PART 2

ECONOMIC OUTLOOK

7. MACROECONOMIC POLICY FRAMEWORK

VISION

7.1 To sustain our vibrant traditional culture and beautiful environment, while moving to faster growth in production and employment, so as to provide significant improvements in opportunities, living standards and services for all East Timorese. Central to achieving our vision will be the management of our economy and finances in efficient, transparent and corruption free ways.

INTRODUCTION

7.2 This chapter focuses on the policy framework for macroeconomics and public finance, mainly over the five-year planning period, but also in relation to the longer term. The related *State of the Nation* Report addressed itself to recent macroeconomic and public finance policies and conditions in East Timor and should be read in conjunction with this chapter, which is essentially forward policy oriented in nature. Chapter 8 (Medium Term Economic and Financing Outlook) of this document also addresses related macroeconomic issues.

7.3 With the onset of political independence come additional and challenging responsibilities for managing the national economy and public finances. Aspirations and expectations of the people are high. Sound but creative macroeconomic and public finance policies will be needed over an extended period if hopes and expectations are to be met.

7.4 East Timor is still recovering from the extreme difficulties of long periods of external rule, which culminated in the 1999 emergency. Significant further economic adjustment will be needed over the next two to three years as the United Nations fully withdraws and as current investment programs from bilateral donors and the Trust Fund for East Timor (TFET) reduce in size, and in some cases terminate completely.

7.5 In these circumstances the immediate challenge is to consolidate on the economic institutions and framework that have been put in place and particularly to ensure that public finances are placed on a sound and sustainable medium term path. Provided the transition away from the United Nations period is successfully manoeuvred over coming years, the outlook for East Timor is very bright, with the prospect of steadily improving and broadly based growth for decades to come, particularly following the onset of oil production from the Timor Sea and as political liberation leads to economic transformation and improved efficiency throughout the country, especially in agriculture.

7.6 Successive periods of external rule have left East Timor with a fragile economic base and quite low levels of domestic revenues as it commences Independence. Prospects appear bright from around late in the decade that both domestic and foreign resource constraints will ease with the onset of petroleum and gas production from the Bayu Undan project in the Timor Sea. However, continuing assistance from the international donor community will be critical, not only in the years leading up to this project, but also well beyond it. This Plan asks donors to accept a heavy burden of responsibility for seeing through the generous initial assistance which has been provided. Any move to premature withdrawal on the part of donors would be counter productive for all, and place at risk the important advances made to date. In the short-term, over the next three years, donors are being asked to provide further financial resources to keep basic operations running efficiently and to allow for development of the Government's own modest investment program. In the longer term the need will change more to assistance with the development of capacity and the building of physical and social infrastructure.

GOALS

7.7 The goals for the sector are as follows:

General Goals

a) Improved capacity and institutional performance of the key central economic Ministries/Agencies (including effective and transparent management approaches).

b) Reducing poverty.

Macroeconomic Goals

a) High and sustainable economic growth, particularly in the non-oil economy.

b) Low inflation.

c) Growth in employment/decline in unemployment

d) Stronger banking and finance sector.

e) Strengthening the external situation (competitive real exchange rate and open trading system).

Public Finance/Fiscal Goals

a) To pursue growth of budget revenues to improve financial independence.

b) To effectively manage oil and gas revenues and savings.

c) To responsibly and productively manage budget expenditures.

d) To effectively manage the budget deficit and its financing (especially effective aid management, including negotiation of a medium term aid agreement).

GUIDING PRINCIPLES

7.8 Broad principles that will guide economic policy development and the management of the economy and public finances are as follows:

a) Market economic system; but with strategic and regulatory roles for Government, including the provision of a social safety net during difficult times.

b) Strong role for the private sector in development.

c) Open trade and investment policies.

d) Government's role will be limited to ensuring that physical and social infrastructure and services are provided and to establishing a growth enabling policy and legal environment; including provision of macroeconomic stability.

e) There are particular areas Government will not venture into, including operating commercial business ventures such as banks and airlines, regulating/controlling prices, or trying to pick winners and providing subsidies/exemptions to particular businesses or industries.

f) Effective, transparent and corruption free management of the economy and public finances.

g) Pursuing a fair and equitable economy and society with equal opportunities and improving living standards for all.

h) Developing in ways that preserve the beautiful environment, traditions and customs of East Timor.

CONSTRAINTS

7.9 While the future is approached with confidence and optimism, there is need to recognise, and address over time, constraints to broadly based economic development, including the following:

a) The aftermath of conflict has left some people weary – there is a need to consolidate and build confidence while commencing pursuit of economic growth.

b) The conflict destroyed a lot of property and assets; so property and assets need to be restored as part of the development effort.

c) Many in the rural areas are used to leading a dualistic subsistence/cash farming lifestyle where production of sufficient food crops to sustain life is of paramount importance. Achieving major transformation and modernisation in the rural areas is a major challenge. Rural/urban imbalances are significant.

d) The population is young and many young (and old) people cannot get jobs. Without the creation of jobs youth problems and social unrest may develop.

e) Managing the economy and public finances is a new responsibility for many East Timorese leaders and civil servants. There is need for rapid learning, institutional development and capacity building in macroeconomics and public finance.

f) With low growth and low per capita incomes, domestic revenue collections are very low. There are limits on the extent to which new public services can be provided, meaning in the short-term high dependence on aid inflows.

g) The banking system was destroyed in 1999 and needs to be further rebuilt to ensure savings, credit and other financial instruments are available to all the people, and that the people gain confidence to use them. Further legislative reform is likely to be necessary to support financial sector development.

h) Since 1999 wages have grown very rapidly and the US Dollar has continued to be very strong. Should these trends continue, or should further domestic inflation emerge, then it will be increasingly difficult to compete internationally, particularly until the productivity of labour grows. Economic management will need to closely monitor trends in currency and wage competitiveness. If the package of policies being introduced is not providing for production and employment growth, then bolder measures will need to be considered with currency and wages policies.

i) Domestic savings and domestically financed investment are both low and need to be enhanced. Over the medium term generating savings and investment from oil earnings and direct foreign investment will be important.

j) The private sector needs to play a key role in development. Yet for the moment it is weak and will need time, support and an appropriate operating environment to develop (particularly important will be the development of appropriate legislation: company law, foreign investment law, and secure land tenure for investors).

k) More education and training is needed at all levels, from primary through to tertiary education and vocational training to equip the community with the skills to grow a modern economy.

l) The health of the population also needs to be improved, especially from energy sapping diseases like malaria, if the productivity of workers in agriculture and the broader economy is to be raised.

m) Without improved infrastructure (power, roads, transport, communications) it will be difficult to develop either the agricultural sector or industry.

OVERVIEW OF POLICY CHALLENGES

7.10 The overriding goal is to achieve high growth in production and employment. This will be no easy or short-term task. Most growth during the Indonesian and UNTAET periods was generated by high levels of public expenditure. Yet it is clear that combined sources expenditure will fall sharply in the immediate years ahead, thereby acting as a negative force on growth. Future growth must be largely generated by the private sector (including agriculture), but the private sector is currently small and weak. In the short term the UNTAET period has seen wages rising to levels well above those of competitors in Indonesia and elsewhere in the region, with resultant losses in production and jobs. At the same time the extreme strength of the US Dollar since 1999 has further worsened competitiveness. There is also a need to remove impediments to investment, and for the development of laws and institutional arrangements covering land and property rights, foreign investment, lenders collateral and a sound regulatory environment, as well as policies to address inadequate infrastructure and low skill levels in the labour force.

7.11 Recent trends make for a very difficult starting position from which to generate future private sector growth. Short-term economic management will need to closely monitor trends in currency and wage competitiveness and growth. If the package of policies being introduced is not providing growth then bolder measures will need to be considered with currency and wages policies, particularly as the BPA develops over time the economic management and institutional capacity to run independent monetary and exchange policies.

GOALS, POLICY ACTIONS AND PERFORMANCE INDICATORS

GOAL NO. 1: INSTITUTIONAL STRENGTHENING

7.12 To further strengthen institutional and human capacities in the main central economic institutions (MoF, BPA and MEAD).

Policy Actions for Goal No. 1

a) Develop corporate plans for key institutions and manage to them.

b) Undertake a training and staff development needs assessment study and regularly update.

c) Develop a Human Resources Development Plan for key institutions.

d) Establish Personal Development Plans for all officials, to include training needs, and to provide for annual assessments.

e) Develop succession plans for all line positions held by expatriates.

f) Develop small Economic Policy/Research Units in the MoF and the BPA.

g) Locate all planning, economic policy and aid coordination functions under one roof, possibly in the MoF - apart from monetary matters to be the responsibility of the BPA.

Performance Indicators for Goal No. 1

a) Effectively implement all seven policy actions above.

GOAL NO. 2: POVERTY REDUCTION

7.13 To eliminate poverty over time while maintaining an equitable distribution of income and wealth.

Policy Actions for Goal No. 2

a) Foster a social and political climate supportive of eliminating poverty and maintaining equity.

b) Promote opportunities for participation and advancement of all members of the society.

c) Provide opportunities for empowerment of the people as key agents of government processes.

d) Provide security for all, including: human rights, freedom from hunger and relief from disasters.

e) Design and manage macroeconomic policies in pro poor ways.

f) Provide stable economic and political conditions as a prerequisite for assisting the poor.

g) Implement equitable tax and revenue policies.

h) Spend government budget money in sectors and within sectors to benefit the poor.

i) Ensure expenditure allocations allow for an equitable balance between rural and urban areas.

j) Ensure foreign aid programming is appropriate to national needs, including poverty reduction.

k) Set monetary and exchange policies so as to support growth, stability and poverty reduction.

l) Ensure banking, credit and micro finance services are broadly available to the poor.

m) Implement open trade and investment policies to promote growth to benefit the poor.

Performance Indicators for Goal No. 2

a) Gini Ratio (currently 0.37) to remain relatively stable over the short and medium term.

b) Percentage below poverty line of US$0.55 (currently 41%) to reduce markedly within five years.

c) Adult illiteracy rate (currently about 50%) to reduce markedly within five years, and halve within 20 years.

d) Primary school participation (net enrolment rate, currently about 70%) to increase significantly in five years.

e) Infant mortality rate (currently estimated between twelve and fifteen percent) to decline significantly below eight percent within five years.

f) Walking time to nearest health clinic (current average 70 minutes) to be reduced in five years.

g) Maternal mortality rate (currently between 0.4% and 0.6%) to decline within five years.

GOAL NO. 3: PURSUIT OF ECONOMIC GROWTH

7.14 To achieve high, sustainable, and broadly based growth (with stability and poverty reduction).

Policy Actions for Goal No. 3

a) All macroeconomic policies to be framed as a consistent package to be conducive to growth.

b) The package of macroeconomic policies to provide for international competitiveness.

c) All sector policies to be framed as a consistent package conducive to growth (especially policies for agriculture; infrastructure; education; health; regional/rural development; and private sector development).

d) As 75% of people work in rural areas, but agriculture contributes only around 25% of GDP, sector policies with regard to the transformation of agriculture will receive high priority.

e) Both public and private sectors of the society will be provided with a policy environment conducive to saving. Foreign investment will be encouraged, as will savings from Timor Sea revenues.

f) Market oriented mechanisms will allow for higher savings to be channelled into higher capital formation (both private and public – including social capital investment) to support growth.

g) The package of macroeconomic and sector policies aims to see development of a strong and energetic private sector with much of growth private sector led. This will include related legal reforms in areas such as foreign investment, land tenure, company law and lenders collateral.

h) Education sector policies (including well-targeted vocational and entrepreneurial education) will be given priority to improve the base knowledge and skills of the workforce.

i) Health sector policies will receive priority to ensure the basic level of health of the workforce.

j) Infrastructure policies and investments will be targeted to facilitate growth.

k) Initial growth is likely to be labour intensive with low to semi-skilled businesses. Policy will support this, but will be ready to move to more mature stages of growth as investment and skills emerge.

Performance Indicators for Goal No. 3

a) After a likely slump in growth, during the transition away from the UN period, underlying Non-Oil growth by the end of the planning period will reach sustainable levels of five to six per cent per annum.

GOAL NO. 4: PURSUIT OF LOW INFLATION

7.15 To achieve a low level of inflation.

Policy Actions for Goal No. 4

a) Responsible monetary/currency policy (price stability is the prime objective of the BPA).

b) Restraint on wages growth (particularly public sector).

c) Responsible budget policies, with declining deficit levels and zero borrowing.

Performance Indicators for Goal No. 4

a) Consumer price index inflation in East Timor to be no higher than USA consumer price index inflation over the five years of the Plan (around two to three percent per annum).

GOAL NO. 5: PURSUIT OF MORE EMPLOYMENT

7.16 To achieve growth in employment/decline in unemployment.

Policy Actions for Goal No. 5

a) Pursue a similar package of policies as those proposed to promote economic growth (see Goal No. 3).

b) Consistent and supportive package of macroeconomic policies.

c) Supporting sector policies: agriculture, education, training, youth, health and infrastructure.

d) Internationally competitive wages, exchange rates, and trade policies.

e) Encouragement of higher domestic and foreign savings and investment levels.

f) Promoting conditions conducive to growth of the private sector (laws, land arrangements, labour market information; banking development, vocational training and education).

g) Gearing policies to support labour intensive growth initially (with high importance given to flexible and moderate wages policy linked to productivity movements).

Performance Indicators for Goal No. 5

a) Open unemployment rate to decline significantly from recent levels of around 17% of those actively seeking work.

b) A significant number of new jobs will be created each year.

GOAL NO. 6: PURSUIT OF STRONGER BANKING AND FINANCE SECTOR

7.17 To promote development of a stronger banking and financial sector.

Policy Actions for Goal No. 6

a) Review and upgrade Banking and Financial Legislation, including Governing Board oversight of BPA, funding and accountability of BPA, and movement to full central banking functions (in line with April 2002 recommendations of the IMF – Preparing for a Central Bank of East Timor).

b) Maintain appropriate international (mainly Basle) standards for licensing and regulation.

c) Promote more competition and increasing numbers and types of private banks and financial institutions (including widening rural presence by private banks and the BPA).

d) Develop regulations and capacities to promote growth of insurance (both general and life).

e) Develop regulations and capacities to promote growth of private superannuation and other savings schemes (including increased saver education and enhanced security for savings).

f) Support donors and NGOs to develop micro savings and credit schemes, especially in rural areas.

g) Develop related Laws important to the expansion of credit to the private sector (Company Law; Contract Law; Collateral Law; Bankruptcy Law; Foreign Investment Code; Land Laws).

h) Government (mainly through BPA) to increasingly undertake a near full range of central banking type functions and to be a catalyst for significant growth of savings and credit in the sector.

Performance Indicators for Goal No. 6

a) Effectively implement all eight policy actions above (particularly to increase the range of private sector institutions and products and to significantly expand savings and credit) within the five-year period of the Plan.

GOAL NO. 7: PURSUIT OF A STRONGER EXTERNAL SECTOR

7.18 To achieve a stronger external situation, including a competitive real exchange rate, higher exports and an improving trade balance.

Policy Actions for Goal No. 7

a) Pursue responsible expenditure policies to constrain domestic demand to levels that can be sustained from domestic revenues and foreign grant aid (without public borrowing).

b) Pursue a competitive real exchange rate (exchange rate adjusted for inflation), especially in relation to agricultural competitors.

c) Maintain competitive wage and trade policies to allow competition in export markets and to enhance the ability of domestic producers to compete with imports.

d) Promote sector policies supportive of private sector growth in exports and improved competitiveness in relation to imports (especially agriculture and agro processing).

e) Maintain open (low effective protection) trade and investment policies, including moving to observer or membership status of such bodies as ASEAN and WTO.

f) Pursue diplomatic efforts to increase access rights to key markets; Europe; Australia; and Asia.

Performance Indicators for Goal No. 7

a) No significant real effective appreciation of the currency over time.

b) Non-oil merchandise exports to recover significantly from recent negligible levels.

c) Non-oil and non-aid related merchandise imports to decline to more moderate levels so narrowing the current imbalance on the non-oil/non-aid related trade balance.

d) Positive overall balance of payments to be achieved without recourse to public foreign borrowing.

e) By the end of the Plan period net foreign reserves will be in the early stages of a large long-term build-up (mainly from savings policies in relation to Timor Sea oil and gas).

GOAL NO. 8: PURSUIT OF IMPROVED REVENUE COLLECTIONS

7.19 To increase revenue collections to enhance fiscal autonomy, while retaining incentives for private sector development and ensuring equity for the poor.

Policy Actions for Goal No. 8

a) Maintain existing package of tax and non-tax revenues, while reviewing their appropriateness regularly (including likely introduction of some recommendations of the IMF Mission on tax and revenue policy in the context of the FY 03 Budget).

b) Improve administrative resources, systems and skills to raise collection yields and levels.

Performance Indicators for Goal No. 8

a) Domestic (non oil) revenue as a percent of GDP to grow from current levels of five percent of GDP to approach seven percent of GDP by the end of the Plan period.

b) Collection yields for existing taxes to show at least a 25% improvement over the Plan period.

c) Any new taxes introduced to be consistent with equity and poverty alleviation goals.

GOAL NO. 9: MAXIMISE COLLECTIONS AND SAVINGS FROM TIMOR SEA REVENUES

7.20 To maximize collections of Timor Sea revenues and to save and sustainably manage significant proportions of them.

Policy Actions for Goal No. 9

a) Install very strong, internationally competitive resource skills in the MoF/Revenue Service, to ensure regular tax audits and collection of all petroleum taxes due.

b) Development of effective offshore savings and investment mechanisms, based in part on findings of the Norwegian Technical Assistance Mission undertaken in March 2002.

Performance Indicators for Goal No. 9

a) Rigorous annual scrutiny of taxation returns and 3 yearly detailed tax audits.

b) Build up of a secure and growing stock of offshore investments, in line with recommendations of the Norwegian Technical Mission and consistent with estimates published in the MTFF.

GOAL NO. 10: PURSUE CREATIVE AND EFFECTIVE EXPENDITURE PROGRAMS

7.21 To pursue creative and effective expenditure policies; including: (a) restraining total expenditure to levels that are sustainable; and (b) ensuring that expenditure allocations between Agencies/Functions are consistent with plan objectives and particularly that currently high central administration expenditures fall to the benefit of priority areas of health, education, agriculture and infrastructure.

Policy Actions for Goal No. 10

a) Improving the capacity of all public officials to prepare and manage effective budgets.

b) Use of MTFF to control aggregate expenditure.

c) Use of MTFF to determine the current/capital expenditure split.

d) Use of MTFF and work of Planning Groups to determine an appropriate allocation of expenditures.

Performance Indicators for Goal No. 10

a) Total expenditure to grow at an annual average rate, which is in line with the (sustainable) MTFF.

b) Average proportions of current/capital expenditure over the plan period to be in line with responsible levels contained in the MTFF.

c) Expenditure allocations finally determined by CoM as being appropriate to be implemented with close monitoring over the 5 years in line with MTFF allocations.

d) Currently high shares of central administration expenditures to fall to the benefit of priority areas of health, education, agriculture and infrastructure.

GOAL NO. 11: PURSUE APPROPRIATE DEFICIT AND FINANCING POLICIES

7.22 Budget deficit levels to reduce sharply over time with any deficits to be grant and not debt financed; and donor grant deficit financing over time to be in line with a Public Investment Program developed by the Government.

Policy Actions for Goal No. 11

a) MTFF in conjunction with donor negotiations to plan for gradual deficit reduction as domestic and Timor Sea revenues grow.

b) A preferred forward Public Investment Program to be developed over time and then to be updated annually with significant improvements in project identification, preparation and appraisals over time.

Performance Indicators for Goal No. 11

a) Total deficit to fall sharply by the end of the Plan period, in line with MTFF estimates.

b) Government preferred forward Public Investment Program in place and improved on annually.

SUMMARY OF PROGRAMS / PROJECTS SPECIFIC TO MACROECONOMICS / PUBLIC FINANCE SECTOR

Table 7.1: Recent and Forward Estimates of Program / Project Expenditures (US$ 000)

Item	FY 00 Actual	FY 01 Actual	FY 02 Revised Budget	FY 03 Prelim. Budget	FY 04 Estimate	FY 05 Estimate	FY 06 Estimate	FY 07 Estimate
1. Banking and Payments Authority								
CFET Operations	26.5	1,374.0	1,374.0	1,325.0	963.0	1,026.0	1,092.0	1,150.0
(Of Which Own Revenues)	(0.0)	(0.0)	(0.0)	(245.0)	(350.0)	(450.0)	(550.0)	(650.0)
U.N. Assessed Contributions	0.0	1,060.0	933.0	900.0	800	0.0	0.0	0.0
Total	**26.5**	**2,434.0**	**2,307.0**	**2,225.0**	**1,763.0**	**1,026.0**	**1,092.0**	**1,150.0**
2. Ministry of Finance (Minister; Core CFA; Customs;								
TFET Taxes; Payroll; External Audit; Others – but excluding Contingencies / Reserves):	35.0	917.0	1,698.0	2,247.0	2,221.0	2,348.0	2,300.0	2,200.0
CFET Operations	0.0	0.0	305.0	445.0	0.0	0.0	0.0	0.0
TFET Bilateral Projects	35.3	1,016.0	5,623.0	3,016.0	3,259.0	3,333.00	1,801.0	1,000.0
UN Assessed Contributions	0.0	3,940.0	3,563.0	3,200.0	2,400.0	0.0	0.0	0.0
Total	**70.3**	**5,873.0**	**11,189.0**	**8,908.0**	**7,880.0**	**5,681.0**	**4,101.0**	**3,200.0**
3. Economic Affairs (Trade, Investment, Industry, Mineral Resources and Tourism):								
CFET Operations	0.0	457.0	440.0	521.0	391.0	407.0	484.0	500.0
TFET	0.0	0.0	1,000.0	700.0	100.0	0.0	0.0	0.0
Bilateral Projects	0.0	0.0	280.0	220.0	50.0	0.0	0.0	0.0
UN Assessed Contributions	0.0	2,170.0	1,110.0	900.0	700.0	0.0	0.0	0.0
Total	**0.0**	**2,627.0**	**2,830.0**	**2,341.0**	**1,241.0**	**407.0**	**484.0**	**500.0**
4. Planning Commission (Previously NPDA)								
CFET Operations	0.0	225.1	113.0	0.0	0.0	0.0	0.0	
Bilateral Projects	0.0	0.0	350.0	0.0	0.0	0.0	0.0	
UN Assessed Contributions	0.0	0.0	135.0	0.0	0.0	0.0	0.0	
Total	**0.0**	**225.1**	**598.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Source: Ministry of Finance for FYs 00 to 02 and Preliminary Planning Commission estimates for FY 03 to FY 07

Table 7.2: Summary of Major Ongoing and New Projects

	Organisation / Project	Likely Funding Source
1.	**Banking and Payments Authority**	
1.1	Development of data processing systems	ADB
1.2	Foreign training and attachments	Various Central Banks and IMF
1.3	New Central Bank building	Donor Sought
1.4	Capitalization for full Central Bank	Donor Sought
2.	**Ministry of Finance**	
2.1	Phase 3, Freebalance Information Systems	Donor Sought
2.2	Establish Office of Budget independently	No additional cost
2.3	Capacity building (Budget Office/Statistics)	TFET
2.4	Public sector management capacity building	ADB
2.5	Ministry wide institutional strengthening	AusAID
2.6	Technical Assistance Ministry wide	Portugal
2.7	Continue 13 UNVs in District Offices	UNTAET
2.8	Open 2 new Regional Revenue Offices	Government Budget
2.9	External Legal Advice	Donor Sought
2.10	Operationalise Board of Tax Appeals	Government Budget
2.11	Senior Managers Development Program	Donor Sought
2.12	Establish professional library	Donor Sought
2.13	Additional common services by OGCS	Budget + UNTAET
2.14	Training programs in Knowledge Centre	Budget + World Bank
2.15	New Customs building	Donor Sought
2.16	Refurbish Customs regional warehouses	Donor Sought
2.17	Introduce ASYCUDA FMIS in Customs	UNDP
2.18	Transfer Macro Policy, Planning; and Aid Coordination	No additional cost
2.19	Transfer Statistics Office	No additional cost
2.20	Develop statistics laws / regulations	Donor Sought
2.21	Conduct national census	UNFPA
2.22	Develop trade statistics	Donor Sought
2.23	Compile National Accounts annually	World Bank
2.24	Update CPI basket	Donor Sought
2.25	Capacity building with poverty statistics	World Bank
2.26	Establish Performance Monitoring Unit	Government Budget

Notes: *1 Based on five year priorities developed by the Macroeconomics / Public Finance Working Group. Implementation will depend on the availability of funding, either from the CFET Budget or Bilateral Donors.*

Projects and Programs of the Department of Economic Affairs and Development have been included in the Chapter on Industry, Trade and the Private Sector.

8. MEDIUM TERM ECONOMIC AND FINANCING OUTLOOK

INTRODUCTION

8.1 This chapter provides a medium term economic and financing outlook for the Plan period. Much of the information underlying the outlook presented is summarised in the statistical tables in the appendix and illustrated in the charts below. Two important words of caution are made with regard to the outlook presented:

a) Preparation of economic forecasts has not received significant attention so far in the building of East Timor's central economic institutions. Accordingly, there does not exist a consolidated database of historical macroeconomic information, nor have macroeconomic forecasting models been developed.

b) Forecasting is notoriously difficult in small open economies, which are prone to shocks from a wide range of sources, with macroeconomic trends likely to be volatile rather than smooth.

8.2 The medium term outlook presented is a modest first attempt by the central economic institutions. One of the goals for institutional improvement within the Macroeconomics and Public Finance Sector is to significantly strengthen capacities in macroeconomic policy formulation and management. Assuming progress is made in this regard, future medium term planning exercises will be able to build on the first efforts made here.

8.3 What follows is a base case outlook. It takes account of:

a) past underlying trends and relationships in the economy throughout the 1990s;

b) estimates of the build-up of foreign assistance during the UNTAET period, and its forthcoming anticipated decline;

c) likely policy, program and project developments in different sectors of the economy, as set out in the sector chapters of this plan;

d) the views of the sector working groups on the base case outlook for different sectors; and

e) prospects for Timor Sea Oil and Gas revenues based on the best information available to the Government at this time.

8.4 Even more than most outlooks attempted, the base case scenario presented is subject to significant risks and uncertainty. Providing the policies and approaches set out in the Plan are closely adhered to and the human responses are positive and reasonably rapid, there is an upside potential for more rapid development than in the case presented, especially in the later years of the Plan period. Nevertheless, the risks of slow policy development and response remain;

and unexpected external shocks are always lurking for small and open economies. Accordingly, risks of lower potential also exist.

ECONOMIC GROWTH

8.5 Estimates of the economic growth outlook are presented in Appendix Table 1 and in Figures 8.1 to 8.3 in the text. It should be noted that for the time being for statistical purposes oil producers in the Timor Sea Zone of Cooperation are being treated as non-residents pending clarification of their status. Accordingly, GDP is effectively calculated on a Non Oil basis. The growth outlook can be summarized as follows.

a) Total real growth is estimated to be negative in 2002 and 2003 (-0.5% and -2.2% respectively); before commencing recovery in 2004 and 2005 (1.2% and 3.3%); and then going on to achieve its longer term underlying potential of 5.1%; and 5.9% in 2006 and 2007, respectively. Significant progressive withdrawal of the international presence from 2002 is the main negative influence on growth in the early years of the Plan period (with negative impacts on transport and communications, wholesaling, hotels and restaurants, utilities, construction, finance, rents, business services and government services).

b) A number of sectors are expected to sustain positive growth throughout the Plan period, notwithstanding the decline in foreign presence. The main sectors with expected positive growth are: (a) agriculture, forestry and fisheries; (b) quarrying; and (c) manufacturing.

c) Most other sectors are expected to directly or indirectly experience negative effects from the international drawback, before recovering and reaching their underlying production and potential growth levels beginning from around 2004. Many of the transitional negative effects will be felt in the urban areas; with large parts of the population insulated from them, providing growth in productive sectors (especially agriculture) can be sustained.

d) The largest structural change expected to occur over the period relates to the declining importance of Government Services, which fall from 33.7% of GDP in 2000 to 27.7% of GDP in 2007 (in constant prices). This mainly reflects the decline of UNTAET influence, which is currently large.

Figure 8.1: Real Total GDP Growth, 2000-2007 (%)

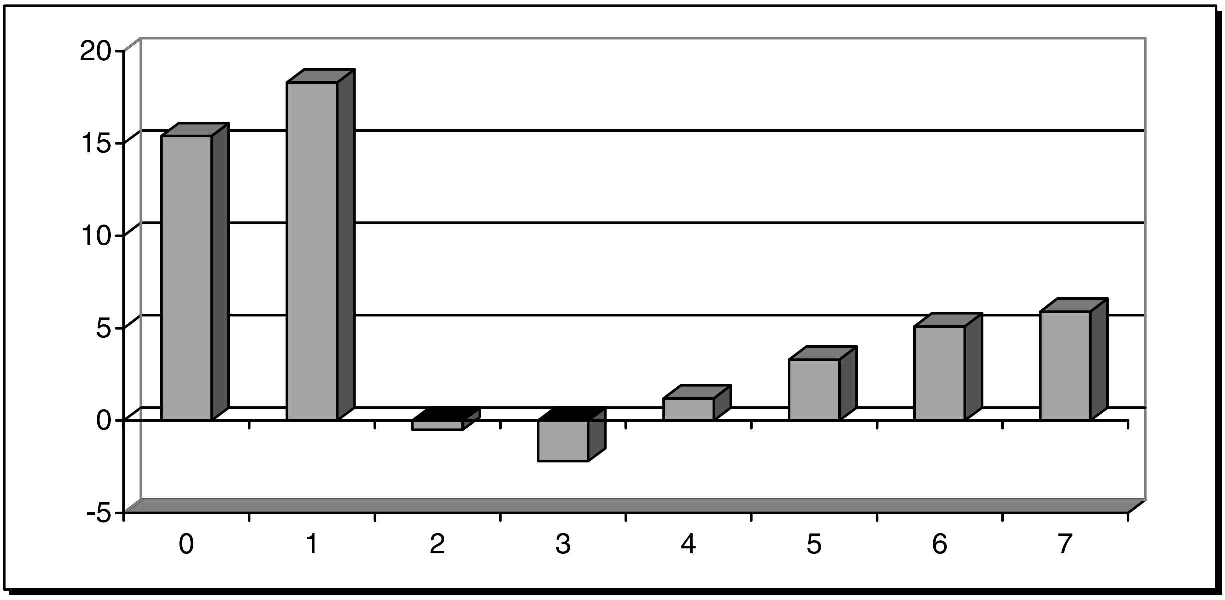


Figure 8.2: Sector Components of Real Total GDP (%)

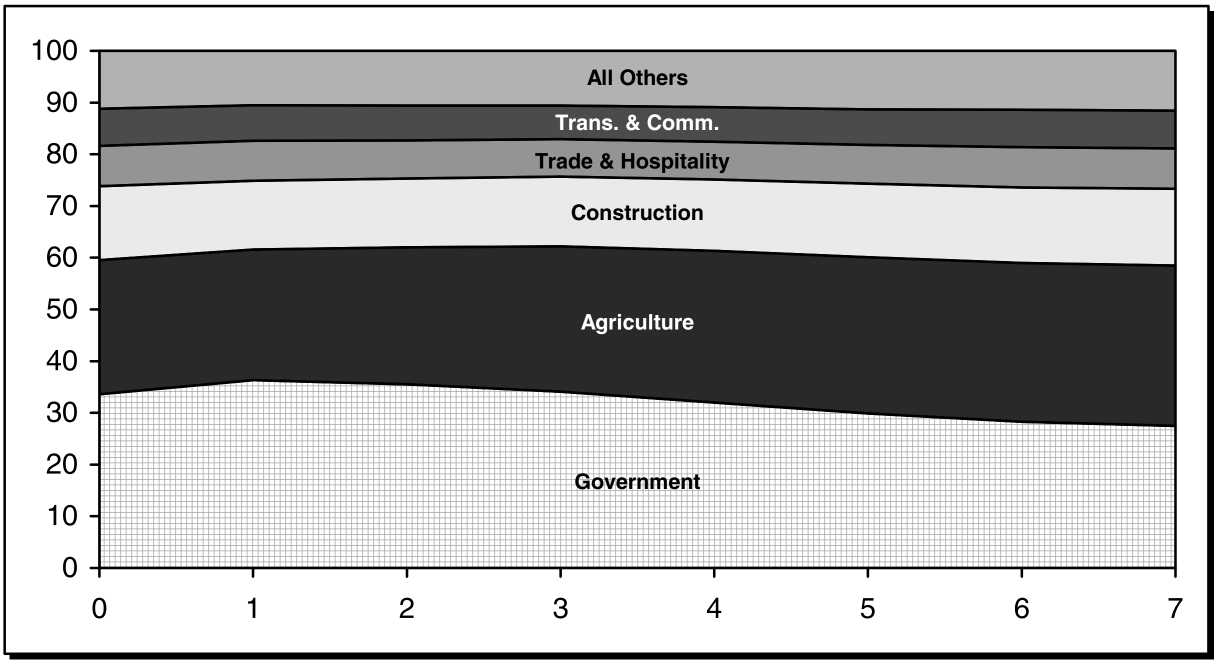
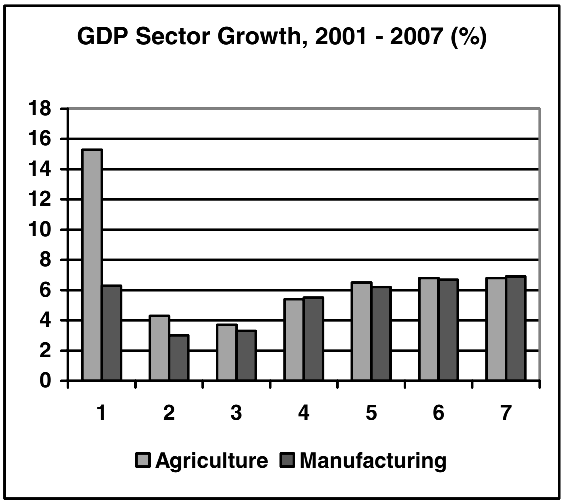
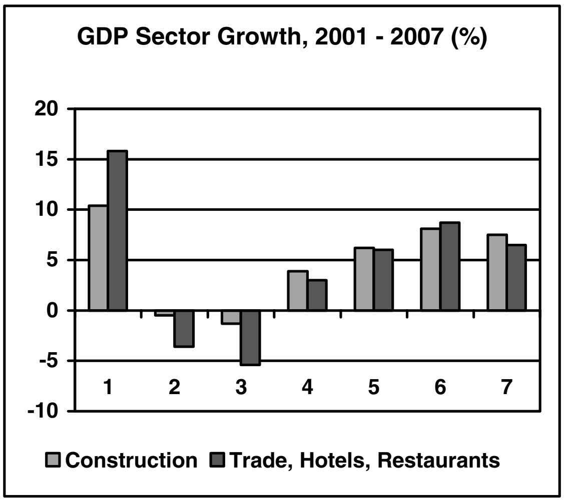


Figure 8.3: GDP Sector Growth, 2001-2007 (%) **Figure 8.3: Cont…**





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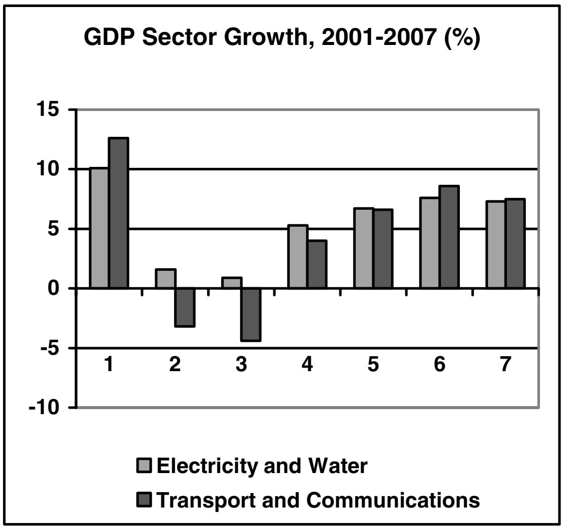

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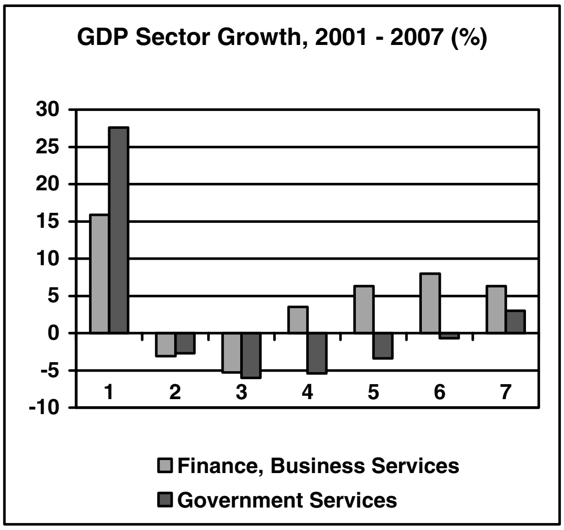


EMPLOYMENT/UNEMPLOYMENT

8.6 The most recently available estimates on employment along with the outlook to 2007 are presented in Table 8.1 and Figure 8.4. Because of data deficiencies these estimates should not be regarded as forecasts, but rather as broad indications of the types and levels of employment generation that will be needed if the Government's goal of significantly reducing the unemployment rate is to be achieved. The outlook presented suggests the following:

a) The goal is to increase employment and reduce the unemployment rate during the Plan period. The analysis below attempts to estimate the magnitude of employment generation needed to achieve a major reduction in the open unemployment rate from an estimated 16.8% at present to 9.0% in 2007. The achievement of this target will be extremely challenging.

b) In the short term there is a severe squeeze on the growth of public sector employment and this is expected to be more or less maintained over the course of the Plan period. The public sector does not present a direct solution to the unemployment problem.

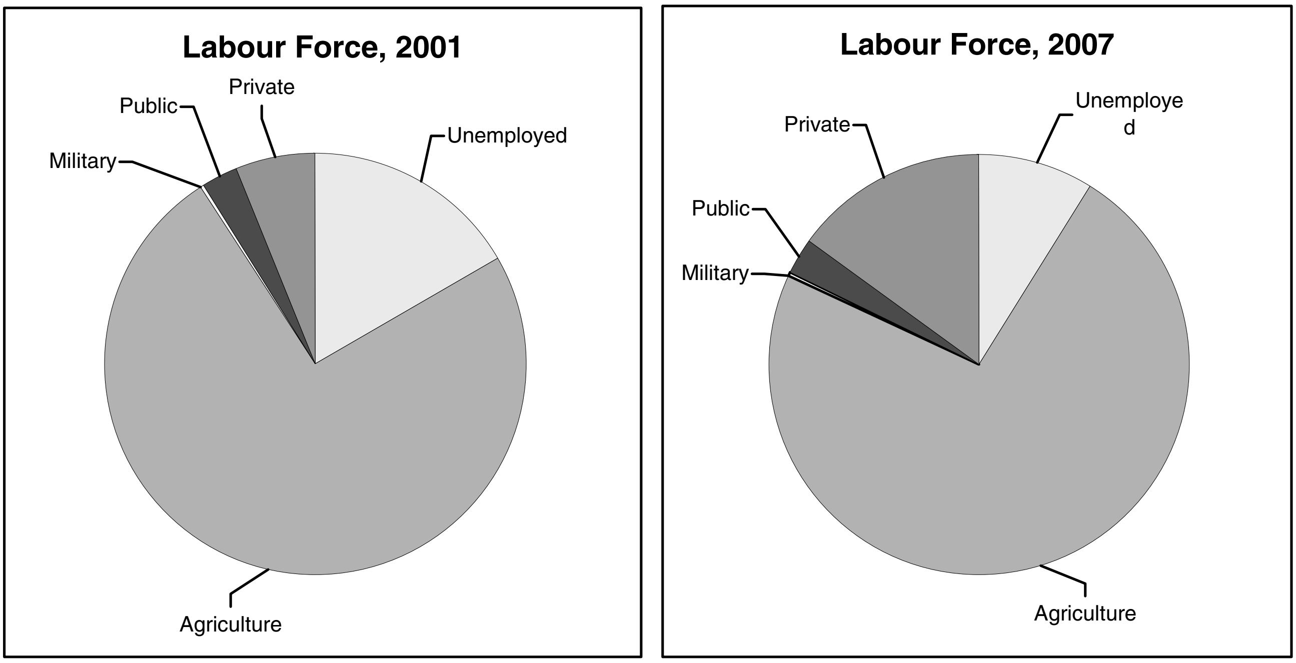
c) Agricultural growth is projected to be reasonably strong over the Plan period and this will allow for significant numbers of workers to be absorbed there. However, over the longer term (beyond the current plan period) agricultural growth is likely to be achieved increasingly by more rapid transformation towards modernisation and improved efficiency, with a resultant freeing of labour for other private sectors of the economy. Agriculture alone is not the solution.

d) Given the above constraints around 40,000 new jobs in the private sector (excluding agriculture) would need to be created over the Plan period, if the target for unemployment reduction is to be met. This implies an annual growth of private sector employment of around 20% per annum, which is well above the projected private sector GDP growth. It highlights the difficulties in reducing unemployment if the private sector of the economy cannot grow rapidly. In the absence of very rapid private sector growth, the target for reducing the unemployment rate will only be partially achieved. Promoting agricultural and informal employment will remain of high importance given the major challenges in the promotion of formal sector employment.

Table 8.1: Labour Force Outlook, 2001 and 2007

ITEM	2001		2007	
	No.	%	No.	%
Labour Force (Actively Seeking Work)	**325,930**	**100.0**	**406,400**	**100.0**
- Of Which Openly Unemployed	54,851	16.8	36,576	9.0
- Of Which in Agriculture	240,928	73.9	296,672	73.0
- Of Which in Military / Police	900	0.3	1,000	0.3
- Of Which in Public Administration	9,605	2.9	11,200	2.8
- Of Which Other Private / NGO	19,646	6.1	60,952	14.9

Figure 8.4: Labour Force in 2001 and 2007



PRICES AND WAGES

8.7 Recent price movements have been subdued with year on year inflation to March 2002 recording a negative -2.2%. The policy stance and outlook for prices and wages are as follows.

a) The maintenance of price stability is a key goal, which will be pursued principally through the policy on continued use of the US Dollar as the national currency along with a package of consistent macroeconomic policies. In these circumstances the outlook is for continued subdued inflation at levels that are no higher than projected United States inflation of two to three percent per year.

b) The pursuit of moderate wage growth is seen as important for furthering a number of macroeconomic goals, including - higher economic growth - employment generation; and improved international competitiveness to reduce external trade imbalances. It will be important for the public sector to lead rather than follow the market in wage setting and ensure that the growth in public wage levels are below price inflation throughout the Plan period. Flexibility in wage setting will still occur where necessary to respond to market circumstances, but the wage increases occasioned by skills shortages are likely to be offset by relative wage reductions in areas of skills surpluses.

Figure 8.5: Changes in Consumer Prices and Public Wages, 2001-2007 (%)

FISCAL/BUDGET

Domestic Revenues

8.8 Domestic revenues have recently been very low at around five percent of GDP or US$19 million a year. Government policy is to gradually increase the amount of domestic revenue raised, consistent with the current fragile and narrow economic base. At the time of preparation of the Plan, recommendations of the March 2002 Mission of the IMF (which reviewed tax and revenue policies) are under consideration, with a number of new initiatives possibly to be included in the FY 2003 budget (rates may rise modestly on: import duties, sales tax, services tax, general excise, excise on cars, and specific excise rates). Attempts are to be made to raise efficiency and yields in collecting existing taxes. Notwithstanding that some policy and administrative reforms are likely for FY 2003, and later during the Plan period, the scope to dramatically raise domestic revenues is limited in the short to medium term.

8.9 The medium term outlook for domestic revenues is contained in Appendix Table 2 and Figure 8.6. It indicates that total collections will grow from recent levels of US$19 million per year to US$27.6 million by 2006/07. Domestic revenues as a proportion of GDP are expected to rise moderately over the Plan period. Indirect taxes, especially taxes on imports, currently dominate domestic revenues and this trend is expected to continue over the Plan period.

Timor Sea Oil and Gas Revenues

8.10 On July 5, 2001, East Timor and Australia signed the Timor Sea Arrangement (TSA) with the intention of converting this to a Treaty upon East Timor's Independence. The TSA establishes a Joint Petroleum Development Area (JPDA) in the Timor Sea pending a final delimitation of seabed boundaries. Under the TSA, East Timor will receive 90% of petroleum from the JPDA and Australia 10%.

8.11 There is one small producing oilfield in JPDA, Elang Kakatu; although this is expected to close around the end of 2002.The Bayu Undan liquids project (condensate and liquid petroleum gas) was approved in 2002 and should begin production early in 2004. Full gas development at Bayu Undan depends upon Australian regulatory approval of part of the understandings on fiscal terms reached between East Timor and Bayu Undan contractors in December 2001. Meanwhile, in March 2002 the contractors announced a gas sales agreement with Japanese utilities for LPG from Bayu Undan Gas. The Greater Sunrise gas-condensate field lies partly within the JPDA as defined in the TSA. A development arrangement for this field has yet to be agreed among the joint venture partners.

8.12 There is still much uncertainty about revenue prospects from the Timor Sea. The main uncertainty relates to whether particular projects will proceed at all. Further uncertainty remains about the gas pricing method. Even if these uncertainties abate, East Timor will still be exposed to the risk of lower than expected world prices for oil and gas. It is therefore appropriate for East Timor to forecast Timor Sea revenues with caution.

8.13 If oil prices remain above US$18 per barrel (Brent Crude) then the Bayu Undan field is estimated to yield (in current prices) US$1.8 billion to US$ 3.2 billion to East Timor over the project life up to 2021. The higher figure assumes that full gas development occurs, while the lower assumes it does not. This is a "base" forecast, with an equal chance of a better or worse outcome. Accordingly, East Timor's fiscal planning should use conservative estimates until there is confirmation of higher prices or new development outcomes.

8.14 The Bayu Undan Phase-2 project, if developed would be a dry gas project based around either a pipeline to Darwin or a floating manufacturing facility at the well site. Possible additional capital costs (extraction only) are around US$500 million. Gas reserves are estimated at 3 trillion cubic feet. The potential revenue to East Timor over a 20-year site life has been tentatively estimated at US$1.4 billion (current prices).

8.15 Annual revenues from Bayu Undan from FY 2006 to FY 2009 (oil and gas) are unlikely to exceed US$100 million; perhaps just sufficient to support planned public (budget) expenditures during those years. Thereafter, revenues are estimated to be higher for a decade or more. East Timor needs to finalise and implement a revenue smoothing and savings strategy well before then.

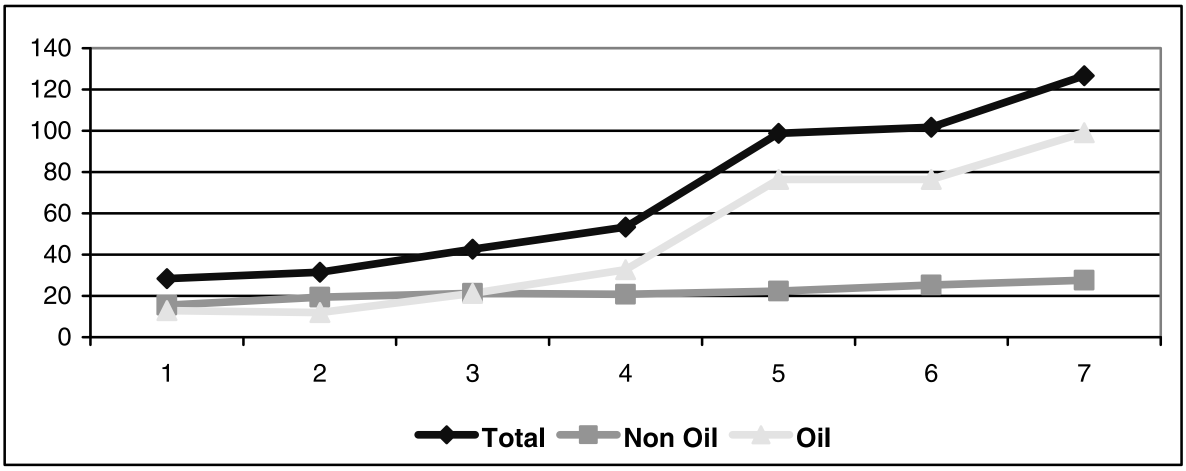
8.16 While there may be substantial uncertainty about Timor Sea revenue flows, it is clear that for the next three years at least such revenues under any scenario will be insufficient to finance government expenditure needs. There are also prospects that there will be shortfalls in revenue beyond FY 2005. The position may improve in the following years, but no substantial excess of revenue is likely until around FY 2010.

8.17 The long term implications of the oil and gas sector are covered in more detail later in this chapter. The remainder of this section concentrates on anticipated revenues to FY 2007, which are detailed in Appendix Table 2, Table 8.2 and Figure 8.6.

Table 8.2: Distribution of Timor Sea Revenues, FY 01 to FY 07

ITEM	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	TOT. 01/07	%
Total Oil Revenues	12.9	12.0	21.3	32.7	76.4	76.4	99.1	330.8	100
Oil Revenues to Budget	9.8	6.0	20.5	26.1	52.2	78.0	84.0	276.6	83.6
Oil Revenues Saved	3.1	6.0	0.8	6.6	24.2	(1.6)	15.1	54.2	16.4

Figure 8.6: Components of Total Government Revenue, FY 2001 – FY 2007 (US$m)



Total Expenditures

8.18 Expenditure planning is occurring in the context of an MTFF covering the period FY 03 to FY 05. The analysis in this plan uses this period and the MTFF as the fundamental building block for expenditure planning, but also adds to it fiscal years 06 and 07. Detailed information on the outlook for expenditure is contained in Appendix Tables 3, 5, 6, 8, 9 and10; Table 8.3 and Figures 8.7 to 8.9.

8.19 At the time of plan preparation the CFET budget for FY 03 was still in the very preliminary approval stages having been tentatively endorsed by the COM, but yet to be considered by the National Parliament. Furthermore, due to uncertainties about the availability of external donor financing, the Council approval covered a range of total expenditure possibilities for FY 03, from a core of US$67.4 million to a peak and preferred level of US$77.2 million.

8.20 This Plan supports the provision of external donor financing to allow for total expenditures of US$77.2 million in FY 03. In the Appendix tables and in the analysis which follows, this amount is used for the FY 03 estimate and as the base for expenditure planning over the full Plan period. Should financing levels to support this expenditure base not be forthcoming then modest adjustments will be needed to total expenditure numbers for FY 03 and possibly for FYs 04 and 05. However, no such adjustments should be necessary to estimates for FYs 06 and 07 which can be Government financed at proposed levels without recourse to donor CFET budget support. The Planning Commission considers the base expenditure level of US$77.2 million for FY 03 to be appropriate for the following reasons:

a) Total combined sources expenditure is projected to drop sharply in FY 03 (by 24%) as is Nominal GDP (by 8.5%). It is important for public expenditure to hold up economic activity in the coming difficult years, to the maximum extent possible. Had very significant expenditure outlays during the UNTAET period been conserved somewhat better over time than occurred, a smoother contraction would have been possible, and smoothing the transition still warrants support.

b) Significant UNTAET common and other services are to be discontinued in FY 03 and will need to be directly or indirectly picked up by CFET. The net effect of UNTAET withdrawal from service delivery will be a significant real decline in resources available for public service delivery in FY 03 (and beyond) compared to FY 02.

c) The proposed expenditure base for FY 03 combined with gradually and smoothly growing planned expenditures over the remainder of the Plan period, leads to levels of expenditure in 2007 that are sustainable in relation to both the Government's and the IMF's assessment of long term resource availability from Timor Sea oil and gas.

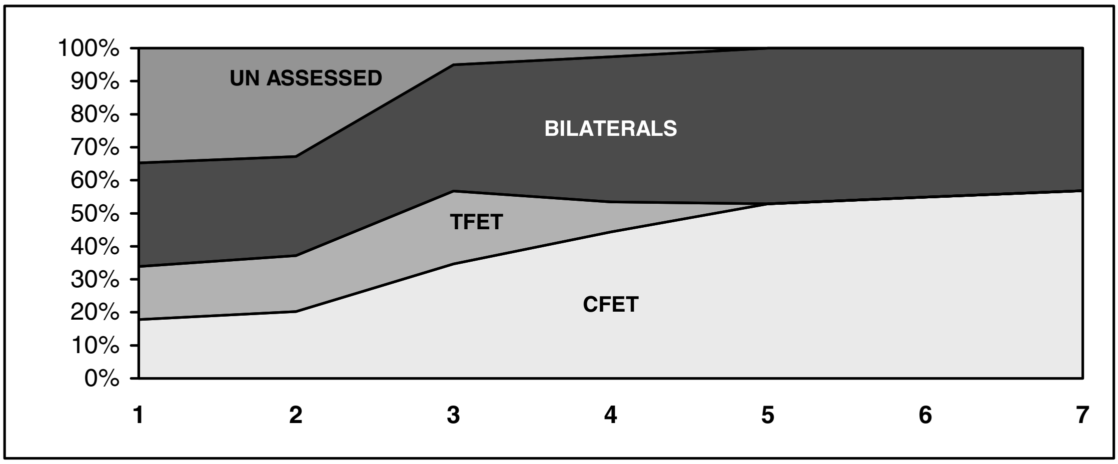
8.21 At present there are various dimensions to public expenditure in East Timor. The CFET covers the Government's own budget and sets out expenditure over which the Government has most direct control (although in the short term it will continue to rely heavily on donor financing to support it). Other elements of expenditure which go to make up Total Combined Sources Expenditure are: (a) TFET, which is a project trust fund financed by donors and administered by the World Bank and Asian Development Bank jointly; (b) Bilateral development projects; and (c) UN Assessed Contributions supporting the Budget (mainly foreign staff). Over the Plan period the CFET budget is expected to grow in significance while all other forms of expenditure will decline significantly. Total combined sources expenditures are expected to decline very sharply over the next 3 years. Trends in total levels of expenditure of each of the components are set out in Table 8.3 and Figure 8.7.

Table 8.3: Growth Rates of Combined Sources Expenditure Components, FY 2001 to FY 2007 (%)

ITEM	FY02	FY03	FYO4	FY05	FY06	FYO7
Total CFET	13.8	32.2	11.1	11.5	8.0	8.0
TFET	6.5	0.0	(63.9)	(100.0)	…	…
Bilateral Projects	22.0	(3.7)	(2.0)	0.0	0.0	0.0
UN Assessed	(5.0)	(88.4)	(54.5)	(100.0)	…	…
Total Combined Sources	0.6	(23.2)	(12.9)	(6.6)	4.2	4.4

Note: Numbers in brackets signify negative numbers

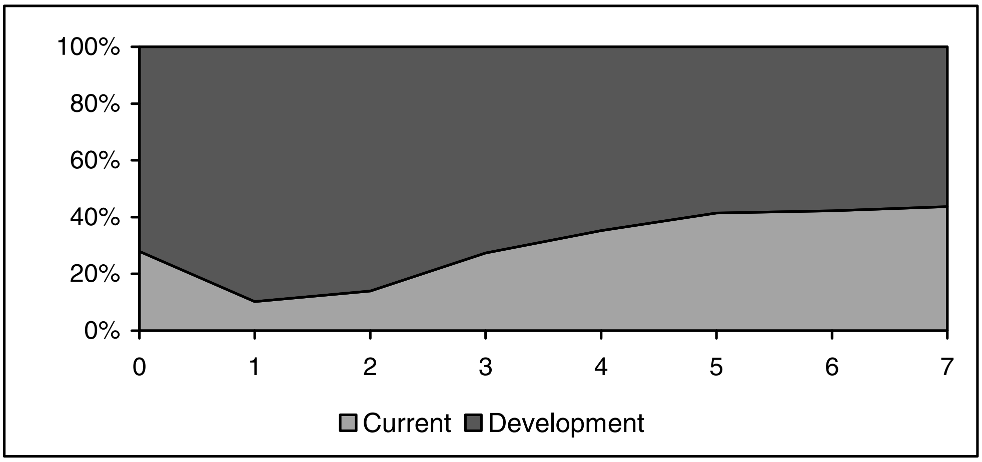
Figure 8.7: Components of Combined Sources Expenditure, 2001-2007 (%)



Recurrent and Capital / Development Shares of Total Combined Sources Expenditure

8.22 In recent times the share of capital and development expenditures in total combined sources expenditure has been very high, buoyed by donor expenditures (Appendix Table 3). This situation is not expected to continue over the Plan period with the share of capital and development expenditure declining towards more normal levels. Expected trends are set out in Figure 8.8. To some extent the recent trends shown are an overstatement, because much of recent donor spending categorised as development has not been strictly capital or developmental in nature, but rather has included large components of current outlays (particularly in the form of Technical Assistance). The outlook for 2007 is that development expenditure will have fallen to around 56% of the combined budget and 25% of GDP. While still quite high it assumes continued high levels of bilateral support and this is considered appropriate for East Timor's current early stage of development. The proposed nature and composition of the future development budget is set out in Appendix Tables 8 to 10 and is commented on in more detail below.

Figure 8.8: Shares of Current / Development in Combined Sources Budget, 2001-2007 (%)



Expenditure Allocations by Agency and Function

8.23 Anticipated trends in the Agency and functional composition of CFET total expenditures between FY 2002 and FY 2007 are set out in Appendix Tables 5 and 6 and Figure 8.9. Analysis of the recent situation (FY 2002 revised budget) in terms of expenditure allocation by Agency and function reveals three important concerns for the development of future expenditure policy:

a) By international standards there is a quite high amount spent on bureaucracy and administration at present The functional data indicates a significant 15% of the CFET budget allocated to General Public / Administrative Services. Most countries aim to keep this ratio below 10%. (However, comparison of East Timor's budget situation with other countries requires caution).

b) Subsidies to the energy sector are very high at US$ 6.8 million, representing 11.6% of all budget expenditures. There is an obvious need to progressively reduce and remove this subsidy over a relatively short period of time.

c) As a result of the above expenditure patterns, resources available to priority areas of Government are far less than they should be. This applies particularly to education, health, infrastructure maintenance and development; and agricultural extension and investment. These patterns in part reflect the post crisis nature of the economy and with good management can be expected to even out over time.

8.24 Future planning policy needs to focus on progressively changing these inherited difficulties. At this point in time the Government is not sufficiently well advanced in it's planning to have very hard sector and Agency ceilings in place for each of the 5 years of the Plan. Furthermore, all countries need to maintain reasonable flexibility with forward expenditure plans. Accordingly, neither the MTFF nor the Plan presents very hard numbers for outer years of the Plan. Notwithstanding this it will be critically important to actively manage and monitor expenditure allocations over time to ensure that they are consistent with planning and policy priorities.

8.25 Rather than set out hard plans for expenditure allocations over the course of the Plan period one illustrative example is now provided of a policy based approach to gradually changing the composition of expenditures over time. In this regard an example of a relatively challenging reform to the composition of expenditures over time is set out in Tables 5 and 6 and in Figure 8.9. This example of one possible reform to the composition of expenditure reflects moderately different outcomes than the forward estimates presented in the Budget documents. The forward estimates in the Budget documents set out the future ongoing costs of existing policies and programs. In contrast this Plan sets out an example of ongoing change to the composition of expenditures over time in the direction of higher funding for priority areas identified in the planning process. If new spending policies and priorities were implemented over coming years, the nature of the forward estimates would also change.

8.26 The main operational policies driving this illustrative example are:

a) Allocations for the FY 03 budget are taken as given in line with preliminary decisions of the COM in April 2002.

b) Most administrative, defence, police and general public service expenditures over the Plan period FY 04 to FY 07 are constrained to annual expenditure growth of 2% per annum, thus approximately maintaining real expenditure levels.

c) The subsidy on energy is progressively withdrawn during the Plan.

d) Bulk funding for infrastructure and capital development is provided at relatively high levels and broadly in line with the April COM Budget Meeting and consistent with the Preliminary Forward Estimates (US$15.5 million in FY 04; US$17.5 million in FY 05, US$17.9 million in FY 06; and US$ 14.6 million in FY 07).

e) The remaining wedge of resources is made available to education, health, agriculture and water and public works expenditures. These four priority areas are able to grow considerably faster than all other budget areas, at an annual average growth rate of 21% throughout the Plan period.

8.27 In summary in the example presented, the main expenditure composition results that could be achieved over time are:

a) The share of General Public Services expenditure would fall from 14.6% of Total Expenditure in FY 2002 to 9.2% in FY 2007. Major relative declines would occur in the administrative expenditures of the Government.

b) The share of Defence would decline from 8.4% in FY 2002 to 5.2% in FY 2007.

c) Outlays on Public Order and Safety would decline from 16.8% of total in FY 2002 to 9.8% of total in FY 2007.

d) Outlays on Economic Affairs would fall from 20.3% of total in FY 2002 to 7.1% of total in FY 2007. Within this sector the major gainer would be Agriculture while the major downward adjustment would be on subsidies to electricity consumers which would be phased out (these account for the whole decline).

e) The share of Environment, Housing and Community Development would rise from 4.1% of total in FY 2002 to 5.2% of total in FY 2007 (mainly due to increased funding to water supply).

f) The share of Health would rise significantly from 7.6% of total in FY 2002 to 13.7% of total in FY 2007.

g) The share of Education would rise significantly from 22.4% of total in FY 2002 to 32% of total in FY 2007.

h) In 2002 there were no significant funds available for infrastructure development. Proposed bulk funding for infrastructure would see around 20% of the total CFET budget allocated to infrastructure every year through the Plan period (17.8% in 2007).

8.28 Overall, in this illustrative example the main relative gainers are education, health, infrastructure and agriculture. The main downward adjustments are to central administration and bureaucracy, police, defence and electricity subsidies. However, apart from electricity subsidies (which are completely phased out) all other Agencies maintain the real value of their FY 2003 expenditures, even though they do not grow as fast as the priority areas. The allocation policies in this illustrative example reflect priorities that have been identified and agreed in the planning process and are elaborated on in more detail in the sector and strategy sections of the document. They represent one example of challenging targets to aim for over the course of the Plan.

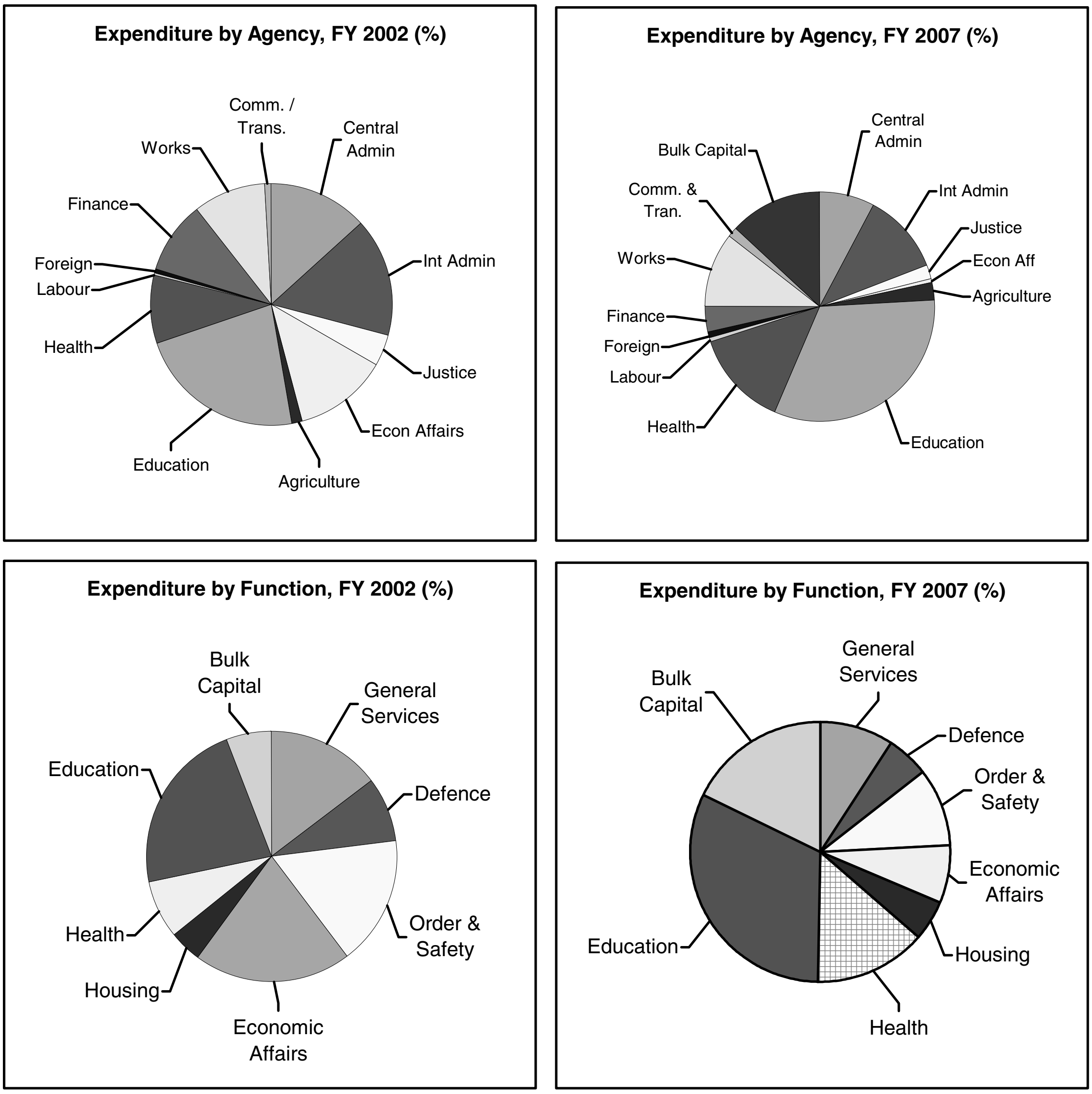
8.29 The main point in presenting this illustrative example is not to recommend it as the only possible approach to allocating budget resources over the medium term. Indeed current political (not Plan) perceptions are that higher levels of resources should go to defence, foreign affairs and police than are provided for in the example. Rather the purpose of the illustrative example is to draw out some more general pointers for expenditure planning approaches over time. The broader messages are:

a) The Government if it desires it strongly enough can change the compositional nature of the budget over time to better reflect Government priorities and development needs.

b) Sectors and Agencies in most countries are able to manage their resources and affairs more effectively where they have reasonable medium term clarity concerning likely levels of available budget resources.

c) Further institutional, technical and coordination strengthening at both political and public service levels will be needed in East Timor to improve expenditure planning over time, particularly to more closely equate expenditure allocations with policy and planning priorities.

Figure 8.9: CFET Expenditure by Agency and Function, FYs 2002 and 2007 (%)



Financing the Deficit and Aid

8.30 The outlook for combined sources financing over the Plan period is contained in Appendix Table 4. Large fiscal deficits are anticipated over all years of the Plan (-50.2% of GDP in FY 2003; -39.9% of GDP in FY 2004; -22.1% of GDP in FY 2005; -21.7% of GDP in FY 2006; and -16.0% of GDP in FY 2007). All deficits are to be financed with donor grants with no public borrowing planned. Donor support to run the CFET budget is required for FYs 2003, 2004 and 2005, but from then on oil revenues are estimated to be adequate to fund the CFET budget.

8.31 All of the projected combined sources deficits in the years FY 2003 to FY 2007 are assumed to be financed by donor grants. It is anticipated that this will include contributions from: (a) a donor facility to support on budget current and development expenditures under CFET, at least for FYs 03, 04 and 05 and if necessary beyond that; (b) TFET; (c) Bilateral Projects; and (d) UN Assessed Contributions. By FY 2006 all of these financing sources apart from bilateral projects will have wound down to zero. Trends in projected deficit and financing levels over the course of the Plan period are set out in Figures 8.10 and 8.11 below.

Figure 8.10: Combined Sources Deficit (-) as % of GDP, FY 2000 to FY 2007

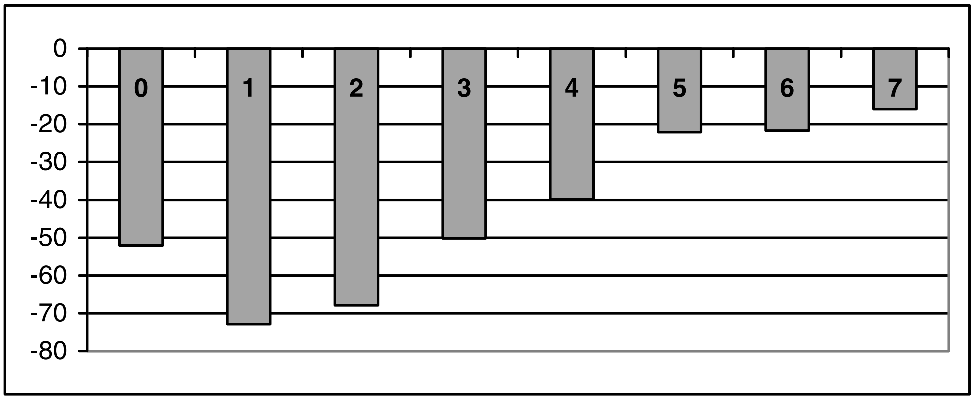
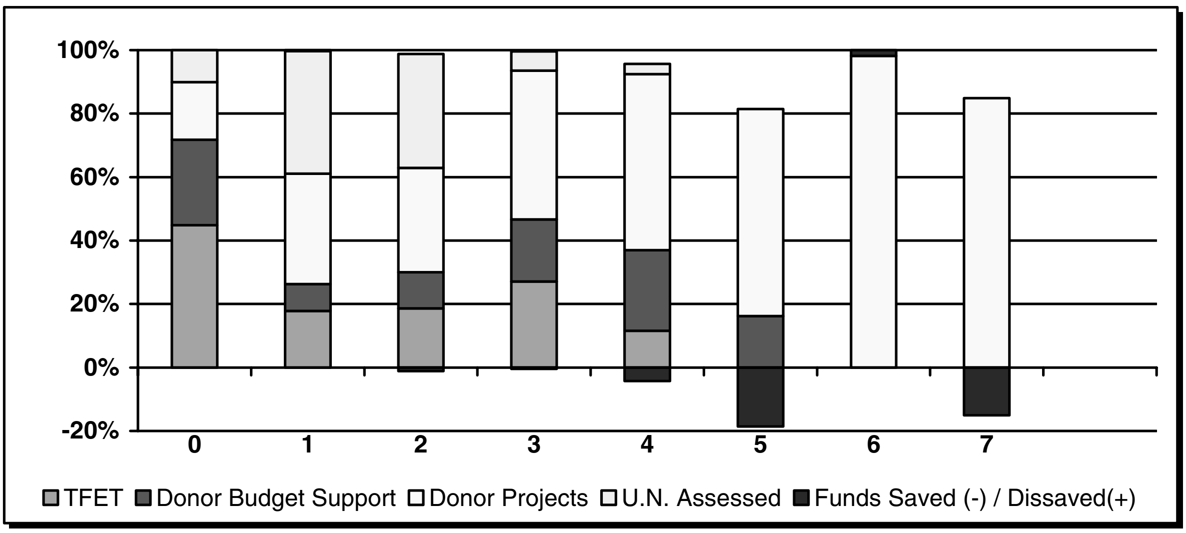


Figure 8.11: Combined Sources Financing Components, FY 2000 to FY 2007 (as % of Total)



BANKING AND FINANCE

8.32 For the immediate future the Government intends to retain the United States Dollar as East Timor's currency. This along with responsible management of the package of macroeconomic policies should ensure price stability. Given dollarisation, there is essentially no scope at this stage for the application of flexible monetary and currency policies by the Government. In these circumstances – and in view of the paramount objective of ensuring a competitive position for East Timor's producers – it will be important to follow closely developments in the real effective exchange rate (which is the exchange rate adjusted for inflation) for East Timor, and to assess its implications for economic growth and external balance.

8.33 In the meantime, there will continue to be a broadening and deepening of the capabilities of the BPA, with a view to preparing it to perform the fully-fledged functions of a central bank. Accordingly, the phased process of institution building that has been developed with support from the IMF will be continued. In particular, further efforts will be made to train East Timorese staff in performing central banking functions, including reserve management, provision of banking services to the government, development of the payments system and supervision of banking institutions in accordance with core Basle principles. Moreover, there will be growing emphasis on developing the economic analysis capability of the Authority, with the creation of an incipient economic and financial research department. In this context, importance will be attached to the further development of banking, financial and balance of payments statistics.

8.34 Other major elements of the new institutional set up are expected to include:

a) Legislative review and upgrading of laws within the sector (to occur by early 2003).

b) A rise in the number of licensed commercial banks beyond the current number of two.

c) Increased diversity in the sector with a number of non-bank financial institutions having commenced operations by the end of the Plan period (leasing; finance companies etc).

d) Access to branch or agency offices of financial institutions will have broadened to include at least minimum access in all main district centres.

e) Establishment by the end of the Plan period of at least some institutions relating to:

- General and life insurance.
- Micro savings and credit schemes.
- Private superannuation and related savings schemes.

f) A significant increase in Bank deposits (demand and time) and lending compared with recent levels.

EXTERNAL/BALANCE OF PAYMENTS

8.35 The external and balance of payments outlook is summarized in Appendix Table 7 and in Figure 8.12 below. Key elements of the external outlook are as follows:

a) Non oil exports will recover somewhat from recent levels, though at US US$40 million per year by plan end will remain quite low, with potential for higher levels if agricultural export growth can be stimulated.

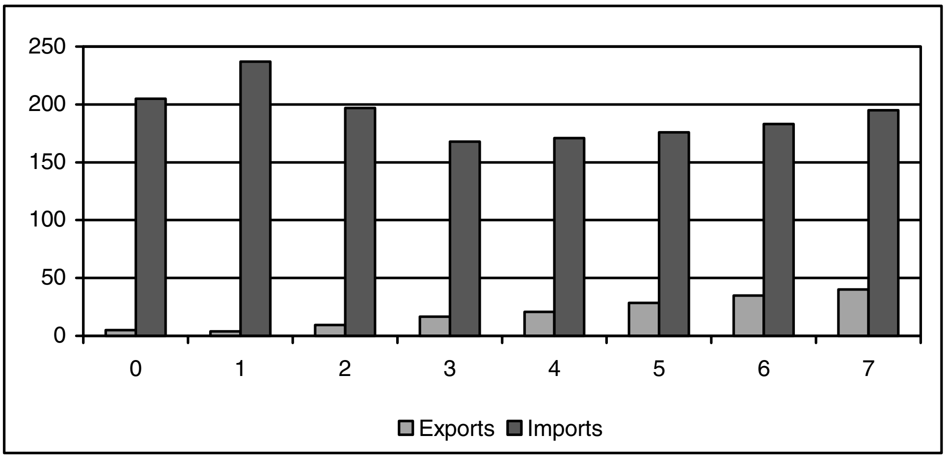
b) New oil revenues from the Bayu Undan field from 2004 will assist the balance of payments through receipts of royalty and taxation payments. As the Timor Sea producers are being treated as non-residents, Trade, Services, Income, Capital and Financial transactions from the project are not recorded. In any event the project is expected to be enclave in nature, with most foreign retention occurring in the form of revenue payments to East Timor.

c) Activities of UNTAET and the international donor community have had a major influence on the external accounts in recent periods, fuelling a large growth in imports on the Trade Account to be offset by Donor grant financing, with no net impact on the Overall Balance. The impact of these foreign flows is expected to diminish throughout the Plan period. General imports (which are not related to either aid or oil imports) are expected to be relatively modest throughout the period, although still significantly higher than merchandise exports.

d) As a result of the above trends the estimated current account deficits are moderately high in all years of the Plan period (averaging 12% of GDP), which are to be largely financed by international grant and capital inflows.

e) In terms of overall balance, there are small negative balances projected for 2002, 2003 and 2004 following which there is a gradual build-up of positive balances to 2007. In the main these positive overall balances are represented by savings of Timor Sea oil revenues, which will be built up in a special offshore savings facility to be introduced.

Figure 8.12: Merchandise Imports and Exports, 2000-2007 (US$m)



TWO CRITICAL FINANCING ISSUES

8.36 Arrangements for financing expenditure over the Plan period take on importance in East Timor. There are two significant issues for medium term financing, which are:

a) Proposed management approaches and outlook for oil and gas revenues.

b) Aid management policy and the preferred forward aid program.

PROPOSED MANAGEMENT APPROACHES AND OUTLOOK FOR OIL AND GAS REVENUES

Introduction

8.37 The short to medium term outlook for oil revenues has been set out at 8.10 above. It depends heavily on the outlook for Bayu Undan which is currently under construction. Apart from this approved petroleum liquids project (with approval on the gas phase still pending), there is one other highly promising site under consideration, but not yet approved for development. This is the Sunrise Troubador project, which if developed would be mainly (about 90%) a dry gas project, also based around either a pipeline to Darwin or a floating manufacturing facility at the well site. Based on the feasibility work undertaken the possible capital costs (extraction only) are around US$700 million. Gas reserves are estimated at a significant 10 trillion cubic feet, with potential production of 1,970 petajoules of gas and 70 million barrels of condensate. Potential total revenue to East Timor over a 20-year site life has been tentatively estimated at US$1.0 billion (current values).

8.38 Because no development contracts are yet in place for this potential project and because of engineering, commercial and international diplomacy uncertainties, no direct account has been taken of it in the current national planning exercise. However, it is current Government policy to pursue arrangements whereby these projects will come to full fruition in future years. This will depend on reaching agreement with potential developers on terms and conditions that are satisfactory for both the developers and the people and Government of East Timor.

8.39 The remainder of this section concentrates on the longer-term outlook and management approaches to the Bayu Undan Project. However, while the economic and commercial outlooks for different projects will vary, similar management approaches (as those set out below) are likely to be pursued for all future projects.

Proposed Management Approaches

8.40 Important elements and guiding principles of the management approaches that will be pursued are as follows.

a) The risks of Dutch Disease are now widely known and Government policy seeks to avoid such effects. Common elements of this disease include: (a) booming conditions in the oil sector can cause real upward movements in currency, price and wage levels, leading to diminished competitiveness and prospects for other sectors of the domestic economy, such as agriculture, industry and tourism; and (b) frequently, Government expenditure rises to levels above the effective absorptive capacity of the economy, leading to wastage in both recurrent and capital expenditures of the government budget.

b) Once higher oil revenues start to flow (currently expected to reach peak levels around FY 2010), oil revenues will not be taken directly into the budget, but will go initially into an offshore pool of foreign financial savings and investments. These investments will be of a secure nature (Investment Grade AAA only) and will aim to provide a secure stream of interest and dividends income, that can be brought into the budget without diminishing the real capital value of the Fund over time (after it reaches its projected peak level, around twenty years into the Bayu Undan project).

c) The precise mechanisms to implement the above savings goals are still being developed, partly in consultation with officials from the Norwegian Government Agencies responsible for similar mechanisms for supervising and managing oil revenues in Norway. While it is likely that a Norwegian type model and legislation will be introduced within the next 6 to 12 months it is still too early to be precise on all the fine details. However, important elements of the management approach are likely to be as follows:

- The approach will be backed by strong legislation, which will provide quite limited discretionary powers to Ministers to adjust legislated flows of finances either into or out of the Fund. In the first instance all funds received are likely to be deposited offshore.

- The legislation is likely to contain principles to apply to the collection and draw down of funds, with close integration with the budget processes. Some flexibility will need to be built into the principles to allow for changing circumstances and particularly during the early years, to allow for some draw down of capital until such time that the fund reaches its peak capital and earnings level. However, all significant matters affecting the flows of funds are expected to require legislative backing.

- After peak capital levels are achieved, a central principle is likely to be that the real capital value (value adjusted for price and currency movements) of the offshore fund will be at the very least maintained (hopefully it will grow) over time.

- Thus amounts drawn into the budget will be at levels that are sustainable in terms of maintaining the real capital value of the Fund. At the same time the aim will be to draw down amounts in a consistent and regular fashion each year, to allow medium term management of expenditures and the budget in smooth and predictable ways, without abrupt changes from year to year. Appropriate management of expenditures and the total budget from year to year will be critical for successful management of oil revenues.

- Offshore investments will be managed by a diversified range of AAA Grade Investment Funds. Regular monitoring of investment performance of individual Managers and the Total Fund will occur by the MoF and the BPA.

- The Timor Gap Authority (which regulates licensing, production sharing and other matters in joint areas of the Timor Sea) will maintain high standards and will be staffed only with people of high international standing, so as to fulfil properly its licensing and regulatory functions and also to undertake the important role of monitoring collection of tranche 1 and tranche 2 oil payments to East Timor.

- The Revenue Service will be strengthened to ensure proper administration of the collection of oil revenues, using the highest international standards. Where necessary international technical assistance and the international contracting out of particular tasks will be undertaken. Regular and complete tax audits of oil operators will be a common feature of future tax administration.

Financial Outlook

8.41 Important elements of the financial outlook for Bayu Undan Project (both liquids and gas phases) are as follows:

a) Total of 370 million barrels of condensate and LPG and 3 trillion cubic feet of gas over the 20-year life of the project.

b) Estimated total revenue (from all sources) to East Timor of approximately US$3.2 billion over the course of the project (at current prices).

c) Recent modelling by both the Government and the IMF under quite conservative assumptions of the build up of the offshore savings fund indicate:

- That the fund will achieve peak level in excess of US$1.3 billion (2000/2001 constant prices) in the early 2020s.

- That beyond this peak the Fund should be able to support regular drawings of around US$60 to US$70 million per year (2000/2001 values, but to be adjusted annually to approximately maintain the real value of drawdowns).

- Provided there is solid growth over time in the Non Oil domestic revenues to around 10 to 12% of GDP, the budget should be able to maintain annual total expenditures of around 25% of GDP (US$ 97 million in 2001 values), without recourse to CFET debt financing (though capital and technical forms of donor assistance are still sought over the longer term). This total level of expenditure is broadly equivalent to current plan estimates (where total CFET expenditure in 2006 / 07 levels out at around 25% of GDP – Appendix Table 3).

- In the event that the Bayu Undan phase-2 gas component did not eventuate a somewhat lower level of expenditures would be needed to sustain the real value of the offshore fund in perpetuity.

d) To the extent that oil prices are significantly above US$18 a barrel or that Sunrise Troubador and other prospective sites are developed at a later stage, then the situation presented would be even more promising. In these circumstances it is likely that the peak capital size of the Fund would increase sharply beyond the currently projected levels and that there would be scope for either higher annual levels of capital and development expenditures through the budget than are currently planned or for higher levels of savings for future generations, or a combination of both.

AID MANAGEMENT POLICY AND THE PREFERRED FORWARD ODA PROGRAM

CFET Budget Support

8.42 Foreign aid (or ODA) in its various forms has funded the bulk of public expenditures since 1999. This trend is expected to continue for the full period of the Plan, although the largest need will be in the first three years of the Plan. Beyond that it is anticipated that there will be no need for donor budget support, (although there are risks that this situation will change if oil revenues do not reach expectations).

8.43 Other ODA is expected to continue for varying periods throughout the Plan (refer to Figure 8.7). TFET is expected to wind down sharply from FY 2003 and to cease completely in FY 2004. The UN Assessed Contributions are expected to be phased out in FY 2004. It is anticipated that bilateral capital projects and technical assistance will continue over the longer term, and it is hoped that these can be maintained over the medium term to levels of at least US$ 85 million per year. This is the minimum level needed over a long period of time to sustain the growth and development projections.

8.44 Reaching agreement with donors on the amount of budget support to be provided in FYs 2003 to 2005 (and if necessary beyond) is a matter of major importance for the Government. The processes and terms and conditions of such assistance are also of great importance. At present discussion is still proceeding as to amounts and processes to apply. It is hoped that broad agreement will be reached before the May 2002 Donor Conference, which will be asked to endorse the proposed arrangements.

Aid Policy

8.45 As at April 2002 discussion is occurring in terms of a possible single ODA facility to cover budget support funding in the coming financial years before significant oil revenues arrive. It seems likely this facility will include contributions from a number of participating donors, but will probably be managed and coordinated through one or two donors. The more important policy positions of the Government on the finalization of such a facility (and more generally in relation to aid policy) are as follows:

a) There is a strong policy preference for grant forms of assistance with no borrowing in the early years of independence.

b) Significant assistance is needed in the early years in the form of direct budget support to assist the general current operations of government and to finance a small capital development fund. While it is hoped that the need for assistance will not extend beyond FY 05, the Government recognizes the need to be cautious as to the actual levels of oil revenue collections and requests donors to remain flexible in their provision of budget support beyond FY 2005 should developments in the oil sector require it.

c) Future aid planning makes some provision for longer-term technical assistance in the five years after independence (around three hundred longer term positions). This TA support is specifically meant to cover long term line positions, initially to be filled by expatriates. Beyond these identified positions (and any subsequently identified), the Government’s preference is for a much lower proportion of TA than occurred in the UNTAET period (In the period from 1999 to June 2002 it is estimated that TA spending will represent US$114.2 million out of the total ODA spending of US$323.1 million, or 35% of the total). It is preferred that the great bulk of future ODA support goes into capital and development projects that have been identified by the Government and agreed with donors.

d) The Government lacks the capacity to manage a facility with a large and complex conditionality matrix. To the extent that any conditionality matrix at all is required, Government is of the view that it should be simple, containing only a small number of conditions, most of which should relate to total levels of CFET expenditure and agreed targets for the composition and nature of both current and development expenditures.

e) All future ODA should take close account of Government's Vision, Goals, Guiding Principles, Policies and allocational priorities between sectors as contained in this plan, to assist in the identification and formulation of future programs and projects of assistance. In relation to formulating ODA programs and projects within sectors this should extend to understanding and supporting the various sector chapters of this plan, which set out goals, priorities and policies for future assistance within each of the sectors (along with indicative programs and projects). Appendix Table 9 provides information on the composition of already approved and programmed bilateral ODA over the period, FY 00 to FY 07. In many respects existing and planned bilateral assistance has been favourably consistent with the priorities of the Plan. For example 18% of the total has gone to Agriculture and Fisheries, 14% to Education, 11% to Health and 22% to Infrastructure areas of Water, Public Works, Communications and Transport. On the other hand significant amounts have also been devoted to central administration (around 30% of total bilateral ODA). In some areas overlaps between donors' contributions, particularly in competing forms of TA, have occurred and this needs to be addressed.

f) As part of institutional strengthening it is proposed during the course of the Plan to centralize all aid coordination and management functions under one roof, possibly in the Ministry of Finance. This should allow for easier integration of the current and development budgets and a closer linking of ODA with the MTFF, budget preparation and management.

g) The UNTAET Regulation 2001/13 makes provision for a Special Funds budget to cover aid in kind and external financing that does not pass through the Consolidated Fund. All Government Ministries and Agencies are required to provide the necessary project and financial information through the budget formulation process. To increase the comprehensiveness of coverage the MoF has introduced a database which aims to include all approved forms of ODA and to track disbursements against financing agreements, mainly using information collected from donors. It is proposed in future years to present more comprehensive information as an annex to the budget documents with regard to all forms of ODA that are not directly on budget. The full support and assistance of donors in building up this information base is sought.

Future ODA Programs and Projects

8.46 Apart from the above general policies, other key elements of the Government's future ODA program and project needs are set out in the sector chapters of this Plan. The preferred programs and projects have been developed through the eight sector working groups involved in the preparation of the Plan. The Government seeks to gain as much future support as possible to fund these new initiatives. This includes support for projects that are to be directly on budget and also projects the bilateral donors administer more directly themselves. The sector chapters provide the details.

APPENDIX: MEDIUM TERM ECONOMIC AND FINANCING OUTLOOK TABLES

Table 1

Constant (2000) Price GDP by Sector, 2000 - 2007, (US$ Millions; and %)

	2000 Estimate	2001 Estimate	2002 Outlook	2003 Outlook	2004 Outlook	2005 Outlook	2006 Outlook	2007 Outlook
1. Agriculture, Forestry and Fisheries	**83.3**	**96.0**	**100.1**	**103.8**	**109.4**	**116.5**	**124.5**	**133.0**
Annual Growth (%)	-12.5	15.3	4.3	3.7	5.4	6.5	6.8	6.8
As % of GDP	25.9	25.3	26.5	28.1	29.3	30.2	30.7	31.0
2. Mining and Quarrying	**3.1**	**3.2**	**3.3**	**3.5**	**3.6**	**3.8**	**4.1**	**4.3**
Annual Growth (%)	0.0	5.5	3.3	3.5	5.1	5.4	6.0	6.0
As % of GDP	1.0	0.9	0.9	0.9	1.0	1.0	1.0	1.0
3. Manufacturing Industry	**8.7**	**9.3**	**9.5**	**9.9**	**10.4**	**11.0**	**11.8**	**12.6**
Annual Growth (%)	10.0	6.3	3.0	3.3	5.5	6.2	6.7	6.9
As % of GDP	2.7	2.4	2.5	2.7	2.8	2.9	2.9	2.9
4. Electricity, Gas and Water	**2.6**	**2.9**	**3.0**	**3.0**	**3.1**	**3.4**	**3.6**	**3.9**
Annual Growth (%)	13.3	10.1	1.6	0.9	5.3	6.7	7.6	7.3
As % of GDP	0.8	0.8	0.8	0.8	0.8	0.9	0.9	0.9
5. Construction	**45.9**	**50.6**	**50.4**	**49.7**	**51.7**	**54.9**	**59.3**	**63.8**
Annual Growth (%)	33.4	10.4	-0.5	-1.3	3.9	6.2	8.1	7.5
As % of GDP	14.3	13.3	13.3	13.5	13.8	14.2	14.6	14.8
6. Trade, Hotels and Restaurants	**25.1**	**29.1**	**28.0**	**26.5**	**27.3**	**29.0**	**31.5**	**33.5**
Annual Growth (%)	44.7	15.8	-3.6	-5.4	3.0	6.0	8.7	6.5
As % of GDP	7.8	7.7	7.4	7.2	7.3	7.5	7.8	7.8
7. Transport and Communications	**23.2**	**26.1**	**25.3**	**24.2**	**25.1**	**26.8**	**29.1**	**31.3**
Annual Growth (%)	45.8	12.6	-3.2	-4.4	4.0	6.6	8.6	7.5
As % of GDP	7.2	6.9	6.7	6.5	6.7	6.9	7.2	7.3
8. Finance, Rents & Bus. Services	**21.1**	**24.4**	**23.7**	**22.4**	**23.2**	**24.7**	**26.6**	**28.3**
Annual Growth (%)	24.5	15.9	-3.1	-5.3	3.5	6.3	8.0	6.3
As % of GDP	6.6	6.4	6.3	6.1	6.2	6.4	6.6	6.6
9. Services	**108.2**	**138.1**	**134.5**	**126.5**	**119.8**	**116.0**	**115.3**	**118.8**
Annual Growth (%)	27.0	27.6	-2.6	-6.0	-5.2	-3.2	-0.6	3.1
As % of GDP	33.7	36.4	35.6	34.2	32.1	30.0	28.4	27.7
Total (Constant Price) GDP	**321.1**	**379.8**	**377.8**	**369.4**	**373.7**	**386.0**	**405.7**	**429.4**
Annual Real Total Growth (%)	15.4	18.3	-0.5	-2.2	1.2	3.3	5.1	5.9
Total Nominal GDP	**321.2**	**389.3**	**370.6**	**345.2**	**357.4**	**382.5**	**417.3**	**454.9**
Annual Nominal Total Growth (%)	18.9	21.2	-4.8	-6.9	3.5	7.0	9.1	9.0

Sources: (a) Ministry of Finance for 2000; (b) I.M.F. for 2001; and © I.M.F. and Planning Commission for 2002 - 2007

Note: Excludes oil and gas production with Oil Companies operating in the Zone of Cooperation treated as non residents pending clarification of their status

Table 2.

Combined Sources Revenues and Grants, FY 00 to FY 07 (US$ Millions and %)

	FY00 Actual	FY01 Actual	FY02 Budget Revised	FY03 Budget Prelim.	FY04 Estimate	FY05 Estimate	FY06 Estimate	FY07 Estimate
A. TOTAL REVENUE (B+C)	**2.0**	**28.4**	**31.4**	**42.6**	**53.4**	**98.8**	**101.7**	**126.7**
Total Revenue as % of GDP	**0.7**	**8.0**	**8.3**	**11.9**	**15.2**	**26.7**	**25.4**	**29.1**
B. DOMESTIC REVENUE (B1+B2+B3)	**2.0**	**15.5**	**19.4**	**21.3**	**20.7**	**22.4**	**25.3**	**27.6**
Total Domestic Revenue as % of GDP	**0.7**	**4.4**	**5.1**	**6.0**	**5.9**	**6.1**	**6.3**	**6.3**
B1. Direct Taxes (Taxes on Income)	**0.0**	**0.8**	**4.6**	**4.3**	**4.3**	**4.6**	**5.0**	**5.4**
Direct Taxes as a % of GDP	**0.0**	**0.2**	**1.2**	**1.2**	**1.2**	**1.2**	**1.3**	**1.2**
Individual Income Tax	0.0	0.6	2.3	2.2	2.2	2.4	2.6	2.9
Income and Final Withholding Tax	0.0	0.2	2.3	2.1	2.1	2.2	2.4	2.5
B2. Indirect Taxes (Taxes on Commodities)	**2.0**	**11.4**	**12.4**	**14.3**	**13.7**	**14.5**	**15.3**	**17.0**
Indirect Taxes as a % of GDP	**0.7**	**3.2**	**3.3**	**4.0**	**3.9**	**3.9**	**3.8**	**3.9**
Sales Tax	0.0	3.0	3.2	4.0	4.0	4.2	4.4	4.9
Excise	0.0	4.0	4.3	5.0	5.0	5.2	5.4	5.9
Import Duties	2.0	2.6	2.9	3.4	2.8	3.1	3.3	3.7
Export Duties	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Service Tax	0.0	1.7	2.0	1.9	1.9	2.0	2.2	2.5
B3. Non Tax Revenue	**0.0**	**3.3**	**2.4**	**2.7**	**2.7**	**3.3**	**5.0**	**5.2**
Non Tax Revenues as % of GDP	**0.0**	**0.9**	**0.6**	**0.8**	**0.8**	**0.9**	**1.3**	**1.2**
User Fees and Charges	0.0	2.6	1.3	1.4	1.5	1.5	1.6	1.7
Other Non Tax Revenues (Including Interest)	0.0	0.6	1.1	1.3	1.2	1.8	3.4	3.5
C. Timor Sea Oil / Gas Revenue	**0.0**	**12.9**	**12.0**	**21.3**	**32.7**	**76.4**	**76.4**	**99.1**
Oil / Gas Revenue as % of GDP	**0.0**	**3.6**	**3.2**	**6.0**	**9.3**	**20.6**	**19.1**	**22.7**
First Tranche Petroleum	0.0	3.0	6.0	0.8	6.6	24.2	22.3	29.5
Taxes	0.0	9.9	6.0	20.5	26.1	52.2	54.1	69.6
D. FOREIGN GRANTS	**154.2**	**258.2**	**260.9**	**180.7**	**146.7**	**106.1**	**85.0**	**85.0**
Foreign Grants as a % of GDP	**52.1**	**72.7**	**68.7**	**50.5**	**41.8**	**28.7**	**21.3**	**19.5**
Trust Fund for East Timor	69.1	46.2	49.2	49.0	17.7	0.0	0.0	0.0
Direct Donor Budget Support	41.6	22.0	30.0	35.7	39.0	21.1	0.0	0.0
Projects Administered by Bilateral Donors	27.9	90.0	86.7	85.0	85.0	85.0	85.0	85.0
U.N. Assessed Contribution	15.6	100.0	95.0	11.0	5.0	0.0	0.0	0.0
F. TOTAL REVENUE AND GRANTS (A+D)	**156.2**	**286.6**	**292.3**	**223.3**	**200.1**	**204.9**	**186.7**	**211.7**
Total Revenue and Grants as % of GDP	**52.8**	**80.7**	**76.9**	**62.4**	**57.0**	**55.4**	**46.7**	**48.6**

Sources: (a) Ministry of Finance for FY 00 to FY 03; and (b) Planning Commission for FY 04 to FY 07

Notes:

1. First tranche petroleum revenue is currently accumulated in a Special Timor Sea Account. In future all oil revenues may go firstly to an offshore account.

2. General U.N. assessed contributions only include estimates of U.N. funded activities that are likely to directly affect the operations of Government through the CFET budget (This reflects mainly TA and staffing. Non recurring items such as peacekeeping; New York activities etc. are not included here).

Table 3.

Combined Sources Expenditure (Economic Format), FY 00 to FY 07 (US$ Millions)

	FY00 Actual	FY01 Actual	FY02 Budget Revised	FY03 Budget Prelim.	FY04 Estimate	FY05 Estimate	FY06 Estimate	FY07 Estimate
A. RECURRENT EXPENDITURE (CFET Only)	**28.7**	**29.6**	**47.0**	**60.9**	**68.2**	**73.7**	**79.5**	**85.9**
As % of GDP	**9.7**	**8.3**	**12.4**	**17.0**	**19.4**	**19.9**	**19.9**	**19.7**
As % of Total Expenditure	**18.4**	**10.3**	**16.2**	**27.4**	**35.2**	**40.8**	**42.2**	**43.7**
Wages and Salaries	14.6	13.9	20.7	25.8	27.4	29.6	32.0	34.5
Goods and Services	14.1	15.7	26.3	35.1	40.8	44.1	47.6	51.4
B. CAPITAL & DEVELOPMENT EXPENDITURE	**127.5**	**257.9**	**242.3**	**161.3**	**125.3**	**107.0**	**108.8**	**110.7**
As % of GDP	**43.1**	**72.6**	**63.8**	**45.1**	**35.7**	**28.9**	**27.2**	**25.4**
As % of Total Expenditure	**81.6**	**89.7**	**83.8**	**72.6**	**64.8**	**59.2**	**57.8**	**56.3**
Consolidated Fund for East Timor	14.9	21.7	11.4	16.3	17.6	22.0	23.8	25.7
Trust Fund for East Timor	69.1	46.2	49.2	49.0	17.7	0.0	0.0	0.0
Bilateral Development Projects	27.9	90.0	86.7	85.0	85.0	85.0	85.0	85.0
UNTAET Indirect CFET Budget Support	15.6	100.0	95.0	11.0	5.0	0.0	0.0	0.0
C. TOTAL EXPENDITURE (A+B)	**156.2**	**287.5**	**289.3**	**222.2**	**193.5**	**180.7**	**188.3**	**196.6**
As % of GDP	**52.8**	**80.9**	**76.1**	**62.1**	**55.1**	**48.8**	**47.1**	**45.1**
Memorandum Items:								
Total CFET Expenditure	43.6	51.3	58.4	77.2	85.8	95.7	103.3	111.6
Growth in CFET Expenditures (%)		17.7	13.8	32.2	11.1	11.5	8.0	8.0

Sources: As per Table 2

Notes:

1. General U.N. assessed contributions only include estimates of UN funded activities that are likely to directly affect the operations of Government through the CFET budget (non recurring items such as peacekeeping; New York activities etc.) are not included here
2. All TFET; Bilateral and UNTAET expenditures recorded as Capital and Development, though significant portions of them are actually recurrent in nature
3. Preliminary estimates for FY 03 are based on total outlays of US$ 77.2 million, notwithstanding that COM is still considering a range of outlays between US$ 67.4 million and US$ 77.2 million. Reasons justifying the use of US$ 77.2 million are set out at section 7.20 of the text

Table 4.

Combined Sources Financing (Economic Format), FY 00 to FY 07 (US$ Millions)

	FY00 Actual	FY01 Actual	FY02 Budget Revised	FY03 Budget Prelim.	FY04 Estimate	FY05 Estimate	FY06 Estimate	FY07 Estimate
A. TOTAL REVENUE (Excluding Grants)	**2.0**	**28.4**	**31.4**	**42.6**	**53.4**	**98.8**	**101.7**	**126.7**
Total Revenue as % of GDP	**0.7**	**8.0**	**8.3**	**11.9**	**15.2**	**26.7**	**25.4**	**29.1**
B. MINUS TOTAL EXPENDITURE	**156.2**	**287.5**	**289.3**	**222.2**	**193.5**	**180.7**	**188.3**	**196.6**
Total Expenditure as % of GDP	**52.8**	**80.9**	**76.1**	**62.1**	**55.1**	**48.8**	**47.1**	**45.1**
C. EQUALS DEFICIT (-) / Surplus (+)	**-154.2**	**-259.1**	**-257.9**	**-179.6**	**-140.1**	**-81.9**	**-86.6**	**-69.9**
Total Deficit as % of GDP	**-52.1**	**-72.9**	**-67.9**	**-50.2**	**-39.9**	**-22.1**	**-21.7**	**-16.0**
D. FINANCING OF DEFICIT								
Trust Fund for East Timor	69.1	46.2	49.2	49.0	17.7	0.0	0.0	0.0
Direct Donor Budget Support	41.6	22.0	30.0	35.4	39.0	21.1	0.0	0.0
Projects Administered by Bilateral Donors	27.9	90.0	86.7	85.0	85.0	85.0	85.0	85.0
U.N. Assessed Contribution	15.6	100.0	95.0	11.0	5.0	0.0	0.0	0.0
Increase (-) / Decrease (+) in Cash Balances	0.0	0.9	-3.0	-0.8	-6.6	-24.2	1.6	-15.1
TOTAL FINANCING	**154.2**	**259.1**	**257.9**	**179.6**	**140.1**	**81.9**	**86.6**	**69.9**
Memorandum Item:								
Cumulative Cash Balance Levels	0.0	-0.9	2.1	3.0	9.9	35.1	34.5	51.1

Sources: As per Tables 2 and 3

Table 5.

Consolidated Fund for East Timor, Total Expenditure by Agency, FY 02 to FY 07
(US$ 000)

	FY02 Revised Budget	FY03 Preliminary Budget	FY04 Estimate	FY05 Estimate	FY06 Estimate	FY07 Estimate
1. Government and Administration	**7,767**	**7,903**	**8,061**	**8,222**	**8,387**	**8,554**
1.1 Chief Ministers Office	783	461	470	480	489	499
1.2 Legislative Assembly	851	883	901	919	937	956
1.3 Independent Electoral Commissioner	11	59	60	61	63	64
1.4 Banking and Payments Authority	1,374	1,080	1,102	1,124	1,146	1,169
1.5 ETDF Command	4,214	4,429	4,518	4,608	4,700	4,794
1.6 Office of President	90	404	412	420	429	437
1.7 Other Ministers - Bulk	382	539	550	561	572	583
1.8 Ombudsman	62	48	49	50	51	52
2. Ministry of Internal Administration	**9,272**	**11,769**	**12,004**	**12,244**	**12,489**	**12,739**
2.1 East Timor Police Service	6,707	7,806	7,962	8,121	8,284	8,449
2.2 Internal Administration / Local Administration / Other	2,565	3,963	4,042	4,123	4,206	4,290
3. Ministry of Justice	**2,390**	**2,078**	**2,120**	**2,162**	**2,205**	**2,249**
4. Ministry for Economic Affairs and Planning	**7,256**	**4,565**	**3,478**	**3,142**	**553**	**564**
4.1 Department of Natural and Mineral Resources	115	168	171	175	178	182
4.2 Department of Economic Affairs and Development	325	353	360	367	375	382
4.3 Energy Subsidy	6,816	4,044	2,947	2,600	-	-
5. Ministry for Agriculture and Fisheries	**881**	**1,373**	**1,716**	**2,060**	**2,471**	**2,966**
6. Ministry of Education, Culture and Youth	**13,061**	**16,653**	**20,816**	**24,980**	**29,975**	**35,970**
7. Ministry of Health	**5,313**	**7,079**	**8,849**	**10,619**	**12,742**	**15,291**
8. Labour and Solidarity	**234**	**480**	**490**	**499**	**509**	**520**
9. Ministry of Foreign Affairs and Cooperation	**272**	**671**	**684**	**698**	**712**	**726**
10. Ministry of Finance	**5,727**	**3,782**	**3,858**	**3,935**	**4,013**	**4,094**
10.1 Ministry Operations	3,742	2,247	2,292	2,338	2,385	2,432
10.2 Whole of Government Payments / Contingencies	1,985	1,535	1,566	1,597	1,629	1,662
11. Ministry of Water and Public Works	**5,601**	**5,467**	**6,834**	**8,201**	**9,841**	**11,809**
12. Ministry of Communications and Transport	**460**	**1,388**	**1,416**	**1,444**	**1,473**	**1,502**
13. Bulk Unallocated Funding / Other	**146**	**14,004**	**15,474**	**17,495**	**17,928**	**14,616**
13.1 Recurrent	146	2,112	1,300	1,350	1,400	1,500
13.2 Capital	-	11,892	14,174	16,145	16,528	13,116
14. Total Expenditure (Current + Capital)	**58,380**	**77,212**	**85,800**	**95,700**	**103,300**	**111,600**

Sources: (a) Ministry of Finance for FYs 02 and 03 and; (b) Planning Commission estimates for FYs 04 to 07

Notes:
1. Data for FY 03 based on very preliminary budget data
2. Estimates for FY 04 to FY 07 based on a policy based scenario of the Planning Commission's as set out in Chapter 7 of the Development Plan

Table 6

Consolidated Fund for East Timor, Expenditure, FY 02 to FY 07 (by Functional Classification)
(US$ 000 and %)

Function	FY02 Revised Budget	FY03 Preliminary Budget	FY04 Budget	FY05 Budget	FY06 Budget	FY07 Budget
1. General Public Services	**8,529**	**9,484**	**9,674**	**9,867**	**10,064**	**10,266**
As % of Total CFET	**14.6**	**12.3**	**11.3**	**10.2**	**9.7**	**9.2**
Executive and Legislative Organs	3,025	4,268	4,353	4,440	4,529	4,620
Financial and Fiscal Affairs	3,554	3,785	3,861	3,938	4,017	4,097
Foreign Affairs	272	671	684	698	712	726
General Services	1,678	760	775	791	807	823
2. Defence	**4,903**	**5,323**	**5,429**	**5,538**	**5,649**	**5,762**
As % of Total CFET	**8.4**	**6.9**	**6.3**	**5.7**	**5.5**	**5.2**
3. Public Order and Safety	**9,812**	**10,150**	**10,353**	**10,560**	**10,771**	**10,987**
As % of Total CFET	**16.8**	**13.1**	**12.1**	**10.9**	**10.4**	**9.8**
Police Services	6,807	7,806	7,962	8,121	8,284	8,449
Fire Protection Services	470	374	381	389	397	405
Law Courts and Prisons	2,535	1,970	2,009	2,050	2,091	2,132
4. Economic Affairs	**11,855**	**9,865**	**9,227**	**9,352**	**7,309**	**7,957**
As % of Total CFET	**20.3**	**12.8**	**10.8**	**9.7**	**7.1**	**7.1**
General Economic, Commercial & Labour Services	299	319	325	332	339	345
Agriculture, Forestry, Fishing and Hunting	775	1,097	1,371	1,646	1,975	2,370
Fuel and Energy	6,841	4,106	3,000	2,655	64	70
Mining, Manufacturing, Construction	987	437	546	656	787	944
Other Industry	8	306	312	318	325	331
Transport	2,658	2,749	2,804	2,860	2,917	2,976
Communications	287	851	868	885	903	921
5. Environment, Housing and Community Development	**2,417**	**2,743**	**3,393**	**4,043**	**4,823**	**5,758**
As % of Total CFET	**4.1**	**3.6**	**4.0**	**4.2**	**4.7**	**5.2**
Community Development	0	90	92	94	96	97
Water Supply and Sanitation	2,343	2,588	3,235	3,882	4,658	5,590
Environment	74	65	66	68	69	70
6. Health	**4,411**	**7,080**	**8,850**	**10,620**	**12,744**	**15,293**
As % of Total CFET	**7.6**	**9.2**	**10.3**	**11.0**	**12.3**	**13.7**
7. Education, Recreation, Culture, Religion	**13,061**	**16,528**	**20,660**	**24,792**	**29,750**	**35,700**
As % of Total CFET	**22.4**	**21.4**	**24.1**	**25.6**	**28.8**	**32.0**
8. Unallocated (Mainly Capital / Infrastructure)	**3,392**	**16,039**	**18,214**	**21,928**	**22,189**	**19,878**
As % of Total CFET	**5.8**	**20.8**	**21.2**	**22.7**	**21.5**	**17.8**
TOTAL	**58,380**	**77,212**	**85,800**	**96,700**	**103,300**	**111,600**

Sources: As per Table 5
Notes:
1. Data for FY 03 based on very preliminary budget data
2. Estimates for FY 04 to FY 07 based on a policy based scenario of the Planning Commission's as set out in Chapter 7 of the Development Plan

Table 7

Balance of Payments, 2000 - 2007, US$ (Millions)

	2000 Estimate	2001 Estimate	2002 Outlook	2003 Outlook	2004 Outlook	2005 Outlook	2006 Outlook	2007 Outlook
Trade Balance	**-199.9**	**-233.5**	**-187.3**	**-151.4**	**-150.1**	**-147.6**	**-147.7**	**-155.0**
As % of GDP	**-62.2**	**-60.0**	**-50.5**	**-43.9**	**-42.0**	**-38.6**	**-35.4**	**-34.1**
Merchandise Exports	**4.9**	**4.0**	**9.4**	**16.7**	**20.7**	**28.4**	**34.8**	**40.0**
As % of GDP	**1.5**	**1.0**	**2.5**	**4.8**	**5.8**	**7.4**	**8.3**	**8.8**
- Coffee	4.4	2.9	5.2	9.5	11.4	16.4	20.6	24.0
- Other	0.5	1.1	4.2	7.2	9.3	12.0	14.2	16.0
Merchandise Imports	**-204.8**	**-237.5**	**-196.7**	**-168.1**	**-170.8**	**-176**	**-182.5**	**-195**
As % of GDP	**-63.8**	**-61.0**	**-53.1**	**-48.7**	**-47.8**	**-46.0**	**-43.7**	**-42.9**
- Public	-152.0	-143.0	-99.6	-72.3	-70.1	-66.5	-63.0	-65.0
Of which UNTAET and humanitarian	-112.2	-59.2	-13.2	-8.9	-3.0	0.0	0.0	0.0
- Private	-52.8	-94.5	-97.1	-95.8	-100.7	-109.5	-119.5	-130.0
Services Account (Net)	**-57.7**	**-61.3**	**-49.9**	**-38.4**	**-25.1**	**-20.6**	**-19.2**	**-18**
As % of GDP	**-18.0**	**-15.7**	**-13.5**	**-11.1**	**-7.0**	**-5.4**	**-4.6**	**-4.0**
Income (Net)	**3.0**	**4.4**	**1.6**	**3.0**	**19.1**	**29.6**	**28.5**	**31.0**
As % of GDP	**0.9**	**1.1**	**0.4**	**0.9**	**5.3**	**7.7**	**6.8**	**6.8**
Of which Oil Royalties	3.0	4.2	2.3	5.0	20.6	31.0	29.6	32.0
Current Transfers (Net)	**307.2**	**279.7**	**165.8**	**131.3**	**105.1**	**103.8**	**105.3**	**108.0**
As % of GDP	**95.6**	**71.8**	**44.7**	**38.0**	**29.4**	**27.1**	**25.2**	**23.7**
Of which Oil Tax Revenue	2.5	10.3	16.8	31.1	52.2	70.9	70.9	70.0
Of which UNTAET and humanitarian	232.0	171.9	64.4	43.4	14.5	0.0	0.0	0.0
Current Account Including Official Transfers	**52.6**	**-10.7**	**-69.8**	**-55.5**	**-51.0**	**-34.8**	**-33.1**	**-34.0**
As % of GDP	**16.4**	**-2.7**	**-18.8**	**-16.1**	**-14.3**	**-9.1**	**-7.9**	**-7.5**
Current Account Excluding Official Transfers	**-254.5**	**-290.0**	**-235.1**	**-185.7**	**-154.1**	**-136.2**	**-135.6**	**-134.2**
As % of GDP	**-79.2**	**-74.5**	**-63.4**	**-53.8**	**-43.1**	**-35.6**	**-32.5**	**-29.5**
Capital and Financial Account	**-4.2**	**36.0**	**46.9**	**29.0**	**35.8**	**35.1**	**49.2**	**51.0**
As % of GDP	**-1.3**	**9.2**	**12.7**	**8.4**	**10.0**	**9.2**	**11.8**	**11.2**
Of which Capital Account	49.6	67.0	61.6	45.9	13.8	10.5	10.1	10.0
Of which Financial Account	-53.8	-31.0	-14.7	-16.9	21.9	24.6	39.1	40.0
Errors and Omissions	-32.4	-17.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (Before Financing Support)	**16.0**	**7.7**	**-22.9**	**-26.5**	**-15.2**	**0.3**	**16.1**	**17.0**
Gross Reserves (Before Financing Support)	**19.0**	**26.7**	**3.8**	**-22.7**	**-37.9**	**-37.6**	**-21.5**	**-4.5**
Timor Sea Offshore Account	**0.0**	**3.0**	**9.1**	**10.4**	**17.6**	**42.9**	**42.0**	**58.5**

Source: Planning Commission and IMF

Table 8.

Approved and Programmed Foreign ODA by Country and Type, FY 00 TO FY 07, (US$ 000)

	FY00 Actual	FY01 Actual	FY02 Estimate	FY03 Estimate	FY04 Estimate	FY05 Estimate	FY06 Estimate	FY07 Estimate	Total Period Estimate
A. TRUST FUND FOR EAST TIMOR (TFET)									
ADB - Capital	-	10,342	13,104	9,824	8,000	-	-	-	41,270
ADB - TA	-	5,257	4,195	1,641	-	-	-	-	11,093
ADB - Total	-	15,599	17,299	11,465	8,000	-	-	-	52,363
WB - Capital	-	27,167	25,974	33,106	8,487	-	-	-	94,733
WB - TA	-	3,390	5,927	4,430	1,213	-	-	-	14,960
WB - Total	-	30,557	31,901	37,535	9,700	-	-	-	109,693
Total - Capital	**-**	**37,509**	**39,078**	**42,929**	**16,487**	**-**	**-**	**-**	**136,003**
Total - TA	**-**	**8,647**	**10,122**	**6,071**	**1,213**	**-**	**-**	**-**	**26,053**
Total TFET	**-**	**46,156**	**49,200**	**49,000**	**17,700**	**-**	**-**	**-**	**162,056**
B. MULTILATERALS AND BILATERALS (NON TFET)									
ADB - Capital	-	-	-	-	-	-	-	-	-
ADB - TA	-	150	5,023	350	-	-	-	-	5,523
ADB - Total	-	150	5,023	350	-	-	-	-	5,523
Australia - Capital	375	2,835	14,862	9,400	8,040	2,200	-	-	37,712
Australia - TA	2,105	8,587	19,849	15,805	12,226	3,090	-	-	61,662
Australia - Total	2,480	11,422	34,711	25,205	20,266	5,290	-	-	99,374
Canada - Capital	-	260	1,115	835	690	105	-	-	3,005
Canada - TA	680	2,385	2,542	580	250	100	-	-	6,537
Canada - Total	680	2,645	3,657	1,415	940	205	-	-	9,542
ECHO - Capital	5,425	5,980	7,730	-	-	-	-	-	19,135
ECHO - TA	400	315	210	-	-	-	-	-	925
ECHO - Total	5,825	6,295	7,940	-	-	-	-	-	20,060
Japan - Capital	750	18,832	7,311	10,270	5,920	4,810	-	-	47,893
Japan - TA	857	9,995	4,747	3,317	1,140	29	-	-	20,085
Japan - Total	1,607	28,827	12,058	13,587	7,060	4,839	-	-	67,978
Portugal - Capital	6,752	8,731	7,928	5,229	2,090	100	100	700	31,630
Portugal -TA	630	6,923	7,747	6,570	1,480	-	-	-	23,350
Portugal - Total	7,382	15,654	15,675	11,799	3,570	100	100	700	54,980
USAID - Capital	7,850	9,657	5,600	2,300	1,550	-	-	-	26,957
USAID - TA	270	3,207	5,048	698	-	-	-	-	9,223
USAID - Total	8,120	12,864	10,648	2,998	1,550	-	-	-	36,180
Other Bilaterals - Capital	643	8,439	7,658	-	-	-	-	-	16,740
Other Bilaterals - TA	1,134	2,706	3,217	-	-	-	-	-	7,057
Other Bilaterals - Total	1,777	11,145	10,875	-	-	-	-	-	23,797
UNDP Capital	32	1,042	900	-	-	-	-	-	1,974
UNDP TA	-	-	3,762	1,481	886	1,450	1,450	-	9,029
UNDP Total	32	1,042	4,662	1,481	886	1,450	1,450	-	11,003
Other Multilaterals - Capital	-	-	1,584	-	-	-	-	-	1,584
Other Multilaterals - TA	-	-	2,955	100	-	-	-	-	3,055
Other Multilaterals - Total	-	-	4,539	100	-	-	-	-	4,639
GRAND TOTAL - Capital	**21,827**	**55,776**	**54,688**	**28,034**	**18,290**	**7,215**	**100**	**700**	**186,630**
GRAND TOTAL - TA	**6,076**	**34,268**	**55,100**	**28,901**	**15,982**	**4,669**	**1,450**	**-**	**146,446**
GRANDTOTAL - Capital + TA	**27,903**	**90,044**	**109,788**	**56,935**	**34,272**	**11,884**	**1,550**	**700**	**333,076**
C. (TFET + NON TFET)									
GRAND TOTAL - Capital	**21,827**	**93,285**	**93,766**	**70,963**	**34,777**	**7,215**	**100**	**700**	**322,633**
GRAND TOTAL - TA	**6,076**	**42,915**	**65,222**	**34,972**	**17,195**	**4,669**	**1,450**	**-**	**172,499**
GRANDTOTAL - Total	**27,903**	**136,200**	**158,988**	**105,935**	**51,972**	**11,884**	**1,550**	**700**	**495,132**

Source: Ministry of Finance, ODA Database and Planning Commission

Note: Only includes approved and fully programmed projects. Does not include bulk amounts notionally targeted by Donors for future plan years

Table 9.

Total Approved and Programmed Bilateral ODA by Agency, FY 00 to FY 07, (US$ 000)

		FY00 Actual	FY01 Actual	FY02 Estimate	FY03 Estimate	FY04 Estimate	FY05 Estimate	FY06 Estimate	FY07 Estimate	Total Period Estimate	% 0f Total
1. Transitional Administration	**- Total**	738	9,290	21,623	9,833	5,934	-	-	-	47,418	14.2
	- Capital	50	2,017	9,594	4,560	2,050	-	-	-	18,271	5.5
	- TA	688	7,273	12,029	5,273	3,884	-	-	-	29,147	8.8
2. Internal Administration	**- Total**	2,529	3,258	4,160	-	-	-	-	-	9,947	3.0
	- Capital	1,800	786	300	-	-	-	-	-	2,886	0.9
	- TA	729	2,472	3,860	-	-	-	-	-	7,061	2.1
3. Justice	**- Total**	695	3,203	2,135	198	-	-	-	-	6,231	1.9
	- Capital	420	2,320	285	-	-	-	-	-	3,025	0.9
	- TA	275	883	1,850	198	-	-	-	-	3,206	1.0
4. Econ. Affairs & Development	**- Total**	-	7,461	3,336	585	150	100	-	-	11,632	3.5
	- Capital	-	5,840	1,577	325	-	-	-	-	7,742	2.3
	- TA	-	1,621	1,759	260	150	100	-	-	3,890	1.2
5. Agriculture & Fisheries	**- Total**	4,763	19,073	13,620	8,578	7,236	5,809	1,450	-	60,529	18.2
	- Capital	4,412	17,163	5,247	5,280	6,230	4,330	-	-	42,662	12.8
	- TA	351	1,910	8,373	3,298	1,006	1,479	1,450	-	17,867	5.4
6. Education, Culture, Youth	**- Total**	2,071	9,184	15,023	13,231	6,526	1,190	-	-	47,225	14.2
	- Capital	1,795	3,272	4,270	1,000	1,000	-	-	-	11,337	3.4
	- TA	276	5,912	10,753	12,231	5,526	1,190	-	-	35,888	10.8
7. Health	**- Total**	8,962	9,239	7,354	5,270	4,365	500	100	700	36,490	11.0
	- Capital	8,490	8,505	3,566	2,800	2,300	100	100	700	26,561	8.0
	- TA	472	734	3,788	2,470	2,065	400	-	-	9,929	3.0
8. Labour and Solidarity	**- Total**	3,605	5,610	9,037	4,500	1,851	-	-	-	24,603	7.4
	- Capital	3,605	3,647	4,339	2,029	-	-	-	-	13,620	4.1
	- TA	-	1,963	4,698	2,471	1,851	-	-	-	10,983	3.3
9. Foreign Affairs	**- Total**	20	80	3,707	-	-	-	-	-	3,807	1.1
	- Capital	-	-	3,629	-	-	-	-	-	3,629	1.1
	- TA	20	80	78	-	-	-	-	-	178	0.1
10. Finance	**- Total**	315	877	4,460	1,700	1,500	1,500	-	-	10,352	3.1
	- Capital	135	201	2,175	-	-	-	-	-	2,511	0.8
	- TA	180	676	2,285	1,700	1,500	1,500	-	-	7,841	2.4
11. Water, Public Works	**- Total**	3,605	18,569	21,583	11,720	5,310	1,785	-	-	62,572	18.8
	- Capital	1,120	10,140	19,216	10,720	5,310	1,785	-	-	48,291	14.5
	- TA	2,485	8,429	2,367	1,000	-	-	-	-	14,281	4.3
12. Communications & Transport	**- Total**	600	4,200	3,750	1,320	1,400	1,000	-	-	12,270	3.7
	- Capital	-	1,885	490	1,320	1,400	1,000	-	-	6,095	1.8
	- TA	600	2,315	3,260	-	-	-	-	-	6,175	1.9
Total All Sectors		**27,903**	**90,044**	**109,788**	**56,935**	**34,272**	**11,884**	**1,550**	**700**	**333,076**	**100.0**
Total - Capital		**21,827**	**55,776**	**54,688**	**28,034**	**18,290**	**7,215**	**100**	**700**	**186,630**	
Total - TA		**6,076**	**34,268**	**55,100**	**28,901**	**15,982**	**4,669**	**1,450**	**-**	**146,446**	

Source: Ministry of Finance, ODA Database and Planning Commission

Notes: 1. Excludes expenditures under the Trust Fund for East Timor
2. Only includes approved and fully programmed projects. Does not include bulk amounts notionally targeted by Donors for future plan years

Table 10.

Profile of the Forward ODA Program Needed to Finance the Plan, FY 03 TO FY 07 (US$ Millions)

	FY03 Estimate	FY04 Estimate	FY05 Estimate	FY06 Estimate	FY07 Estimate
A. FORWARD ODA PROGRAM SOUGHT BY THE GOVERNMENT					
Trust Fund for East Timor	49.0	17.7	0.0	0.0	0.0
Direct Donor Budget Support	35.4	39.0	21.1	0.0	0.0
Projects Administered by Bilateral Donors	85.0	85.0	85.0	85.0	85.0
U.N. Assessed Contribution - Recurrent; Capital; and Development	11.0	5.0	0.0	0.0	0.0
TOTAL SOUGHT	**180.4**	**146.7**	**106.1**	**85.0**	**85.0**
B. AMOUNTS APPROVED / FIRMLY COMMITTED					
Trust Fund for East Timor	49.0	17.7	0.0	0.0	0.0
Direct Donor Budget Support	0.0	0.0	0.0	0.0	0.0
Projects Administered by Bilateral Donors	56.9	34.3	11.9	1.6	0.7
U.N. Assessed Contribution - Recurrent; Capital; and Development	11.0	5.0	0.0	0.0	0.0
SUB TOTAL	**116.9**	**57.0**	**11.9**	**1.6**	**0.7**
C. AMOUNTS NOT YET APPROVED / FIRMLY COMMITTED					
Trust Fund for East Timor	0.0	0.0	0.0	0.0	0.0
Direct Donor Budget Support	35.4	39.0	21.1	0.0	0.0
Projects Administered by Bilateral Donors	28.1	50.7	73.1	83.4	84.3
U.N. Assessed Contribution - Recurrent; Capital; and Development	0.0	0.0	0.0	0.0	0.0
SUB TOTAL	**63.5**	**89.7**	**94.2**	**83.4**	**84.3**

Source: As per Tables 4,8 and 9