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Juvinal Dias and Charles Scheiner
La'o Hamutuk
Timor-Leste Institute for Development Monitoring and Analysis
I/1a Rua Mozambique, Farol
Dili
Timor-Leste

Subject: Your comments on ROSC and PEFA documents

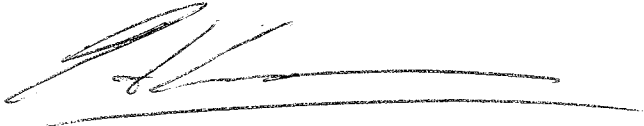
Dear Mr. Scheiner and Mr. Dias:

Thank you very much for your in-depth review of the fiscal ROSC and PEFA documents and the update on public financial management practices in the past year from your perspective. The content of your letter is very useful for us in further advising the government on strengthening fiscal transparency and the public financial management system in Timor-Leste. We note your concerns on a number of transparency issues. The fiscal ROSC and the PEFA instrument are by nature backward looking. Hopefully in the coming years there will be regular updates of these instruments at the request of the government. This is important to assure ongoing improvement in transparency and good PFM practice. In any country it requires an ongoing effort of government to retain good results in this area. This is even the case in many advanced countries.

We thank you for your comments and suggested corrections on the text of the fiscal ROC itself. We will review these and maintain the information in our database for Timor-Leste, as both documents have now been published. On your comment that social projects by petroleum companies should be discontinued according to the IMF, I'd like to clarify that that does not pertain to environmental, education and other social program related to the commercial activities of these companies. We are very much in favor of these. Our concerns are mostly about unrelated public investment and social programs which are negotiated as part of oil contracts. Such quasi-fiscal activities are often not well prioritized, planned, costed, or coordinated with government activities. In general, our view is that commercial companies should be taxed, but that government should provide government services.

We very much appreciate La'o Hamutuk's constructive input and dialogue on public financial management (PFM) issues. With your government's permission, we hope to continue that dialogue in the coming years.

Best regards,

A handwritten signature in black ink, appearing to read 'H. van Eden', with a long horizontal flourish extending to the right.

Holger van Eden
Deputy Division Chief
Public Financial Management II
Fiscal Affairs Department