,025**	**13,225**
Programme for Developing the Region of Oecusse	5,192	-	-	-	**15,677**	**20,869**
Programme for the Sector of Tourism	-	-	-	-	**2,850**	**2,850**
Drafting of Designs and Supervision – New Projects	11,607	-	-	-	**3,400**	**15,007**
Programme for Loans (Roads, Water and Sanitation, Airport)	18,108	-	-	-	**32,941**	**51,049**

3.6 Attachment V: Budget Appropriations Human Capital Development Fund

Human Capital Development Fund

Programmes	Expenses funded by carry-over from 2013	Salaries & Wages	Goods & Services (to add in 2014)	Transfers	Capital Development	Total Expenses
	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Total	**3,078**	**-**	**36,922**	**-**	**-**	**40,000**
Professional Training	110	-	10,006	-	-	**10,116**
Technical Training	140	-	4,410	-	-	**4,549**
Scholarships	2,082	-	20,132	-	-	**22,214**
Other Types of Training	748	-	2,373	-	-	**3,121**

Part 4: 2014 Supporting Documentation

4.1 Justification for Transfer from the Petroleum Fund

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N. º Ref. 1308 GPM/X/2013

Assunto: Justificação da transferência superior ao Rendimento Sustentável Estimado do Fundo Petrolífero

Excelência,

Declara a Lei n.º 12/2011 "Primeira alteração à Lei n.º 9/2005 de 3 de Agosto, Lei do Fundo Petrolífero", no seu Artigo 9.º, que sempre que se apresente uma necessidade de proceder a uma transferência do Fundo que exceda o Rendimento Sustentável Estimado, o Governo deve expor ao Parlamento Nacional uma justificação detalhada que explique o interesse nacional desse trâmite.

A par com a submissão, para consideração e aprovação do Parlamento Nacional, da Proposta de Lei do Orçamento Geral do Estado para 2013, vimos apresentar a Vossa Excelência a presente justificação para cumprir com o requisito legal mencionado.

Enquanto Governo, temos sempre presente na nossa acção governativa que as decisões que tomamos num momento têm um impacto não apenas imediato, mas com repercussões nas décadas seguintes, afectando igualmente as gerações futuras. Em poucos decisões este facto será tão real como na justificação do levantamento do Fundo Petrolífero acima do Rendimento Sustentável Estimado. É por esta razão que imprimimos a esta decisão a responsabilidade, o profissionalismo e a transparência que a mesma exige.

Responsabilidade, profissionalismo e transparência têm aliás sido os princípios primordiais que têm orientado o compromisso do V Governo Constitucional, nesta fase que o país atravessa. Já o IV Governo tinha iniciado em 2008 uma Reforma profunda da gestão do Estado para assegurar que o grande projecto do desenvolvimento de Timor-Leste tinha alicerces sólidos que garantissem daí para a frente a eficiência e a prestação de contas do aparelho de Estado.

Esse propósito não tem sido negligenciado nestes últimos anos, sendo, pelo contrário, um fundamento basilar do Programa do Governo o fortalecimento de uma arquitectura

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institucional que aperfeiçoe os mecanismos de monitorização e de fiscalização do sector público.

Dessa arquitectura fazem parte instituições como a Comissão da Função Pública, a Comissão Anti-Corrupção, a Câmara de Contas ou a Inspecção-Geral do Estado, que por diferentes perspectivas observam e garantem a eficácia e o profissionalismo na gestão das contas públicas. O Ministério das Finanças reserva também um protagonismo essencial nesse âmbito pelo controlo da excução da despesa e seus resultados. Hoje contamos ainda com a Secretaria de Estado para o Fortalecimento Institucional que conduz auditorias de desempenho e fiscalização, a todas as linhas ministeriais, corrigindo por dentro a capacidade da nossa administração pública.

A persistência e o compromisso determinado com a transparência e a responsabilidade da acção governativa em Timor-Leste têm sido reconhecidos internacionalmente. Inclusivamente no que concerne à gestão do Fundo Petrolífero, o relatório internacional do Instituto "Revenue Watch" que dá conta da transparência na gestão dos recursos valoriza muito positivamente o cumprimento exemplar de Timor-Leste da Iniciativa de Transparência das Indústrias Extractivas.

Com esse compromisso pela transparência e dentro do espirito da Lei, é o interesse nacional a longo prazo que hoje aqui apresentamos, num compromisso com um desenvolvimento que se quer inclusivo e imperativamente sustentável. Os nossos objectivos para 2014, não são senão parte de um quadro mais amplo de desenvolvimento integrado a médio e longo prazo, no âmbito da implementação do Plano Estratégico de Desenvolvimento 2011-2030.

Aquilo com que ambicionamos para o curto prazo, os objectivos que queremos para 2014, são peça-chave no futuro das gerações vindouras.

Para melhor nortear a continuidade da estratégia nacional, em Março deste ano, foi aprovado em Conselho de Ministros um novo Mecanismo que visa melhorar o planeamento, coordenação e monitorização da implementação do Programa do Governo e do Plano Estratégico de Desenvolvimento 2011-2030. O Mecanismo de Coordenação de Politicas de Desenvolvimento tenderá a ser o principal instrumento de seguimento das politicas de desenvolvimento de Timor-Leste, favorecendo uma maior coordenação inter-ministerial, assim como entre o Governo e os Parceiros de Desenvolvimento.

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Através deste Mecanismo podemos assegurar uma melhor articulação entre os Planos Anuais dos próximos anos e aqueles que são os documentos orientadores da nossa estratégia de médio e longo prazo, respectivamente o Programa do V Governo Constitucional e o Plano Estratégico de Desenvolvimento.

Neste quadro, o Orçamento Geral do Estado para 2014 é perfeitamente coerente com esta visão de médio e longo prazo. O Plano Estratégico de Desenvolvimento propõe que na primeira década da sua implementação seja o Estado a liderar o processo de desenvolvimento económico, assegurando as condições necessárias no país para que mais tarde o sector privado possa assumir esse protagonismo.

Essas condições passam pelo reforço de 4 pilares essenciais que, num espírito de continuidade com o Governo anterior, temos vindo a priorizar:

- Capital humano
- Desenvolvimento das infra-estruturas
- Governação e fortalecimento das Instituições
- Crescimento Económico.

O novo mecanismo monitorizará cada um destes sectores estratégicos de uma forma integrada, de forma a garantir a articulação dos princípios últimos do crescimento, da inclusividade, da resiliência e da sustentabilidade.

Em termos de crescimento económico, temos alcançado resultados muito esperançosos, com um crescimento médio desde 2008 de 11,9% e com a previsão de que se mantenha na ordem dos dois dígitos. Mas este crescimento só se poderá manter se for aliado a um compromisso com a inclusão social, à manutenção de instituições do Estado resilientes e a uma perspectiva de sustentabilidade a longo prazo.

Só a combinação destes princípios permitiu que superássemos juntos crises cíclicas e períodos de instabilidade, saindo destes reforçados porque nos obrigaram a olhar para dentro e a corrigir o caminho de construção nacional que queríamos fazer.

A paz e a estabilidade, conseguidas pela estreita colaboração de todos os órgãos de soberania, aliadas agora ao crescimento económico, começam a ter um impacto visível, mas também mais duradouro na vida da nossa comunidade. Esse impacto é tão mais relevante quando se reflecte não apenas numa maior capacidade de sonhar com o futuro, mas na sua concretização no dia-a-dia. Se o combate ao flagelo da pobreza continua a ser uma prioridade crucial do nosso Governo e nos indica que há muito

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percurso pela frente, a verdade é que alguns sinais nos indicam que o caminho escolhido foi o acertado.

Em Junho deste ano, foi aberto o balcão único SERVE que veio facilitar o registo de empresas. Aliado ao apoio que que se tem vindo a prestar às pequenas e médias empresas, cooperativas e grupos industriais e comerciais, este veio dinamizar muito positivamente a nossa economia. Desde então e até à data, neste curto espaço de tempo, o número de empresas que iniciaram actividade ascende às 1470, sendo, destas, a imensa maioria – 1279 – empresas nacionais.

Este resultado é fruto das reformas cruciais que temos vindo a desenvolver e da estabilidade que conseguimos alcançar. Estamos a viver um periodo de paz continuada que permite aos nossos cidadãos não apenas sonhar, mas investir num futuro melhor.

A abertura de empresas por timorenses mostra que por um lado os nossos profissionais têm capacidades próprias para desenvolver novas actividades económicas e que o investimento na educação e na formação profissional começa a dar frutos. Mostra que as condições básicas para esse desenvolvimento começam a existir, ao nível das infra-estruturas que oferecem a logística de base e ao nível das instituições que enquadram o esforço individual num projecto colectivo. Mostra que o crescimento económico nacional está a gerar emprego e melhores condições de vida. Mas mostra também que existe confiança no nosso projecto de Nação que permite aos timorenses concretizar o seu futuro pelas próprias mãos. A estabilidade e a paz conseguidas foram fundamentais para este espírito de confiança. O papel do Estado como potenciador do crescimento económico começa então a contagiar o sector privado.

O empreendorismo nacional demonstra que o Plano que traçámos para o desenvolvimento de Timor-Leste está a funcionar.

Queremos por isso continuar este caminho, do qual vislumbramos por agora apenas o início.

Sabemos que tanto está ainda por fazer, que grandes desafios estão por ultrapassar, por isso queremos persistir neste projecto de crescimento inclusivo que é feito por todos e para todos.

O levantamento adicional do Fundo Petrolífero que aqui colocamos à vossa consideração será orientado fundamentalmente para infra-estruturas e desenvolvimento

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do capital humano, ambas condições cruciais para que Timor-Leste possa continuar o momento de notável crescimento económico, de forma inclusiva e sustentável.

Queremos com esse investimento adicional continuar a investir na educação e na formação profissional com carácter de prioridade. Estamos a formar os jovens que serão os cidadãos e profissionais de Timor-Leste nas próximas décadas. Queremos fazê-lo com uma cada vez mais sólida articulação com as necessidades do mercado de trabalho, através de iniciativas como um sistema de estágios, atribuição de bolsas, centros nacionais de formação profissional em todo o país e a instalação de centros de auto emprego nos 13 distritos.

Queremos também assegurar que os nossos estudantes estão bem nutridos, com programas como os da merenda escolar.

Reforçaremos o atual pacote de prestação de cuidados de saúde primários fazendo chegar estes serviços a cada timorense, a cada mãe e a cada filho, aos nossos velhos e mais frágeis. Além destes serviços mínimos, queremos investir igualmente numa série de serviços especializados para elevar o quadro hospitalar em Timor-Leste respondendo às necessidades dos nossos cidadãos. Este esforço terá que incidir igualmente na formação de pessoal qualificado, e para isso prevemos que até 2016, haja mais de 1.000 graduados de medicina timorenses a trabalhar como médicos de pleno direito em Timor-Leste.

Este capital adicional será, assim, orientado para o desenvolvimento das infra-estruturas fundamentais que sirvam os timorenses em todos os aspectos da melhoria das suas condições de vida.

Em Agosto deste ano, foi inaugurada a Central Eléctrica de Betano o que melhorará consideravelmente o acesso à Electricidade em todo o país. Além da Electricidade, continuaremos a investir em água e saneamento com programas como a instalação de 27.000 casas-de-banho por todo o país, ou a construção e reabilitação de 80 sistemas de água potável nas áreas rurais.

Outra prioridade que continuaremos a reforçar é a da construção de uma infra-estrutura rodoviária, de nível internacional, combinada com um sector de transportes articulado, numa rede que é crucial para o desenvolvimento integrado de todos os sectores, da saúde à educação, do comércio ao turismo, numa visão compreensiva do país como um todo.

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O investimento nas infra estruturas é basilar como capitalizador da actividade económica e concebêmo-lo também a pensar nos sectores de futuro, como o plano de desenvolvimento da Costa Sul, ou como uma série de instalações viradas para as nossas relações externas – como o Porto de Tibar e as melhorias no Aeroporto Internacional Nicolau Lobato.

Queremos igualmente investir na modernização dos nossos sectores económicos tradicionais, como a agricultura e a pesca. Nestes sectores continuaremos a apostar numa combinação entre formação, novos recursos técnicos – como sejam os sistemas de irrigação ou de processamento de peixe – e serviços de apoio com vista ao aumento da produtividade.

Das comunidades que vivem junto ao mar, às que se concentram nas montanhas, queremos que este projecto de desenvolvimento nacional seja integrado, chegando a todos os timorenses, para que possamos continuar o caminho do crescimento que agora começamos, mas de um crescimento inclusivo.

Dado que o potencial de crescimento deve ser equilibrado em todo o país, duas iniciativas tiveram também especial atenção em 2013 que mercem menção nesta reflexão: as consultas populares desenvolvidadas no âmbito do projecto de descentralização e os passos dados no estabelecimento das Zonas económicas especiais.

No primeiro caso, as consultas populares permitiram descortinar a vontade dos timorenses sobre o processo de descentralização, evidenciando um sentido entusiasmo com um maior envolvimento na tomada de decisões, assim como com a potencialidade de uma prestação de serviços públicos mais eficaz e adequada às suas necessidades. Este processo de auscultação foi crucial para definir com mais clareza a intenção que temos de estabelecer neste mandato 3 a 5 municipios no país.

No segundo caso, o projecto para o qual contamos com a experiência e profissionalismo do Dr. Mari Alkatiri, ensaia de forma pioneira, no Oecussi, um investimento que associa uma componente social profunda a uma outra de cariz económico, com vista a um impacto equilibrado e abrangente daquele distrito que pelas suas condições particulares apresenta desafios singulares no espaço do Timor-Leste. Com a criação da Zona Especial de Economia Social de Mercado, pretendemos dar um arranque integrado ao

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desenvolvimento do Oecussi que tenha um impacto claro na melhoria da vida das populações pelo fomento da produtividade e do empreendedorismo local.

Finalmente, queremos continuar a pensar no desenvolvimento do pais, olhando também para o exterior, fortalecendo as relações com os nossos parceiros mundiais. O OGE 2014 presta por isso especial atenção ao posicionamento de Timor-Leste no mundo, sendo um ano particularmente importante pela futura Presidência da CPLP e pelo nosso esforço de adesão à ASEAN.

No quadro internacional, queremos igualmente apostar nas potencialidades de uma abordagem sub-regional para o desenvolvimento, com o estabelecimento de uma parceria especial triangular com as províncias vizinhas da Indonésia e o Northern Territory da Austrália. Essa iniciativa tri-lateral, para o desenvolvimento económico regional integrado dos três Estados, pretende reforçar vínculos na área económica em sectores tão diversos como o turismo, a I&D, a energia ou a agricultura, alavancando o sector privado num novo quadro de cooperação multissectorial externa. Mas contará também com uma componente social e cultural fundamental articulada com a promoção de atividades comerciais, geradoras de riqueza, emprego e qualidade de vida para as comunidades locais.

Com projectos como os aqui mencionados, breves exemplos de um plano estratégico claro e coerente, pretendemos conduzir Timor-Leste a uma nova etapa de crescimento que se quer consolidado, inclusivo, sustentável. O Orçamento Geral do Estado para 2014 espelha na sua totalidade esta intenção de investir drásticamente na melhoria das condições de vida dos timorenses.

Se esse objectivo está manifesto na categoria de despesas de capital de desenvolvimento, está também plasmado na categoria de despesas recorrentes. Não servem essas últimas para manter simplesmente o aparelho de Estado em funcionamento como tal, mas antes congregam investimentos físicos e sociais que correspondem afinal a funções de serviço público basilar que assumimos como prioritárias. Destas podemos destacar a compra de medicamentos e equipamento médico ou de sementes, a prestação de subsídios aos Veteranos e as Bolsas de Mãe, programas como o da Merenda Escolar ou o de salários para professores voluntários.

Em perfeita articulação com o Programa do V Governo Constitucional e com o Plano Estratégico de Desenvolvimento 2011-2030, este OGE para 2014 dá continuidade e

Palácio do Governo,
Avenida Presidente Nicolau Lobato,
Díli, Timor-Leste

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Primeiro-Ministro

coerência a um projecto nacional abrangente que até aqui se tem feito com o compromisso notável de todos os timorenses.

Exposto isto, Senhor Presidente do Parlamento Nacional, o Governo está a dar cumprimento àquilo que se comprometeu, ou seja, dar continuidade às reformas e investimentos que têm comprovadamente obtido resultados satisfatórios para a Nação e para melhorar as condições de vida de todo o Povo.

Por outras palavras, estamos a investir o Fundo Petrolífero nos sectores produtivos do país, na diversificação da economia e na qualificação e dignidade dos timorenses. Por esta razão, consideramos que o levantamento do Fundo Petrolífero acima do RSE se justifica pelo seu interesse nacional de longo prazo.

Excelência,

Concluindo,

Para terminar, junto o "Relatório com a estimativa do montante em que ficará o RSE dos exercícios orçamentais subsequentes, por força de transferência a partir do Fundo Petrolífero de montante superior ao Rendimento Sustentável Estimado", cumprindo assim o requisito legal, da alínea b) artigo 9.º da Lei do Fundo Petrolífero. No que concerne à alínea c) do mesmo artigo, o "Relatório do Auditor Independente que certifique as estimativas de redução do rendimento sustentável estimado" será enviado com a maior brevidade possível, aguardando-se a certificação do Auditor independente.

Aceite Vossa Excelência a minha mais elevada consideração e estima.

Dili, 22 de Outubro de 2013

Kay Rala Xanana Gusmão
Primeiro-Ministro

Sua Excelência
Presidente do Parlamento Nacional
Senhor Dr. Vicente Guterres
Dili

Palácio do Governo,
Avenida Presidente Nicolau Lobato,
Díli, Timor-Leste

República Democrática de Timor-Leste
Ministério das Finanças

Gabinete da Ministra

"Seja um bom cidadão, seja um novo héroi para a nossa Naçao"

No: ______ / IV/GMF / 2013 Date, 17-10-2013

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

SUBJECT: REQUIREMENT FOR TRANSFERS FROM PETROLEUM FUND

Excellency,

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

The Estimated Sustainable Income is calculated in accordance with provisions outlined in Schedule 1 of the Petroleum Fund Law.

Estimated Sustainable Income For Financial Year: 2014	**Amount (USD)** $632.3 million
Estimated Sustainable Income For preceding Financial Year: 2013	**Amount (USD)** $787.0 million

A review of the methodology which the ESI-calculations are based on is included in the Budget 2014.

According to Article 8 c) of the Petroleum Fund Law, the Independent Auditor shall certify the amount of the Estimated Sustainable Income. The certification report is attached.

Yours sincerely,

Emilia Pires
Minister of Finance

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República Democrática de Timor-Leste
Ministério das Finanças

Gabinete da Ministra

"Seja um bom cidadão, seja um novo héroi para a nossa Naçao"

No: ______ / V/GMF / 2013 Date, 17-10-2013

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

SUBJECT: REQUIREMENT FOR TRANSFERS FROM PETROLEUM FUND

Excellency,

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

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

Fiscal Year	Estimated Sustainable Income Withdrawals in 2014	
	$632.3 million	**$902.9 million**
2015	647.1	638.7
2016	663.9	655.3
2017	681.6	672.8
2018	700.0	691.0
2019	718.8	709.5
2020	737.7	728.2
2021	757.2	747.5
2022	777.2	767.2
2023	797.5	787.2
2024	818.1	807.5
2025	839.2	828.4

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

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

Yours sincerely,

Emilia Pires
Minister of Finance

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4.2 Deloitte report

Deloitte.

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

16 October 2013

Dear Minister

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

In accordance with Contract RDTL 83683 and subsequent addenda we have performed certain agreed upon-procedures solely for the purpose of providing a report to the Government of the Democratic Republic of Timor-Leste in accordance with Article 9 (c) of Law 9/2005 *Petroleum Fund Law* as amended by Law 12/2011 *First Amendment to Petroleum Fund Law*. Our engagement was performed in accordance with the International Standard on Related Services (ISRS) 4400 *Engagements to Perform Agreed-upon Procedures Regarding Financial Information*. This report should be read in conjunction with our contract which sets out the basis on which our work was performed.

Scope of work and statement of responsibility
At your request and agreement, we performed the procedures set out in the table below. The scope of our work was limited solely to those procedures. You are responsible for determining whether the scope of our work is sufficient for your purposes and we make no representations regarding the sufficiency of these procedures for your purposes. If we were to perform additional procedures, other matters might have come to our attention that would be reported to you.

This report should not be taken to supplant any other enquiries and procedures that may be necessary to satisfy the requirements of the recipients of the report.

The procedures we performed did not constitute a review or an audit of any kind and we have not expressed any opinion or drawn any conclusions on the procedures we have performed. We did not subject the information contained in this report or given to us by the Ministry of Finance to checking or verification procedures except to the extent expressly stated below. This is normal practice when carrying out such limited scope procedures, but contrasts significantly with, for example, an audit. The procedures we performed were not designed to and are not likely to have revealed fraud or misrepresentation by the Ministry of Finance. Accordingly, we cannot accept responsibility for detecting fraud (whether by management or by external parties) or misrepresentation by the management of the Ministry of Finance.

This report is provided solely for your exclusive use and solely for the purpose of satisfying the requirements Article 9 (c) of Law 9/2005 *Petroleum Fund Law* as amended by Law 12/2011 *First Amendment to Petroleum Fund Law*. Our report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without our prior written express consent. We accept no duty, responsibility or liability to any other party in connection with the report or this engagement.

Procedures and Findings

Procedures	Findings
1. Obtain the underlying calculations which support the report of Government that is to be provided to Parliament pursuant to Article 9(b).	1. The underlying calculations which support the report of Government to be provided to Parliament pursuant to Article 9(b) were obtained from the Ministry of Finance on 7 October 2013.
2. Agree the calculation methodology to the Estimated Sustainable Income calculation for the Fiscal Year Budget 2014 as previously obtained by Deloitte.	2. The calculation methodology was agreed to that of the Estimated Sustainable Income calculation used for the Fiscal Year Budget 2014 as previously obtained by Deloitte.
3. Obtain the value of the proposed Government transfer being an amount in excess of the Estimated Sustainable Income calculated by the Government for purposes of the Fiscal Year Budget 2014 and agree the value to the updated underlying calculation, which incorporates the proposed Government transfer.	3. A Government transfer of US$902.9 million was advised by the Ministry of Finance to Deloitte and is noted to exceed the Estimated Sustainable Income of US$632.3 million as previously calculated by the Government for purposes of the Fiscal Year Budget 2014, by US$270.6 million. The US$902.9 million was incorporated into the updated underlying calculation.
4. Re-perform the calculation of the estimated reduction in the Estimated Sustainable Income for the Fiscal Years commencing 1 January 2015 that results from the proposed Government transfer from the Petroleum Fund in Fiscal Year 2014.	4. The calculation of the estimated reduction in the Estimated Sustainable Income for future Fiscal Years commencing 1 January 2015 was re-performed without exception. The estimated reduction in the Estimated Sustainable Income in each future year from 2015 to 2025 ranged from US$8.4 million to US$10.8 million over the period as set out in Appendix A.
5. Provide a report to Government in accordance with of Law 9/2005 *Petroleum Fund Law* as amended by Law 12/2011 *First Amendment to Petroleum Fund Law*.	5. Report herewith.

Yours faithfully

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu

APPENDIX A

Projected future payments

Excess of the Estimated Sustainable Income in 2014:

Fiscal Year	Estimated Sustainable Income Withdrawals in 2014	
	$632.3 million	$902.9 Million
2015	647.1	638.7
2016	663.9	655.3
2017	681.6	672.8
2018	700.0	691.0
2019	718.8	709.5
2020	737.7	728.2
2021	757.2	747.5
2022	777.2	767.2
2023	797.5	787.2
2024	818.1	807.5
2025	839.2	828.4

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

MINISTRY OF FINANCE

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