



REPÚBLICA DEMOCRÁTICA DE TIMOR-LESTE

State Budget 2012

Budget Overview **Book 1**

“Goodbye Conflict, Welcome Development “



República Democrática de Timor-Leste

Ministério das Finanças



“Adeus Conflito, Bem-vindo Desenvolvimento”

Book 1 Budget Overview

Preface

The Organic Law of the Ministry of Finance specifies the responsibility of the National Directorate of Budget to collect and manage financial information relating to the public sector and publish the statistical results.

In accordance with this provision and to raise the transparency of the public finances, the Ministry of Finance is publishing the final version of the documents relating to the General Budget of the State 2012, promulgated by His Excellency Dr. Jose Ramos-Horta, President of the Republic, following the debate in the plenary session of the National Parliament.

The documentation for the General Budget of the State 2012 consists of the Budget Law, which is published in the *Journal of the Republic*, plus six supporting budget books:

- Book 1 Budget Overview
- Book 2 Annual Action Plans
- Book 3 Districts
- Book 4a and 4b Budget Line Items
- Book 5 Development Partners
- Book 6 Special Funds

Book 1 *Budget Overview* describes the overall budget strategy of the Government. It provides information on the international and domestic economic outlook; expected domestic and oil-based revenue including expected sustainable income, and overall expenditure in the medium term and the main new initiatives in the coming year.

Budget documentation is available on the website of the Ministry of Finance, www.mof.gov.tl. Inquiries relating to the publication should be directed to the National Director of Budget, Mr. Agostinho Castro on email acastro@mof.gov.tl or telephone +670 333 9520.

As Timor-Leste farewells conflict and welcomes development, I believe that this document will increase awareness and understanding of the Government's finances by providing the people of Timor-Leste, civil society and our development partners with relevant information on the 2012 State Budget.

Emília Pires
Ministra das Finanças

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Part 1: Speech of the Prime Minister



DEMOCRATIC REPUBLIC OF TIMOR-LESTE

ADDRESS BY
HIS EXCELLENCY THE PRIME MINISTER
KAY RALA XANANA GUSMÃO
ON OCCASION OF THE PRESENTATION OF THE
LEGISLATIVE PROPOSAL CONCERNING THE
2012 STATE BUDGET

NATIONAL PARLIAMENT

9 November 2011

Your Excellency, the Speaker of Parliament
Distinguished Members of Parliament
Distinguished Government Members
Representatives from Civil Society
Ladies and Gentlemen,

Today we are here to present the State General Budget for 2012, the last budget of the legislature of the Fourth Constitutional Government, and as such one that fulfils the commitments made by this Government.

When this Government entered into office it adopted an ambitious agenda based on the Program approved by this Parliament. Acknowledging the many priorities, the Government set out a clear program for each year in order to achieve the necessary and desired outcomes.

Importantly we had the political will to improve the state of the Nation and viewed our economic, social and security difficulties as challenges we had to stand ready to overcome. The government team that has been with me for four years has responded with hard work and responsibility to the call for reform that was made by our people and succeeded in bringing about change.

As such, reform is the legacy this Government leaves for the future!

With bold reforms we succeeded in consolidating stability and security and beginning an effective process towards sustainable development, which in turn will provide Timorese with more jobs and more opportunities.

Your Excellencies
Ladies and Gentlemen,

Because we are in the last year of the mandate of the AMP Government, a pioneering 5-party coalition, it is apt to recall that it is the Constitution of Timor-Leste that dictates that the government is to consist of the party, or the alliance of parties, that hold a parliamentary majority.

In August 2007 when we came to government, our Nation was experiencing a delicate situation of fragility, with frequent episodes of instability and violence. It appeared as if we were on our way to becoming a failed State.

At this time, the AMP provided the necessary governing stability, which was a necessary prerequisite for serving the best interests of the People and of the Country.

We are aware that we did not do everything. Furthermore, we know that we were not alone in doing the things we did. The Government has also relied on the active participation of His Excellency the President of the Republic and the dynamic and vital collaboration of Parliament – both from the AMP and the opposition, which has been a strong and informed opposition – to find solutions for critical problems faced by the State in its process of consolidation.

We have sought to govern in dialogue with all State Agencies. We have sought to listen to Civil Society and to engage all Timorese citizens.

Therefore, it must be said that if today we are living in a more stable situation, and in a climate of greater confidence in the future, it is primarily due to our People. If we succeeded in conveying a constructive policy message to the Country, then our People succeeded in interpreting this message and embracing it to change the image of Timor-Leste.

In very brief summary, the change we have made in the Country is a result of the following measures that were implemented:

1. Thorough reforms to State administration and public sector management;
2. Vital reforms in the defence and security sector including capacity building and the professionalising of the Defence and Police Forces;
3. Establishment of systems and structures to ensure good governance and transparency, including the capacity building of Justice agencies and their officers;
4. Development of key policies in the areas of education, health and agriculture;
5. Recognition of the veterans and the elderly, as well as other victims who directly or indirectly suffered physical, moral or psychological damage from our struggle for Independence, by way of more just welfare policies and the provision of financial support to address hardship;
6. Beginning implementing a plan of integrated basic infrastructure to enable the development of the Country's productive sectors;
7. Promotion of a coherent policy in regard to the development of the fledgling national private sector.

It was in this atmosphere of change that we concluded the year of 2009 with the motto 'Goodbye Conflict, Welcome Development'. We then concluded 2010 with growing confidence and optimism as a result of our 'unprecedented economic growth'. Now, as we approach the end of 2011, I can say that we have a clear vision of what we can be in 20 years: a strong and prosperous Nation, as set out in the 'Strategic Development Plan' that belongs to and was welcomed by our People, since it reflects their aspirations.

Your Excellency, The Speaker of Parliament
Distinguished Members of Parliament

Ladies and Gentlemen,

The year of 2012 will be very important for our young democracy and for our consolidation as a sovereign, tolerant and developing Nation.

Next year we will be celebrating important dates that connect us with the more recent past of the struggle for independence as well as with our older roots that make us unique within both the region and the world. In addition to celebrating the **10th anniversary of the Restoration of Independence**, in 2012 we will also be celebrating the 100th anniversary of the Manufahi Revolt and the 500th anniversary of the arrival of the first Portuguese in Timor-Leste.

Further, **in 2012 we will hold presidential and parliamentary elections**. These will be the third democratic elections in our Country.

In January 2011, when presenting the 2011 State General Budget, I urged everyone to 'socialise the values of moral policy and to build on the confidence of the People in the future, to consolidate social harmony and democratic tolerance'. Today, in this National Parliament, I urge all the people, and the youth in particular, as well as those who are responsible for the future of this Country, to show the world that we can exert our rights with responsibility, and that together, we will ensure that the electoral processes take place in an atmosphere of peace and social and political harmony.

Also in 2012, after the elections, and with our heartfelt thanks for their invaluable assistance, we will witness the departure of the International Stabilisation Forces (ISF) and of the United Nations Integrated Mission in Timor-Leste (UNMIT). Regarding the latter, we have already endorsed the Joint Transition Plan, which means that at last we will regain full responsibility for our future.

We have many reasons to be proud of our Nation and to be Timorese. Now that we are living in an atmosphere of peace and tranquillity, it is heartening to see how tolerant and peaceful our people are by nature.

We are living in harmony with our cultural and social diversity. Every day in our institutions, streets and our homes we live alongside people with different languages, cultures and social habits, coming from all corners of the world, who add to our diversity. We accept, welcome and have learned to live with this diversity, although unfortunately some countries still issue "travel warnings" that discourage their citizens from visiting Timor-Leste, as if we were Pakistan, Iraq or Afghanistan.

Speaking of foreign countries, allow me to say a few words on our **international policy**.

During these past few years we have consolidated our privileged relations with the CPLP Countries.

In 2011 we have also been busy with the process for formally joining ASEAN, and we hope that soon we can access this important Regional Forum.

We have been an active Observer in the Pacific Islands Forum, having already explored opportunities to cooperate. We believe that in the future there will be more areas of shared interests. We are also a founding member of the South-West Pacific Dialogue and enjoy positive relations African, Caribbean and Pacific States and the European Union.

As you all know, I have recently been to Juba, the capital of South Sudan. On the day we arrived, the South Sudanese were celebrating 100 days as an independent State, pleased with the fact that they were so soon able to host an international event, the g7+ Ministerial Retreat.

At the g7+ meeting we were pleased to approve the entry of two more countries, Equatorial Guinea and Togo, bringing to 19 the countries represented in this group. Guinea-Bissau requested to host one of the next meetings of this group, so that the g7+ can assist them in better addressing their challenges.

The Retreat also discussed the proposal for a New Aid Deal, which seeks to improve the effectiveness of international aid. In July 2010, Dili held an International Dialogue on “Peacebuilding and Statebuilding” and a preliminary g7+ meeting. At the end of this month, Busan, in South Korea, will host the Fourth International Forum on Aid Effectiveness, and the g7+, chaired by Timor-Leste, will also be present.

Ladies and Gentlemen,

From 2007 to 2011, Timor-Leste made significant advances towards good governance and transparency in the public sector which included:

- Establishing the **Civil Service Commission**.
- Establishing the **Anti-Corruption Commission**.
- Strengthening the powers of the **Office of the Inspector-General** and the capacity of the Office of the Prosecutor-General.
- Establishing the **Chamber of Accounts** as the precursor to the Higher Administrative, Tax and Audit Court.
- Establishing an integrated financial system so as to better monitor budget execution and procurement processes and enabling public access through the **Transparency Portal and the Procurement Portal**.
- Moving up 19 positions from 2009 and 2010 in Transparency International’s world ranking, measured by the **Corruption Perceptions Index**.
- Receiving full compliance status with the **Extractive Industries Transparency Initiative**, becoming only the third country in the world to achieve this status. This international recognition enabled us to be elected for **a second term as Members of the EITI International Board**.
- Being acknowledged in the first ever Revenue Watch index as a Government with **Comprehensive Revenue Transparency**.
- Improving **petroleum revenues** by 38% from 2009 to 2010.
- Achieving **strong budget execution rates**, which have been increasing considerably since 2007. Budget execution in the capital development category alone, from 2006/07 to 2011, increased by 3,413%. **The budget execution rate was 89% in 2009 and 91% in 2010**. It is estimated that the budget execution rate in 2011 will be at least 95%.

These reforms, together with the increase in public investment, enabled Timor-Leste to have **the highest economic growth rates not only in the region but also in the entire world**, with 12.7% in 2008 and 12.9% in 2009, despite the world’s serious financial crisis.

Economic growth is only a valid sign of progress if it results in real improvements in the living conditions of the people. There are indicators that measure these improvements, such as:

- The scope of the Millennium Development Goals regarding the mortality rates for infants and children under five. **Health indicators** are improving fast, with 78% of children currently receiving treatment for basic illnesses and 86% of mothers receiving pre-birth care – a 41% increase.
- The United Nations' 2010 Human Development Index shows that Timor-Leste moved up 11 positions since 2005, being currently situated in the category of **medium human development**.
- UNDP's 2011 Human Development Report shows that Timor-Leste increased once more its Human Development Index, with a 22% improvement from 2001 to 2011. The report highlights the positive and sustainable growth and development of Timor-Leste, including key indicators such as the **increase in the average life expectancy**.
- The United Nations' Report on Human Rights in Timor-Leste showed advances in the justice sector, with Timor-Leste having the potential to become a **regional and global leader in terms of human rights**.

I must also mention other achievements made in the recent past that contribute to make Timor-Leste a more developed society, such as:

I know there are some doubts about the implementation of the **MDG-Sucos Programme**, with an investment of \$65 million in 2011. In May we promoted a general assembly with the heads of Suco from the entire territory to explain precisely the rational of this program.

I would also like to take this opportunity to explain to the general public that housing under the MDG-Sucos Program cannot be built like the social housing built for poor families.

MDG-Sucos' housing meets the Millennium Goals (which involves decent homes with water, sanitation, electricity and access to health, education and markets). It is precisely because of this that during discussions with communities we set the following criteria: a permanent water source as the number one criterion; land that is sufficient and accepted by the entire community; and good road access.

Land has been ascertained to be the primary obstacle, and as a result we decided to begin pilot projects to motivate communities to find collective solutions to problems. We believe that, by the end of 2012, and after presenting the outcomes of pilot projects, we will be able to witness positive changes in communities throughout the Country.

- The **Decentralised Development Program I and II**, with an investment of \$44.3 million in 2011, funded the development of small-scale infrastructure and nurtured the growth of construction companies in the districts, sub-districts, sucos and villages of the Country.

In relation to this program, we have also heard concerns regarding the quality of the works. The NDA is involved in a process with small business people to demand greater responsibility from them. It should be noted that these local business people have agreed to undertake corrections and in doing so demonstrating their seriousness and a good attitude.

By the end of the year, the Government will have awarding certificates to the best companies, so as to create healthy competition in the fledgling private sector.

I would also like to mention that the program “Sensus Fo Fila Fali” is currently taking place, to socialise the results of the 2010 Census, at local and community level. This data will contribute to providing sucos with greater knowledge about their own future needs, and to enable them to measure their relative development every year. As well, communities will also be better equipped to make their own choices and to set their own collective priorities.

- In terms of **access to education**, we now have 90% of school-aged children enrolled in basic education, fulfilling the goal set for 2015. Additionally, in 2011 alone we have built and rehabilitated around 35 basic and secondary education schools and over 250 classrooms.
- In 2011, the **national literacy campaign** made considerable progress, with the eradication of illiteracy in the districts of Manatuto, Manufahi, Lautém, Aileu and Covalima by the end of the year.
- Agricultural **production and productivity increased substantially** in regard to rice and corn with a cultivation of around 28,000 hectares producing 64,000 tonnes of rice (productivity of 2.97/ha) and cultivating around 27,000 hectares producing 30,600 tonnes of corn (productivity of 1.41/ha).
- To promote **food security**, we developed the integrated information system database and the regular collection of information on food security through the communities of the 13 districts.
- **We trained over 1,200 groups of farmers** on improved agricultural techniques and we distributed over 12,000 information manuals for agricultural extension workers.
- We continued to pay **Bolsas de Mãe** to over 15,000 beneficiaries and strengthened the attendance and assistance to **women who are the victims of abuse and to children at risk**. In addition, we have been paying pensions to **National Liberation Combatants** and we have awarded around 98 scholarships to the children of martyrs.
- We have started to build the 20 Monuments to the National Heroes and the 12 mausoleums, and on 20 August we conducted the **Demobilisation Ceremony for 236 National Liberation Combatants**.

- We have integrated the **668 medicine students** who returned from Cuba into the National Health System and we held the ceremony declaring Timor-Leste **Free from Leprosy**.
- The Vice Minister for Health currently holds and will for the next two years, the position of Vice President of the Executive Board of the **World Health Organization**.
- The transformation of the Banking and Payments Authority into a **Central Bank**, with specific responsibilities in the development of the financial sector, constitutes another important stride towards the consolidation of State Agencies.
- This Government has also invested in the largest infrastructure project ever in the Country, the **creation of an electric energy production, transmission and distribution system**, which is currently in an advanced stage of construction.

This project includes the Hera Generation Plant, with 119.5 MW capacity, as well as the Betano Generation Plant, with a capacity of around 137 MW. These projects also include transmission lines to establish a ring around Timor-Leste, to enable all Timorese, even those residing in the more remote areas, to have access to electricity.

The entire National Power Grid will be completed by the end of next year. Already this month, Hera can supply Dili, Aileu, Manatuto, Liquiçá and Gleno. It is hoped that before Christmas, and upon completion of the Baucau sub-station, Baucau, Lospalos and Viqueque will also be supplied by Hera. The Generation Plant, which is starting its operations, as well as the Bobonaro, Suai and Cassa sub-stations, may be operational before late 2012.

The importance of this project is unquestionable. In addition to generating direct and indirect employment, it will create numerous business opportunities and attract foreign investment. The regular supply of electricity through the National Power Grid is one of the key achievements of this Government, and its impact will start to be realised between late 2011 and mid-2012.

Your Excellencies
Ladies and Gentlemen,

In January 2011 I came here to defend the 2011 State General Budget. Today I want to repeat what I said in January 2011 word for word.

It is important to highlight the following:

1. This budget execution rate will be higher still, because according to the applicable international standards the closing of accounts is only fully recorded two months after the end of the financial year in question;
2. The Government no longer includes commitments in the financial execution reports. I should clarify that there are differences between obligations and commitments;
3. All funds not used revert to the State at the end of the year, in a transparent manner;

4. Expenditure is monitored through the FreeBalance system, in view of the expenditure approved by Parliament, thus ensuring greater transparency and real time adjustment to the contingencies of the Country, making public spending more efficient.'

There is a methodology, which may be archaic but is still very useful, to monitor any development process. The current development stage of the Country requires all actors, inside and outside the State, to understand the parts in order to be able to have a realistic perspective of the whole.

Those development stages can be international, regional and national.

Your Excellency the Speaker of Parliament
Distinguished Members of Parliament

Ladies and Gentlemen,

The 2012 State General Budget was programmed in order to establish a launching pad to transform Timor-Leste into a medium-high income country within the next 20 years.

Once again following the legal framework to the letter and using proper planning instruments, we have a **budget program that is sound, transparent and displays vision.**

As the Distinguished Members of Parliament will recall, on Friday, 4 November, the Government referred to the meetings that took place on 1-2 August at the Dili Convention Centre to demonstrate that it is committed to improving management practises and correcting mentalities in Public Administration, as well as implementing a better budget methodology. I stated here last January that the Government wants to reformulate the Budget into two major divisions: recurring expenses and development expenses. We are on the right path when we view the recurring expenses we want to stabilise, thus focusing more on capital development.

In a stage when we are building and consolidating the institutions of our State, having a numerical methodology with set figures would only serve to show our inability to adjust, both mentally and critically, to the realities of the Country.

The international budgeting standards are probably not the best. When every day I see TV coverage showing the German Chancellor Angela Merkel, French President Nicolas Sarkozy and British Prime Minister David Cameron trying to give advice, the Italian Prime Minister Silvio Berlusconi looking scared and waving the white flag to the IMF a few days ago, and the Greek nation in an unprecedented political crisis, I find myself thinking that the Member States of the European Community have not been paying too much attention to the international standards. Perhaps that was the reason why President Obama accused the European countries of not having been able to solve their own problems since 2008. Similarly, the G20 held last week in Cannes failed to deliver the sign of hope that so many were longing for. Today, many commentators say that Italy may become the next Greece.

Within this global context of economic and financial crisis, forgetting that we are part of the great region that is Asia, with strong and emerging economies, is failing to place ourselves in space and time.

Your Excellencies,

The 2012 State General Budget will be the first to reflect the development goals set out in the **Strategic Development Plan** launched in July. The Strategic Development Plan covers three vital areas for the development of the Nation: **capital, infrastructure and economic development**. It has been informed by the valuable data from the 2010 Census, which captured the actual and objective situation of the population, and now uses this data to create sustainable development policies.

Investing in development in 2012 means **investing \$1,763.4 billion in sustainable policies for the Country**, which will build on the achievements so far and place Timor-Leste on the right path.

This investment is designated particularly for the construction and maintenance of essential and productive infrastructure, to the building of the petroleum sector on the South Coast, to decentralised development at district and local level and, also to the development of our human capital.

Knowing that three quarters of our population reside in rural areas, we will continue to invest in agriculture projects so as to increase the productivity of the sector. Together with DDPs I and II and with the LDP, these projects will promote employment creation for young people and adults living in rural areas.

Ladies and Gentlemen, I will now describe the key budget guidelines for 2012:

1. We intend to invest **\$1,054.4 million in Capital Development**, increasing investment in this category by 209% against the year 2011. This amount includes:
 - \$746.2 million for the Infrastructure Fund;
 - \$52 million for Decentralised Development Programmes I and II; and
 - \$200 million for the Capitalisation of the Timor-Leste Investment Company.

The **Infrastructure Development Fund**, created in 2011 with an initial allocation of \$599 million, and dedicated to multiyear projects, to support a modern and productive country that is able to generate employment opportunities, will continue in 2012.

If the Infrastructure Fund and the DDPs are not new, as they continue this Government's focus on infrastructure and rehabilitating more and better roads, bridges and ports, irrigation systems, schools, clinics and hospitals, power grids, monuments, houses and police and military facilities, as well as the important development of Tasi Mane and other basic infrastructure at national and district level, the capitalisation of the **Timor-Leste Investment Company (CITL)** is an innovative measure for the new fiscal year.

This Company will promote investment and economic growth opportunities, by focusing on commercial strategic projects. This will be the privileged instrument by the Government to transform our petroleum wealth into a non-petroleum economy. In other words, we will be diversifying our economy and promoting the creation of industries and services, instead of relying on petroleum and natural gas.

With an initial capitalization of \$200 million, this company will start its activity with an autonomous management, similar to Singapore's Temasek. The creation of this company is a strategic decision by the Government, with a political and economic nature, that is foreseen in the Constitution. The State, as the sole stockholder, acts as an economic agent, supporting the market and enabling investment in certain economic areas.

Potentially, CITL will be dedicated to the following projects:

- An underwater cable providing internet connection to the rest of the world, using the best available technology and substantially improving internet access in Timor-Leste.
- Reference projects in the areas of tourism, particularly concerning hotel building and manufacturing parks producing quality products at competitive prices, through the exploration of partnerships with advantages for the development of the tourism sector;
- Building commercial offices to allow the provision of high quality services;
- Other strategic investments, such as supporting access by passengers and freight at fair prices.

2. We intend to invest **\$344.7 million in Goods and Services**, including:

- \$30 million for the Human Capital Development Fund;
- \$87 million for the fuel required to supply electricity to the entire Country;
- \$2.4 million for the professional training of teachers, to improve the skills and professionalism of teachers, which in turn will result in better education for the students;
- \$6.5 million for the operational services of the Ministry of Education, to support primarily the school meals programme;
- \$14.5 million for the operational costs of the presidential and parliamentary elections;
- \$9 million for the Food Security Fund, so as to ensure national reserves of corn and rice;
- \$1.6 million for the National Development Agency;
- \$2.1 million for the National Procurement Commission.

The National Development Agency and the National Procurement Commission, also created in 2011 by Decree-Law, along with the Timor-Leste Investment Company, will contribute to a better implementation of the major strategic projects, ensuring proper management, monitoring and cost-efficiency of infrastructure works and assuring that the implementation of the Strategic Plan, in regard to capital works, is a success.

On the other hand, I would like to highlight in this expense category the considerable investment made in education and technical and professional training, including the **Human Capital Development Fund**, which foresees around \$11.8 million in scholarships alone for key development areas such as the petroleum sector, public finance and management, and education.

The Human Capital Development Fund, created in 2011 with a total of \$25 million, to be increased up to \$175 million during the first 5 years, is developing the necessary

competences – in the fields of education, professional training and technical capacity – for Timor-Leste to have the labour required for the social and economic progress of the nation, particularly in strategic areas such as natural resources, agriculture, tourism, infrastructure, education and health.

Lastly, in this expense category we would like to note the expenses required to ensure that the 2012 elections take place in a fair, democratic, participative and safe atmosphere. For this purpose we have allocated \$8 million to STAE, \$1.5 million to CNE, \$4 million to PNTL, \$0.5 million to F-FDTL and \$0.5 million to RTTL.

3. We will invest **\$194.2 million** in the category of **Transfers**, including:

- \$69.9 million for payments to National Liberation Combatants;
- \$32 million for payments to elderly citizens over 60 years old, covering around 89,000 beneficiaries;
- \$6.3 million to continue to implement the Local Development Program, supporting rural communities; and
- \$20 million for rural-based community projects, seeking to improve rural roads and to create employment in rural areas.

To invest in people is to invest in the future of the Country. This has been one of the mottos of our government. For this reason, we will continue with our public transfers program, including the payment of benefits to National Liberation Combatants, the elderly and other vulnerable groups.

Our governing experience has shown that this type of justice and social stability programs provide an invaluable return for the country. Additionally, removing our people from poverty, either directly or indirectly, is a moral obligation for any Timorese leader, since it is to our People that we owe the Independence of Timor-Leste. This is a debt that can never be paid in full.

4. The 2012 Budget also includes **\$30 million for Minor Capital**, particularly for purchasing multipurpose vehicles for health centres and for purchasing medical and hospital equipment.

5. Finally, we have allocated **\$140.1 million for Salaries and Wages**. In addition to the recurring expenses in this category, we decided to:

- Increase salaries in the area of education, in order to implement the teacher career regime, with an investment of \$2.6 million;
- Strengthen higher education, through UNTL, with an investment of \$3.5 million;
- Implement special careers for health professionals, with an investment of \$3.4 million; and
- Convert temporary public servants to permanent staff, with an investment of \$23.2 million in 2012.

Your Excellency the Speaker of Parliament
Distinguished Members of Parliament

Ladies and Gentlemen,

The impact of the investment we have been making during these past few years on the living situation of the Timorese, and on the operation of the State institutions, is the best indicator of budget execution and encourages us to be even bolder when developing the country.

For the first time, Timor-Leste will incur public debt, based on the **Public Debt Regime** approved by Parliament. Consequently this Budget presents **the maximum borrowing threshold of \$33.1 million** for building strategic infrastructure for the Country.

Nevertheless the Government vows to manage public debt in a sound and sustainable manner, identifying from the start the projects to be funded in this manner and listed in the SDP:

- Construction and supervision of the roads linking Dili-Manatuto-Baucau; Manatuto-Natarbora; Dili-Liquiça-Tibar-Ermera; and Maubisse-Ainaro/Same.
- Construction and supervision of the motorway in the South Coast, so as to support the development of this region.
- Construction and supervision of the development of the Dili drainage system, resulting in a cleaner city that is less subject to floods.

We have started to fulfil the goal set in the Strategic Plan of developing an extensive road network linking communities, promoting rural development, industry and tourism and providing access to markets, as well as improving basic sanitation and drainage systems, by 2015.

In 2012 the Government may use **Public-Private Partnerships** (PPPs) to support projects included in the SDP, namely the construction of large projects such as Ports and Airports. The legal and political framework for this is being developed. However we know that these processes are very complex and consequently should only be used in cases where it is necessary to share risks and to have access to international expertise.

Ladies and Gentlemen,

These large infrastructure projects should be associated with the development of our banking and financial services, so as to maintain an environment that is attractive to national and foreign investment. For this reason, in 2012 we will continue to invest in long-term credit and funding systems, with accessible rates, in order to encourage the development of our private sector.

We will also continue to invest in the **Commercial Bank of Timor-Leste**, formerly the Microfinance Institute of Timor-Leste, focusing on providing micro and small loans. It is estimated that the number of clients in the portfolio will increase in 2012, as well as the number of deposits and loans, particularly at district level.

Your Excellency the Speaker of Parliament
Distinguished Members of Parliament,

Domestic revenues have been increasing gradually and should increase even more as the economy grows and public administration improves. For 2012 we are estimating an amount of **\$136.1 million** in domestic revenues. This represents a 23.6% increase against 2011.

As such we continue to rely on petroleum revenues to fund our budget, but it is precisely to curb this trend that we programmed the 2012 budget with the priorities we have set out.

Up to 1 January 2012, we estimate that the total petroleum wealth that encompasses the actual net total from the future petroleum revenue is \$22.2 billion. According to the latest Bank Payments Authority report the balance as of 30 September 2011 is \$8.9 billion, and it is estimated that by the end of 2011 we will have \$9.4 billion and by the end of 2012 \$11 billion.

The revenue deficit is **\$1,627.3 billion**. It is financed through the Petroleum Fund (**\$1,594.2 billion**) and through public debt (**\$33.1 million**). The withdrawal exceeding the 3% of the Estimated Sustainable Income Budget is justified because the policies integrated in 2012 concern the long-term sustainable development of the Nation.

One of the conditions required for the ESI to be truly sustainable is that the real return rate of the Fund is 3%. Because of this, and in order to protect future generations, the legislation proposal approved by Parliament changes the Fund's investment policy, so as to diversify its portfolio.

This reform proposed by the Government will enable **increasing the medium and long term investment returns from our Petroleum Fund**, in order to achieve 3% or more, against our present return of 2%. Consequently, the changes made to the Petroleum Fund Law state that the purpose of the investment policy is to maximize the return adjusted to risk, using the principle of diversifying the Fund's investment portfolio.

Changing the law also enables investing at least 50% of the Fund's assets in Treasury Bonds and no more than 50% in equities. The economic models estimate that this will give a reasonable probability of achieving a real return of 3% over time, with a level of risk that is acceptable to the Government. This will align the Petroleum Fund's investment policy with the budget expenditure guidelines on the ESI.

Lastly, we will be able to present 10% of the value of the Fund as collateral for borrowing money that can only be used **to build strategic infrastructure for developing the Country**. This enables us to negotiate borrowings under more favourable conditions and with greater security.

The Government continues to argue that the only way for us not to be eternally dependent from the Fund is by diversifying the economy. This is fundamental for us to achieve sustainable economic growth. The Government also considers that the responsibility to create jobs is part of the prudent and sound management of the Fund.

Consequently, we cannot let our human capital go to waste. Human capital is the key factor for growing our economy. As such, we have been creating the conditions to generate

employment. Still, the driving force for this employment creation should be the Private Sector, rather than the State alone.

This is precisely the change we want to make in the Country. It is here that the Government assumes its responsibility to **create the necessary conditions for facilitating private initiative** and of making our economy stronger and more competitive.

The Government must take on an increasingly regulatory and oversight role, creating an environment that is conducive to investment and inducing our Country's business people to be more participative in the development process.

As such, the first obstacle to the development of the business and industrial sector has already been removed. By ensuring security and stability in the Country, the Government has given the private sector more confidence to invest.

Now, through the Strategic Development Plan, the Human Capital and Infrastructure Development Funds, the Decentralised Development Plans, the development of banks that provide credit to the Private Sector, and many other initiatives, we are creating the necessary conditions for multiplying economic development opportunities in the Country.

Your Excellency the Speaker of Parliament
Distinguished Members of Parliament

Ladies and Gentlemen,

The year that lies ahead will be important for Timor-Leste. It will be a year for reaffirming the democracy we have earned, a year for consolidating the development we have achieved, and a year for celebrating historical dates that make the Timorese identity unique in the entire world.

For next year we have **big dreams and large challenges, as well as the start of a stage of major national investments**. The implementation of the Strategic Development Plan entails the need for considerable investment, at least during the first five years of execution. Still, we know that making the dreams and aspirations of our people come true is an investment with a return that cannot be expressed in words.

I would like to conclude by reminding everyone that in 2012 we will receive guests from all over the world to take part in our celebrations. I know that these senior representatives have great expectations in relation to Timor-Leste, although it has only been 10 years since we have emerged from the debris of destruction and started to build our Nation. Many other young democracies that were created in post-conflict situations such as Timor-Leste cannot yet claim the same successes that we have achieved. Presently we are a success case at a global level!

As such, let us welcome 2012 with hope, optimism and the will to build a better Timor-Leste for our children.

It is in this spirit that I ask your collaboration and commitment, Distinguished Members of Parliament, so that we can make this State Budget a Budget for the future, a Budget for every Timorese citizen.

Thank you very much.

Kay Rala Xanana Gusmão
9 November 2011

Part 2: Executive Summary

Introduction

The Strategic Development Plan (SDP) outlines policies to transform Timor-Leste into an upper middle income country with a healthy, educated and secure population by 2030. The 2012 State Budget appropriates expenditures to implement these policies and achieve the SDP's goals. The Combined Sources Budget for Timor-Leste in 2012 is \$1.86 billion. This comprises Government expenditure of \$1.67 billion and commitments from Development Partners of \$188.9 million.

Table 2.1 Combined Sources Budget 2010-2016 \$ million

	2010 actual	2011 budget	2012 budget	2013 budget	2014 budget	2015 budget	2016 budget
Combined Sources Budget	1,022.6	1,578.8	1,863.0	2,025.7	2,024.1	1,670.4	1,669.2
<i>Government Expenditures by Fund</i>	<i>758.7</i>	<i>1,306.0</i>	<i>1,674.1</i>	<i>1,896.9</i>	<i>1,952.1</i>	<i>1,606.7</i>	<i>1,669.2</i>
CFTL	758.7	681.7	843.9	877.7	912.8	949.3	987.2
HCDF	0.0	25.0	30.0	35.0	40.0	45.0	45.0
Infrastructure Fund	0.0	599.3	757.1	904.0	918.2	509.6	530.0
Infrastructure Expenditures by Loans	0.0	0.0	43.1	80.2	81.1	102.8	107.0
<i>Development Partner Commitments</i>	<i>263.9</i>	<i>272.8</i>	<i>188.9</i>	<i>128.8</i>	<i>72.0</i>	<i>63.7</i>	<i>0.0</i>

Source: National Directorate of Budget, Ministry of Finance, 2011

Table 2.2 shows expenditure, revenue, and financing for the State Budget and key economic indicators.

Table 2.2 Fiscal Table

(\$millions)	2008 actual	2009 actual	2010 actual	2011 budget	2012 budget	2013 budget	2014 budget	2015 budget	2016 budget
Total Expenditure by Appropriation Category	483.9	603.6	758.7	1,306.0	1,674.1	1,896.9	1,952.1	1,606.7	1,669.2
<i>Recurrent</i>	<i>356.0</i>	<i>394.3</i>	<i>505.0</i>	<i>588.4</i>	<i>716.0</i>	<i>748.5</i>	<i>782.0</i>	<i>816.6</i>	<i>847.5</i>
Salary and Wages	50.3	87.3	91.5	116.8	140.1	145.7	151.5	157.6	163.9
Goods and Services (including HCDF)	221.4	212.8	245.1	294.1	376.3	395.2	414.6	434.5	450.1
Public Transfers	84.3	94.2	168.4	177.5	199.6	207.6	215.9	224.5	233.5
<i>Capital</i>	<i>127.9</i>	<i>209.3</i>	<i>253.7</i>	<i>717.6</i>	<i>958.2</i>	<i>1,148.4</i>	<i>1,170.1</i>	<i>790.1</i>	<i>821.7</i>
Minor Capital	41.4	38.5	38.1	29.3	42.9	44.6	46.4	48.3	50.2
Capital and Development (including Infrastructure Fund)	86.5	170.8	215.6	688.3	915.3	1,103.8	1,123.7	741.8	771.5
Financing	483.9	603.6	758.7	1,306.0	1,674.1	1,896.9	1,952.1	1,606.7	1,669.2
<i>Domestic Revenue</i>	<i>69.4</i>	<i>90.8</i>	<i>96.4</i>	<i>110.7</i>	<i>136.1</i>	<i>158.7</i>	<i>185.5</i>	<i>217.8</i>	<i>256.3</i>
<i>Estimated Sustainable Income (ESI)</i>	<i>396.0</i>	<i>408.4</i>	<i>502.0</i>	<i>734.0</i>	<i>665.3</i>	<i>644.2</i>	<i>617.4</i>	<i>588.7</i>	<i>571.2</i>
<i>Excess Withdrawals from the PF</i>	<i>0</i>	<i>103.6</i>	<i>309.0</i>	<i>321.0</i>	<i>829.6</i>	<i>1,013.8</i>	<i>1,068.1</i>	<i>697.4</i>	<i>734.7</i>
<i>Use of Cash Balance</i>	<i>18.5</i>	<i>0.8</i>	<i>-148.7</i>	<i>140.3</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<i>Borrowing</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>43.1</i>	<i>80.2</i>	<i>81.1</i>	<i>102.8</i>	<i>107.0</i>
Selected Economic Indicators									
<i>Non-Oil Fiscal Balance</i>	<i>-414.5</i>	<i>-512.8</i>	<i>-662.3</i>	<i>-1,195.3</i>	<i>-1,538.0</i>	<i>-1,738.2</i>	<i>-1,766.6</i>	<i>-1,388.9</i>	<i>-1,412.9</i>
<i>Nominal Non-Oil GDP Excl UN (\$m)</i>	<i>459.7</i>	<i>578.5</i>	<i>653.8</i>	<i>788.3</i>	<i>929.7</i>	<i>1,097.1</i>	<i>1,282.3</i>	<i>1,500.4</i>	<i>1,767.8</i>
<i>Non-Oil Fiscal Deficit / Non-Oil GDP</i>	<i>90%</i>	<i>89%</i>	<i>101%</i>	<i>152%</i>	<i>165%</i>	<i>158%</i>	<i>138%</i>	<i>93%</i>	<i>80%</i>

Source: Ministry of Finance, 2011.

Economy

The preliminary estimate of Timor-Leste's economic growth for 2010 is 8.5%. Government contracts to build infrastructure in 2010 spurred strong growth in the construction sector. Rice and coffee production were below expectations in 2010 mainly due to unseasonal rains. Bullish economic growth is expected to continue in the medium term, underpinned by high public expenditures.

Domestic inflation had increased to 12.4% by June 2011, compared to June 2010 prices. High inflation in 2011 was driven by an increase in international food prices, depreciation of the US dollar and increasing recurrent expenditure. International food prices and the value of the dollar are outside of the Government's control and the onus, therefore, lies with the Government's fiscal policy to control inflation. The Government is committed to prudent growth in recurrent expenditure in the medium term, which is in line with the SDP and consistent with stable inflation. In 2012, however, a significant increase in recurrent expenditure is required to pay for the essential expenditures described in the next section.

Expenditure

The budget for recurrent expenditure in 2012 is \$716 million; representing a 22% increase compared to 2011. This increase in expenditure is necessary to pay for increased spending on fuel for generators, spending related to the teachers' and paramedics' career regime and an expansion of the Human Capital Development Fund.

The budget for capital expenditure (including minor capital) in 2012 is \$958 million, reflecting a higher Infrastructure Fund budget than 2011. Over 70% of this expenditure will occur through large, multi-year projects in the Infrastructure Fund. These projects will contribute to the construction of the core infrastructure necessary to develop and support a modern and productive economy.

The 2012 State Budget also includes over \$64 million dollars of expenditure for the PDD1 and PDD2 programs. These programs aim to construct small scale infrastructure according to local needs and boost the development of local construction companies.

Revenue

Domestic revenue collections are forecast at \$136.1 million in 2012. This represents a 22.9% increase compared to the 2011 forecast of \$110.7 million. This increase is being driven by sales tax, excise tax and import duties. Withholding tax is also increasing mainly due to the forecasted increase in the value of construction contracts related to public expenditure.

In 2012 domestic non-oil revenue collections are forecast to finance 8.1% of total Government expenditure. However, high rates of economic growth and increased efficiency in tax collections mean that by 2016 domestic non-oil revenues should rise to \$256.3 million, financing 16.4% of total expenditure.

The Estimated Sustainable Income (ESI) is calculated at \$665.3 million for 2012, which is a decrease of \$69 million from the 2012 ESI estimate in last year's budget. The main reasons for the decrease are a significant downward revision of production forecast and a significant upward revision of costs at Bayu-Undan. There are no material changes of methodology of the ESI calculation.

Petroleum revenues are expected to peak in 2011 at \$2.5 billion before starting to steadily decline from 2012 onwards. Notwithstanding a reduction in inflows and increased withdrawals compared with last year's budget calculations, the Petroleum Fund balance is set to increase from \$6.9 billion by the end of 2010 to \$8.7 billion by the end of 2011, \$9.3 billion by the end of 2012 and \$10.9 billion by the end of 2016.

The amended Petroleum Fund Law was passed by Parliament on August 23, 2011. The amended Petroleum Fund Law strengthens the already internationally acclaimed governance framework embedded in the original 2005 law. A key change in the amended law is the investment policy of diversification that allows for other investment instruments than US Government bonds and increasing the share of equities in the portfolio. Being a long-term investor, Timor-Leste can endure the higher short-term swings in returns that will follow the new investment policy. The increased expected return will better align the investment policy to the fiscal policy and Timor-Leste's nation building program.

Financing

The non-oil deficit is equal to domestic revenue minus total expenditure. The non-oil deficit in 2012 will be \$1.5 billion. This deficit will be financed by the Estimated Sustainable Income (ESI), excess withdrawals from the Petroleum Fund and a relatively small amount of borrowing.

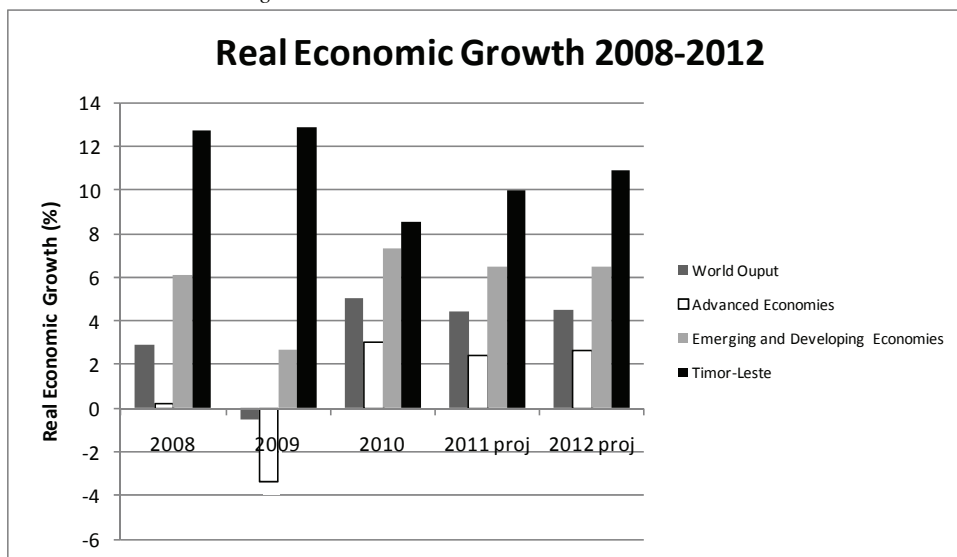
Over the next five years significant excess withdrawals from the Petroleum Fund will be required to fund the construction of core infrastructure; leading to the ESI falling to \$571.2 million by 2016. These excess withdrawals are in line with the Government's policy, outlined in the SDP, of frontloading withdrawals from the Petroleum Fund. The Government believes that in the long term strong economic growth will drive significant growth in domestic revenue allowing excess withdrawals from the Petroleum Fund to fall back towards zero.

Part 3: Economic Outlook

International Economy

The international economy is still recovering from the financial crisis that plunged major advanced economies into recession and adversely impacted many emerging and developing countries. The credit crisis in the USA that propelled the world into economic chaos took place in mid-2007 and only by mid-2009 did the economy show signs of stabilising. In 2010, the global economy grew by about 5% and in the first quarter of 2011, it grew by 4.3% despite negative events such as the earthquake in Japan and the greater weakness of US activity than was expected. Projections for 2011 and 2012 are 4.3% and 4.5% respectively. Figure 3.1 displays world output figures and forecasts between 2008 and 2012 and illustrates the impact of the global recession and the subsequent recovery. Timor-Leste has been relatively sheltered from the crisis, and its economic growth has remained strong throughout.

Figure 3.1 Real Economic Growth 2008 to 2012



Sources: Macroeconomic Directorate, Ministry of Finance and IMF World Economic Outlook Update, June 2011. 2010 estimate is preliminary and 2011 and 2012 are targets.

Global inflation increased from 3.5% in the last quarter of 2010 to 4% in the first quarter of 2011, which is 0.25% higher than projected in the April 2011 IMF World Economic Outlook. Inflation is expected to remain constant or decrease over the next couple of years. It is suspected that inflation accelerated primarily because of higher than anticipated commodity prices. Unemployment remains above pre-crisis levels, which poses further economic and social challenges. World unemployment is expected to be 6% this year with youth unemployment increasing significantly. Financial markets started to return to their pre-crisis state in 2010 followed by improved financial conditions in the first part of 2011. However, global financial conditions have become more volatile since late May 2011, which primarily reflects issues throughout advanced economies in the Euro area and the US. The extent of the economic recovery is still varying across regions; Asia and Latin America are rebounding the fastest while the advanced economies are more sluggish.

Advanced Economies

Growth in advanced economies is expected to average roughly 2.2% and 2.6% in 2011 and 2012 respectively, which is weaker than the 3% growth observed in 2010. Additionally, growth is expected to be weaker than previously projected in the US and Japan. Unemployment remains a large concern throughout the advanced world and currently remains at about 10% throughout the Euro area and the US. Advanced economies were hit hardest by the spread of unemployment in 2010. Financial volatility has picked up since late May, reflecting market concerns regarding sovereign debt risks in the Euro area and the US as well as a consistent decline in the US real estate market. Additionally, the debt crisis along with the downgrading of US credit rating to AA+ has led to stock market fluctuations worldwide in August, as investors fear the uncertainty of the global economy and the potential for a double dip recession. Further efforts need to be made by policy makers in the US and the Euro area to reduce debt levels and repair the financial sectors. This needs to be a priority for securing growth and job creation over the medium term.

Asia

Growth in Asia has continued to outpace other regions and is projected to rise by more than 6% in 2011 and 2012. The region has experienced strong export performance and private domestic demand as well as an increase in credit growth and capital flows. In most Asian countries the transition from public sector-driven growth to private sector-driven growth is making good progress. The post-crisis era is a good time for Timor-Leste to take advantage of strong regional demand by developing and implementing policies to boost its exports. Growth within the ASEAN-5 (Indonesia, Malaysia, Singapore, Thailand, and the Philippines) economies is expected to be 5.4% in 2011 and 5.7% in 2012 behind strong consumption and increased investment within Indonesia. After rapid growth of 8.4% in 2010, growth projections in the newly industrialised economies of Singapore, Hong Kong, South Korea, and Taiwan are expected to decrease to a more sustainable growth rate of 5% in 2011 and 2012. Table 3.1 shows GDP growth rates as well as projections for selected Asian economies.

Table 3.1 Real GDP growth rates (%)

Countries	Actual			Projection	
	2008	2009	2010	2011	2012
China	9.6	9.2	10.3	9.6	9.5
Australia	2.6	1.3	2.7	3.0	3.5
Singapore	1.5	-0.8	14.5	5.2	4.4
ASEAN-5	4.6	1.7	6.9	5.4	5.7
Indonesia	6.0	4.6	6.1	6.2	6.5
Vietnam	6.3	5.3	6.8	6.3	6.8
Philippines	3.7	1.1	7.3	5.0	5.0
Thailand	2.5	-2.3	7.8	4.0	4.5
Malaysia	4.7	-1.7	7.2	5.5	5.2
Timor-Leste	12.7	12.9	8.5	10.0	10.9

Sources: IMF, World Economic Outlook April 2011, World Economic Outlook Update June 2011, and Macroeconomic Directorate, Ministry of Finance (For Timor-Leste, 2010 estimate is preliminary and 2011 and 2012 are targets).

Inflation is also on the rise within Asia and overheating is becoming a concern, which usually happens when aggregate demand exceeds production capabilities. As a result, the tightening of macroeconomic policies has become a serious topic within Asia. Inflation remains a concern for Timor-Leste as their major trading partners/suppliers are primarily in the Asia region, where inflationary pressures are strong.

Emerging and Developing Countries

Output growth in emerging and developing economies is expected to be 6.5% during 2011-12, and in many emerging economies outside Central and Eastern Europe, unemployment is below pre-crisis levels. Overheating has been a concern as inflationary pressures are high. Headline inflation is exceeding 6%, which is nearly 1% higher than January 2010. With food and energy prices on the rise, the risks of an inflationary spiral are greater in the emerging world, because they spend a larger share of their income on food and energy. During the same period core inflation has jumped from 2% to about 4%. Credit growth is also expanding rapidly in emerging markets. Brazil, Colombia, India, Indonesia, and Turkey have experienced credit growth between 10% and 20%. The IMF has raised the importance of guarding against potential credit booms and inflationary pressures.

World Prices

The main impact of world economic activity on Timor-Leste is through changing prices for oil impacting on oil revenues. However, through saving the majority of oil revenues and spending via the mechanism of the Estimated Sustainable Income (ESI), the domestic economy is protected to a large degree from short run oil price fluctuations. Changing oil prices, therefore, have no short-term impact on the domestic economy, via the mechanism of the State Budget, but prices do impact the size of the nation's oil wealth. In 2008, the world price of oil collapsed from over \$140 per barrel mid-year to just \$40 by the end of 2008, but by 2010, oil prices rose and stabilised at around \$70-80 per barrel. In the first half of 2011, oil prices jumped and remain high compared to 2010. In April oil prices surged to nearly \$120 per barrel, but currently appears to have stabilised between \$90-100 per barrel. Factors likely influencing the rise in prices are unrest in the Middle East and North Africa since January of 2011 and greater than anticipated demand for oil in the 2nd half of 2010. A more detailed description of the impact of oil prices on Timor-Leste's oil wealth and projected oil revenue streams can be found in the Petroleum Revenues section.

Besides oil, other commodity prices have been on the rise. The IMF Food and Beverage Index started to experience large increases from June of 2010 and continued until prices hit their peak in April of 2011. Currently, prices are decreasing, but they remain much higher than a year ago. Hopefully, this downward trend will continue as the global food market continues to recover from the weather related supply shocks in 2010. As an importer country, the impact of rising global food prices is a concern and the effects can be seen in Timor-Leste, mostly in Dili (see the inflation section below). This is no surprise as Food and Beverages hold the largest weight in Timor-Leste's CPI calculation¹.

¹ All information in the World Economic Overview section was taken from the IMF World Economic Outlook April 2011, IMF World Economic Outlook Update June 2011, and BBC article, "Policymakers must act to avoid recession."

Domestic Economy: Non-oil GDP

Tables 3.2 to 3.4 show that following 2006, when unrest destroyed parts of the economy, growth in output rebounded, averaging double digit rates between 2007 and 2010. Growth has been driven primarily by public sector spending, which stimulates both demand and supply in the economy, contributing to impressive growth rates in the private sector. Private sector industry and services now account for \$201 million of total nominal GDP however their share in real GDP remains fairly constant at 33%. The public sector has the highest share in real non-oil GDP and this share has been expanding continually since 2002.

Table 3.2 Sector Shares in Real non-oil GDP

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Real Non-oil GDP, excl. UN	100%	100%	100%	100%	100%	100%	100%	100%	100%
Including UN	123%	115%	110%	106%	109%	118%	117%	113%	111%
Agriculture	35%	34%	35%	35%	37%	32%	32%	32%	28%
Industry and Services	35%	35%	34%	33%	30%	32%	32%	31%	33%
Public Sector, excl. UN	30%	31%	31%	32%	33%	36%	36%	37%	39%
United Nations	23%	15%	10%	6%	9%	18%	17%	13%	11%

Source: Macroeconomic Directorate, Ministry of Finance. 2010 data are preliminary

Real GDP growth in 2010 is estimated at a preliminary rate of 8.5%. While this is an internationally high rate of economic growth it is below the 2009 growth rate, primarily due to a contraction in the agriculture sector, especially the food sub-sector, caused by unseasonal rains damaging crops. Rice production suffered particularly badly and this shortage probably contributed to the higher prices for locally produced rice. High hopes for 2010 coffee production were dashed due to the rains and although growth on 2009 was reported in this sector, it was not as high as anticipated.

Expansion of private sector industry and services in 2010 continued at similar rates to the previous 3 years (12.3%) with private construction, communications and services boasting the strongest growth rates. Growth in private construction activity appears to be phenomenal, with the number of active companies in 2010 almost five times higher than in 2009. Much of this activity is thought to be spurred by public sector construction contracts. Although the data in manufacturing are historically not especially reliable, it is assumed that the boom in construction will have led to increased demand (and therefore production) of construction materials in the manufacturing sector, particularly non-traded materials that cannot be replaced by imports.

Table 3.3 Nominal non-oil GDP, excluding UN, Millions of USD

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Non-oil GDP, excl. UN	267.6	276.6	290.9	312.4	307.5	362.6	459.7	578.5	653.8
Agriculture	95.9	97.7	104.0	111.8	116.7	105.9	126.9	153.1	151.1
Industry and Services	92.1	96.6	98.2	101.6	90.5	113.7	146.0	174.0	200.7
Public Sector, excl. UN	79.6	82.4	88.7	99.0	100.2	143.0	186.9	251.3	302.1

Source: Macroeconomic Directorate, Ministry of Finance. 2010 data are preliminary

Table 3.4 Real GDP Growth Rates (%)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Real Non-oil GDP, excl. UN	2.1	-0.1	4.4	6.5	-5.9	8.8	12.7	12.9	8.5
Agriculture	3.1	-2.5	6.2	6.4	-0.1	-5.4	13.4	12.6	-4.7
Industry and Services	1.6	0.0	2.1	2.6	-14.6	15.5	13.0	11.0	12.3
Public Sector, excl. UN	1.7	2.3	5.0	10.8	-3.1	18.5	11.7	15.0	16.8

Source: Macroeconomic Directorate, Ministry of Finance. 2010 data are preliminary. Growth rates in Industry and Services and overall growth rates for 2007-2009 differ from previous estimates because new historical data on the transport sector became available.

Looking to the 2011 forecast, the food sector is expected to rebound strongly in 2011. However coffee trees, which have a good year every other year, are not expected to produce high yields of coffee cherries in 2011. Growth in private sector industry and service activity should remain strong, with the hope that investors will be forward-looking and increase investments in anticipation of the substantial improvements in infrastructure that are underway. Revenue collections in 2011 to date indicate high levels of construction activity in 2011 and increased imports, which in part will be materials to fuel a fast growing economy.

Government Expenditures

Government expenditure in 2010 reached a record \$758.7 million with a budget execution rate of 91%, exceeding previous years. Recurrent spending represented 66.6% of 2010 expenditures and capital expenditures 33.4%. This spending structure closely followed the 2009 structure. In 2011, due to the introduction of the Infrastructure Fund, capital and development spending accounted for a higher proportion of Government expenditures, with planned capital expenditures representing 55% of the 2011 budget. Until the end of July 2011, preliminary execution rates were 41.5%, based on data that have not been audited.

Table 3.5 Whole of Government Expenditures (\$ millions), including Autonomous Agencies

	2003/04	2004/05	2005/06	2006/07	2007	2008	2009	2010	Execution 2011 to July 31st	Budget 2011
Total Expenditures	70.4	70.3	93.7	170.5	97.2	483.9	603.6	758.7	542.2	1306.0
Recurrent Expenditures	59.1	60.0	71.2	139.5	63.1	356.0	394.3	505.0	230.6	588.4
Wages and Salaries	23.1	24.8	26.1	33.8	17.4	50.3	87.3	91.5	54.4	116.8
Goods and Services	36.0	35.2	45.1	93.9	37.1	221.4	212.8	245.1	108.9	294.1
Public Transfers	0.0	0.0	0.0	11.8	8.6	84.3	94.2	168.4	67.2	177.5
Capital Expenditures	11.3	10.3	22.5	31.0	34.1	127.9	209.3	253.7	311.6	717.6
Minor Capital	Distribution Unknown			9.3	0.7	41.4	38.5	38.1	2.7	29.3
Development & Major Capital				11.7	0.7	86.5	170.8	215.6	308.9	688.3
Capital Transfers	0.4	0.0	10.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unallocated Capital Carryovers	7.3	8.4	8.3	10.0	32.7	0.0	0.0	0.0	0.0	0.0

Source: Treasury Department, Ministry of Finance. 2011 execution data are preliminary, not yet audited and therefore subject to change. They should be considered as a guide only.

Domestic Revenues

Overall, revised domestic revenues are estimated to reach \$110.7 million in 2011, up from \$96.4 million in 2010. These figures show a growth rate of 14.8%, significantly higher than the 6.2% achieved last year. It is also important to note that both these growth rates have been constrained by falls in revenue stemming from the rice subsidy program which, as a temporary measure, has been scaled back.

In terms of the individual revenue categories, direct taxes are estimated to show strong growth into 2011, mainly due to increased withholding tax receipts which should stem from increased capital expenditures by Government. Indirect Taxes should also show strong growth, mainly on the back of improvements in administration in the customs area and increases in imports and price levels. These customs improvements have also seen the Port Authority's revenues, which show strong growth within the Autonomous Agencies category where with continued procedural improvements and the first full year at the revised rates, EDTL has continued to lead the way in terms of revenues.

Table 3.6 Domestic Revenues, 2002-2011 (\$'m)										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 Est.
Domestic Revenues	24.6	29.6	39.9	43.0	44.3	27.0	69.4	90.8	96.4	110.7
Direct Taxes	5.3	6.0	8.7	9.8	10.1	6.6	19.1	13.3	18.2	22.3
Indirect Taxes	12.2	14.9	18.6	17.5	17.7	14.1	19.3	30.3	31.9	42.6
User fees and charges	2.2	3.2	4.4	4.2	4.3	2.6	5.0	16.4	19.7	16.5
Autonomous Agencies	4.7	5.3	6.8	7.6	7.0	3.9	7.7	10.2	13.7	19.2
Interest	0.2	0.2	1.4	3.9	5.2	3.1	1.6	0.3	0.1	0.1
Rice Sales	0.0	0.0	0.0	0.0	0.0	0.0	16.8	20.4	12.6	10.0

Source: Macroeconomic Directorate, Ministry of Finance, 2011. Calendar year actuals were calculated by using the average of two fiscal years where required.

Petroleum Revenues

The main factors driving the inflow of petroleum revenues are prices, production and costs. In 2011, the *oil price* is estimated at \$88 per barrel, which is \$20 per barrel higher than anticipated in last year's budget. The revised 2011 estimate takes into account the actual development in the seven months to July and forecast information from EIA for the remainder of the year. The revised forecasts for 2012 and 2013 are also slightly higher than previous forecasts but thereafter revert to basically the same as the average as used for Budget 2011. The price changes increased the 2012 ESI by \$21 million, mainly from the increase in 2011, 2012 and 2013 prices.

The Bayu-Undan liquids *production* (condensate and LPG) forecast is revised significantly downward compared to last year's ESI calculations taking into account recent operational experience and the now fully assimilated results of 2010 Phase II drilling. This reduces 2012 ESI by \$69 million. The LNG forecast is also revised downwards resulting in a decrease in 2012 ESI of \$20 million.

There is a significant increase in the estimate of the *costs* at Bayu-Undan; both upstream and downstream. Total costs are around 40% higher than in last year's forecast. The change in the cost forecast reduces 2012 ESI by \$36 million.

On these assumptions the petroleum revenues are expected to peak in 2011 at \$2.5 billion before starting to steadily decline in 2012 and onwards. Notwithstanding a reduction in inflows and increased withdrawals compared with last year's budget calculations, the Petroleum Fund balance is set to increase from \$6.9 billion by the end of 2010 to \$8.7 billion by the end of 2011, \$9.3 billion by the end of 2012 and \$10.9 billion by the end of 2016.

The Petroleum Fund Law amendment was passed by Parliament on August 23, 2011. The amended law is based on two central principles, namely good governance and diversification. With regards to *governance*, the Timor-Leste Petroleum Fund is internationally recognised for its high standards of transparency and accountability. The amended Petroleum Fund Law further strengthens this already strong governance framework by improving reporting requirements, strengthening checks and balances, and strengthening the requirements for technical skills in the management of the Fund.

The amended Petroleum Fund Law states that the objective of the investment policy is to maximise the risk-adjusted return. A necessary condition to achieve this objective is to employ the principle of *diversification*. Diversification is about mitigating risk and volatility by investing in a number of different asset classes rather than being concentrated in any one of these. So far the real return of the Fund's investments (mostly bonds) has only been some 2%. At the same time, the fiscal policy is based on a long-term Estimated Sustainable Income (ESI) from the petroleum wealth of 3%. Allowing for a maximum of 50% of the Fund's assets to be invested in equities should give a reasonable probability of achieving 3% real return over time, thus better aligning the Petroleum Fund investment policy with the ESI budget spending guideline.

Domestic Inflation

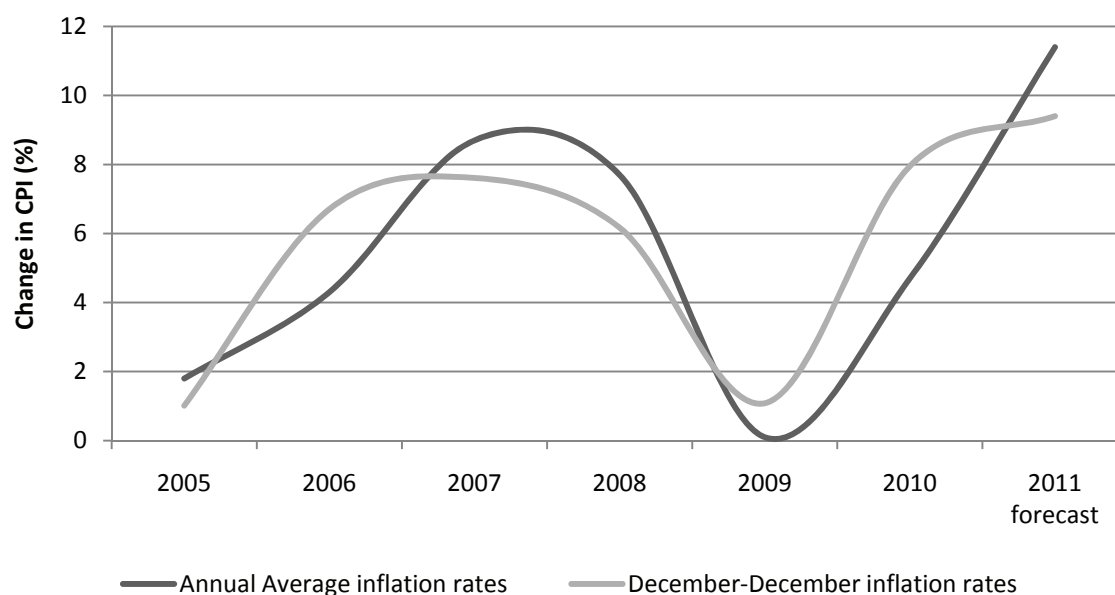
Headline inflation in Timor-Leste was 8% (December to December) in 2010, compared to 9.2% in Dili. The latter part of 2010, through into 2011, saw domestic inflation leaping into double digits, with prices in June 2011 12.4% higher than they were in June 2010, as measured by the change in Consumer Price Index² (CPI). The main items driving the price rises in Timor-Leste are food and beverages, clothing and footwear and transport, with house building costs also showing significant increases over the period. International price rises, particularly in food and fuel, explain much of the inflation, and compounding the impact is the depreciation of the dollar against Timor-Leste's major trading partners' currencies, especially the Australian dollar; this has made imports relatively more expensive in dollar terms.

² The CPI is measured by the National Directorate of Statistics.

Data show the price of locally produced rice rose in recent months, which will have a relatively large impact on the CPI because rice is weighted relatively strongly in the CPI. The price spike is partly due to the unseasonal rains damaging rice production in 2010, together with the scaling back of the Government subsidised imported rice. This is beneficial to rice producers and farmers who can take advantage of the higher rice prices, expanding production, increasing their profits and reducing reliance on imports. Therefore as domestic rice production increases this high rice price spike could be temporary.

Expansionary fiscal policy is likely to have increased domestic demand and played a role in price rises of some items. Analysis shows that historically, correlation is stronger between the Timor-Leste CPI and recurrent expenditure (in particular wages and salaries) than between the CPI and total expenditure. This makes sense intuitively as a higher proportion of recurrent expenditure (compared to capital expenditure) is likely to directly enter the domestic economy. However, the recent boom in both public and private construction activity probably put upward pressure on the prices of building materials; the price index for house building materials in Dili was 11.2% higher in June 2011 than June 2010. Closer inspection of these prices shows that between 2006 and 2010, the average price of domestically sourced materials grew by 60%, compared with an (unweighted) average of 36% growth in imported materials.

Figure 3.2 Percentage Changes in Consumer Price Index 2005-2011



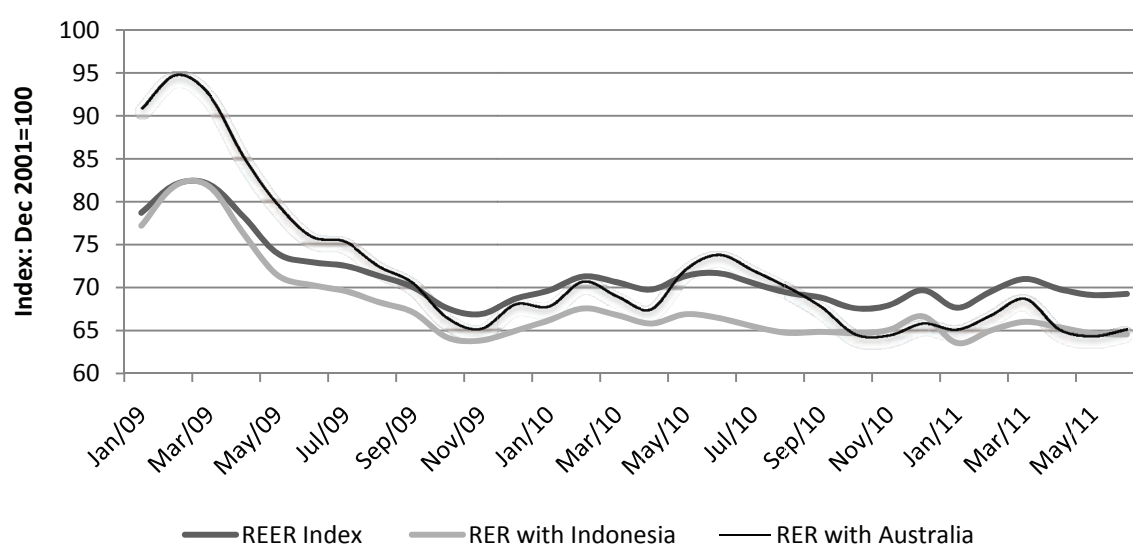
Sources: Statistics Directorate and Macroeconomic Directorate, 2011

Since April 2011, monthly price rises have slowed or become negative, suggesting fast paced inflation may have come to an end. Year-on-year inflation rates will remain high until at least October 2011 (because they will include the increases in prices seen in recent months) and from then are expected to fall to single digit rates. The Strategic Development Plan (SDP) is targeting single digit inflation rates with long term inflation in the range of 4-6%. The Government is analysing the recent high rates of inflation in detail and while international

commodity price rises and monetary policy are not within the control of the Government, the SDP pledges to focus Government expenditures (recurrent and capital) on boosting the supply side capacity of the economy, to reduce inflationary pressure. Spending on productive infrastructure and development of human resources will help reduce industry and trade bottlenecks and lead to an increase in supply of goods and services, keeping the prices down. In the short run, the Government's focus on agriculture, through the SDP, should involve implementing initiatives to spur local rice production in order to increase supply and bring down rice prices.

Figure 3.3 shows the evolution of the real effective exchange rate (REER) between the US dollar and the currencies of Timor-Leste's major trading partners. The real exchange rate between the US dollar and the currencies of Australia and Indonesia are also displayed. Over 2009 a real depreciation was observed, meaning Timor-Leste's exports became more competitive in foreign markets but imports became more expensive. From 2010 until mid-2011 the REER remains fairly stable. This is because the US dollar depreciated further, but at the same time Timor-Leste experienced high inflation relative to other countries. These two factors are used to measure the REER and acted in different directions; depreciation making exports relatively cheap in foreign markets but domestic inflation increasing the relative price of exports (exports are predominantly coffee in Timor-Leste at present).

Figure 3.3 Real Effective Exchange Rate, Timor-Leste



Source: Banking & Payments Authority of Timor-Leste, 2011

Employment

Publication by the National Directorate of Statistics and SEFOPE of the Labour Force Survey has provided policy makers with a snapshot of employment structures in Timor-Leste. Results show Dili is the leading district in terms of economic activity; incomes are higher and formal wage employment is more widespread. More useful than the unemployment rate is the number of people classified as vulnerably employed, who are unlikely to have formal work arrangements and have no guaranteed salary or job security. Seventy per cent of the labour

force is estimated to be vulnerably employed, with 42% of the urban population falling into this category compared with 80% of the rural labour force.

As a short term solution to a lack of formal sector jobs, the Government of Timor-Leste has strived to generate jobs for unskilled labour through infrastructure projects, with an estimated 66,485 ‘full-time equivalent’³ jobs created in 2010. Many of these projects are small scale infrastructure projects in rural areas that will have spurred economic growth and employment in the districts. Addressing the issue of employment over the medium and longer term, the Government launched the Human Capital Development Fund to provide training and scholarships to talented Timorese people. This should qualify Timorese people to replace foreigners in existing positions and take up newly created roles as the economy expands.

Almost all rural farmers are classed as vulnerably employed. Agriculture and fishing are by far the main source of income for the population of Timor-Leste. To improve employment conditions for agricultural workers, Government policy, as stated in the SDP, is focussing on development of the commercial agriculture sector to improve the incomes and working conditions for the relatively large rural population. Policy also aims to promote expansion of strategic sectors in industry and services in rural areas and will encourage the growth of small and micro businesses. Support will be provided in upgrading licensed training centres across Timor-Leste, with curricula geared to industry needs.

Poverty and MDGs

A household is said to be poor if per capita consumption falls below the ‘basic needs’ poverty line. Those living below the poverty line are therefore unable to afford 2,100 calories per day while also meeting basic non-food needs. In a 2007 survey⁴, 49.9% of the population were estimated to live below the poverty line. However, in 2010, the World Bank reported that in 2009, 41% of the population lived below the poverty line⁵. The fall of almost 9 percentage points is partly because of higher rate of real economic growth since 2007 and social transfer programs such as pensions for elderly and veterans and cash for work programs that contributed to increase of private consumption. There is no comparable estimate for 2010 but it is likely that continued high rates of economic growth have lifted more people out of poverty. However, high inflation rates will have made it relatively harder for poor people to afford enough food while also meeting basic non-food needs.

Short to Medium-Term Prospects (2012-2016)

As the Government begins to implement the SDP, Timor-Leste is set to see a fast-paced improvement in physical infrastructure, with a new power plant, large scale efforts to improve roads and upgraded airports and seaports. While these could take a few years to show substantial benefits in terms of increased private investment and economic output, the

³ Full-time-equivalent (FTE) jobs are based on 249 calendar days a year constituting a full-time job. In reality, most unskilled labourers do not work for a full year; therefore significantly more people will have found shorter term employment (less than a year) through infrastructure job creation projects than the number of FTE jobs estimated.

⁴ Timor-Leste, Poverty in a Young Nation, 2008, National Directorate of Statistics.

⁵ World Bank methods ensure compatibility between the 2007 and 2009 estimates. Details from World Bank Poverty Report, 2010

foundations will begin to be laid in the very short term. Investment in physical capital, human capital and Government's strategic reforms will focus on the agriculture, tourism, and petroleum sectors, which are targeted as key areas for driving sustainable growth in the future.

Agriculture is expected to experience structural change, beginning to move away from subsistence farming with more emphasis on developing commercial, smallholder agriculture. Additionally, there are plans to support research, development, and extension programs for all of Timor-Leste's agricultural production, as well as upgrading and expanding irrigation systems. Following these policy actions and reforms, by 2015, Timor-Leste should see large increases in rice and maize production, with a Timor-Leste Research and Development Institute planning additional investment into research and extension programs. An irrigation scheme will have been created, and there will be increased capital investment into cash crops.

Petroleum is the backbone of the economy and development of this strategic sector is considered to be key for further development of the country. An immediate priority is to establish a National Petroleum Company, which should aid in the transparency of revenues as well as encourage the inclusion of the local population in exploiting this sector. Additionally, the development of three industrial clusters will take place on the south coast from Suai to Beaco through the implementation of the Tasi Mane Project. By 2015, the SDP aims to have construction of the Suai Port completed, the Suai airport rehabilitated, and the refinery and other parts of the Tasi Mane project well underway.

Tourism could be set to experience rapid expansion over the medium term following structural reforms and the priority afforded to it through the SDP. Moreover the Tourism and Services sector saw the largest rise in credit to the private sector in the year to March 2011⁶. The SDP highlights 3 key zones of Timor-Leste (in the East, Centre and West) to receive special attention in developing the tourism industry. By 2015, the SDP explains that critical tourist infrastructure will have been built or upgraded (including the Dili airport, regional airports and key roads), a tourism-training centre will have been established, tourist packages will have been created for each zone, and tourist information centres will have been established in Dili, Lospalos, and Baucau.

⁶ Data from BPA, cited in *Quarterly Statistical Indicators 1st Quarter 2011*, National Directorate of Statistics.

Part 4: Expenditure

Introduction

Table 4.1 shows the combined state budget for 2010 to 2016. Infrastructure Fund spending is budgeted to increase to \$757.1 million in 2012. This spending is in line with the Government's commitment, as stated in the SDP, to build core infrastructure and should contribute to sustained economic development. Estimated Infrastructure Fund spending and infrastructure spending through loans are shown until 2015, with a 4% increase in the total assumed in 2016. Expenditure on the HCDF is budgeted to increase to \$30 million in 2012. This expenditure will pay for training and capacity building in public sector management, education and other strategic sectors which are essential for the promotion of economic growth and international competitiveness. CFTL fund spending is increasing in 2012. Costs of the new teacher career regime and a higher budget for fuel for generators contribute to higher CFTL spending. Development partners' commitments are currently estimated at \$188.9 million in 2012.

Table 4.1 The Combined Sources Budget in \$ millions

	2010 actual	2011 budget	2012 budget	2013 budget	2014 budget	2015 budget	2016 budget
Combined Sources Budget	1,022.6	1,578.8	1,863.0	2025.7	2024.1	1670.4	1669.2
<i>Government Expenditures by Fund</i>	<i>758.7</i>	<i>1,306.0</i>	<i>1,674.1</i>	<i>1896.9</i>	<i>1952.1</i>	<i>1606.7</i>	<i>1669.2</i>
CFTL	758.7	681.7	843.9	877.7	912.8	949.3	987.2
HCDF	0.0	25.0	30.0	35.0	40.0	45.0	45.0
Infrastructure Fund	0.0	599.3	757.1	904.0	918.2	509.6	530.0
Infrastructure Expenditures by Loans	0.0	0.0	43.1	80.2	81.1	102.8	107.0
<i>Development Partner Commitments</i>	<i>263.9</i>	<i>272.8</i>	<i>188.9</i>	<i>128.8</i>	<i>72.0</i>	<i>63.7</i>	<i>0.0</i>

Source: National Directorate of Budget and National Directorate of Aid Effectiveness, 2011

Table 4.2 shows a consolidated fiscal table for the Government across all funds. Recurrent expenditure increases by 22% to \$716 million in 2012 (including the HCDF). This is mainly due to an increase in the Goods and Services budget caused by higher budgeted expenditure in the HCDF and on Goods and Services in the CFTL fund. The capital expenditure budget has increased from \$717.6 million in 2011 to \$958.2 million in 2012. From 2012 onwards a prudent 4% increase in CFTL recurrent and capital expenditures is budgeted.

Table 4.2 Consolidated Fiscal Table in \$ millions

	2010 actual	2011 budget	2012 budget	2013 budget	2014 budget	2015 budget	2016 budget
Total Expenditure	758.7	1,306.0	1,674.1	1,896.9	1,952.1	1,606.7	1,669.2
Recurrent Expenditure	505.0	588.4	716.0	748.5	782.0	816.6	847.5
Capital Expenditure	253.7	717.6	958.2	1148.4	1170.1	790.1	821.7
Financing	758.7	1,306.0	1,674.1	1,896.9	1,952.1	1,606.7	1,669.2
Domestic Revenue	96.4	110.7	136.1	158.7	185.5	217.8	256.3
Est. Sustainable Income (ESI)	502.0	734.0	665.3	644.2	617.4	588.7	571.2
Excess Withdrawals from PF	309.0	321.0	829.6	1,013.8	1,068.1	697.4	734.7
Use of Cash Balance	-148.7	140.3	0.0	0.0	0.0	0.0	0.0
Borrowing	0.0	0.0	43.1	80.2	81.1	102.8	107.0
Non-oil Fiscal Balance	-662.3	-1,195.3	-1,538.0	-1738.2	-1766.6	-1388.9	-1412.9

Source: Ministry of Finance, 2011. Note: Non-oil fiscal balance is domestic revenue minus total expenditure.

In 2012 domestic revenues of \$136.1 million will pay for approximately 8.1% of total expenditure. Strong growth in domestic revenue is forecast over the next five years due to strong economic growth and increases in the efficacy of tax collection. By 2016 approximately 16.4% of total expenditure will be financed by \$256.3 million in domestic revenues.

The non-oil fiscal deficit is equal to domestic revenue minus total expenditure. This non-oil deficit can be interpreted as showing the increase in the money supply and aggregate demand caused by spending which is financed by withdrawals from the Petroleum Fund. Large non-oil deficits can potentially cause inflation and thus reduce the international competitiveness of Timorese firms and reduce citizens' living standards. The Government, however, considers that this is unlikely to be the case in Timor-Leste as much of the increase in spending and the non-oil fiscal deficit is driven by large scale infrastructure projects such as the Central Electric Power Plant and roads. Such projects will not significantly increase aggregate demand but are likely to increase the productive potential of the economy. As such they are likely to increase economic growth and not inflation. Increases in recurrent expenditure financed by withdrawals from the Petroleum Fund may have a larger impact on inflation, but the Government is already committed to prudent growth in recurrent expenditure in the medium term. Current increases are due to the implementation of SDP in the first five years. So the increases are temporary which will return to sustainable levels after the implementation of the SDP.

Table 4.2 shows that the 2012 non-oil deficit (expenditures not covered by non-oil domestic revenues) is financed through excess withdrawals from the Petroleum Fund, the Estimated Sustainable Income and a small amount of borrowing. Excess withdrawals are required every year until 2016 to pay for investments in infrastructure and human capital development. These investments will contribute to strong economic growth and improved domestic revenue collections. In the long term the Government believes increases in domestic revenue will allow the excess withdrawals from the Petroleum Fund to fall to zero.

Table 4.3 shows key economic forecasts (and economic growth targets) until 2016. The Government's believes that its policy of investing in infrastructure and human capital development will contribute to double digit economic growth and moderate inflation in the medium term.

Table 4.3 Economic Targets and Forecasts 2011-2016

Description	2011	2012	2013	2014	2015	2016
Real Economic Growth Targets (%)	10.0	10.9	10.4	9.9	10.8	11.5
Domestic Revenues (\$ mil)	110.7	136.1	158.7	185.5	217.8	256.3
Petroleum Revenues (\$ mil)	2,546.9	1,765.8	1,564.6	1,410.4	1,556.6	1,596.6
Petroleum Fund Balance (\$ mil)	8,678.9	9,276.0	9,524.1	9,596.2	10,226.8	10,901.3
Inflation (rolling year, %)	9.4	8.0	8.0	8.0	7.0	7.0

Sources: Macroeconomic Directorate and Petroleum Fund Directorate, Ministry of Finance, 2011.

Expenditure Review

In 2011 the Ministry of Finance drafted detailed expenditure reviews for the 2010 financial year and the first five months of 2011. The conclusions from these reviews fed into a Budget Execution Review Workshop in August 2011, chaired by the Prime Minister, which was broadcasted live on national television. The focus of this workshop was to identify areas where savings could be made and to improve the efficacy, efficiency and distribution of Government expenditure.

The workshop and expenditure reviews noted that capital expenditure has sharply increased between 2008 and 2011 driven by increased spending on infrastructure; particularly the Central Electric Power Plant project. Infrastructure spending, especially on electricity, is needed to stimulate economic growth in line with the SDP. The Government plans, as reflected in the 2012 budget, to continue a high rate of infrastructure spending over the medium term with large funds for the power project winding down in 2013.

Recurrent expenditure also increased between 2008 and 2011. The Government is committed to prudent increases in recurrent expenditure in the medium term consistent with moderate inflation and financial sustainability. There will, however, have to be some increases in recurrent expenditure in the medium term to maintain newly constructed infrastructure and to pay for the fuel needed for generators as the supply of, and demand for, electricity increases.

A Review of Major Reform Initiatives in 2011 and 2012

The Government is committed to improving public financial management. Through improved public financial management the Government will improve the efficiency and distribution of expenditure and reduce fiduciary risk. The Government has tailored its public financial management reform program in light of the conclusions of the expenditure review reports and Budget Execution Review Workshop.

In early 2011 the Government launched the Transparency Portal. This portal allows citizens to view and analyse Government expenditures. Citizens can use this portal to hold the Government to account and improve the efficiency of expenditure. In the month of August the Government launched the e-Procurement Portal, another initiative to ensure value for money and competitiveness. In 2012 the Government will continue with the implementation of a comprehensive integrated financial management information system including contract management and E-procurement modules. These modules should improve public financial management and restrict the ability of line ministries to sign contracts for off-budget projects. The implementation of these modules should also allow cash management to be improved.

Institutions were also established during 2011 to monitor, manage and implement the HCDF and Infrastructure Fund. The Secretariat of Major Projects was given responsibility for undertaking a detailed review of submissions made to the Infrastructure Fund. CAFI (Board of the Infrastructure Fund) was established to decide which projects should be included in the Infrastructure Fund based on its reading of the review undertaken by the Secretariat of Major Projects and the SDP. In addition, the National Development Agency was established to

supervise the implementation of the projects, validate the progress of projects and undertake quality control. The Procurement Commission was, meanwhile, established to assist in the procurement of selected large scale projects included in the Infrastructure Fund. The Government is committed to further strengthening these institutions and processes in the long term.

Institutional Arrangements for the Formulation, Procurement and Monitoring of Projects

The Government established institutions in 2011 to appraise, procure, and monitor projects in the Infrastructure Fund. These institutions should ensure that the Government receives value for money from private contractors, the fiduciary risk that funds are subjected to is minimised and that all projects contribute to goals and visions of the SDP.

Line ministries are responsible for submitting Infrastructure Fund projects to the Secretariat of Major projects, which is responsible for undertaking a detailed review of these submissions. This Secretariat also advises the Board of the Infrastructure Fund (CAFI) on whether specific projects should be approved and financed by the Infrastructure Fund or rejected.

CAFI was also established in 2011. It reviews the report on projects drafted by the Secretariat of Major Projects and decides whether or not a particular project should be financed by the Infrastructure Fund.

The Budget Review Committee is responsible for deciding the overall budget for the Infrastructure Fund. Parliament is responsible for reviewing and enacting the entire State Budget including the Infrastructure Fund.

Once a project is approved and included under the Infrastructure Fund in the enacted State Budget the Procurement Commission is responsible for procuring large projects. This includes issuing a procurement notice, evaluating proposals from different companies and recommending which company should be awarded the contract. The ADN is then responsible for quality control and supervision of the implementation of the contracts.

CAFI is responsible for the final approval of contracts on projects with a value of less than \$5 million. For contracts with a value of above \$5 million the CoM is responsible for approval. On completion the relevant line ministry is responsible for operating and maintaining the infrastructure projects.

For some projects there maybe two or more interlinked project approval and procurement processes. A line ministry may propose a detailed budget for a design and feasibility study of a road and an approximate budget for its construction. This project maybe approved and included in Infrastructure Fund in the State Budget. After the detailed design study has been undertaken the project will be reappraised and its budget amended in the next year's State Budget if required.

CFTL Expenditures

Table 4.4 shows the budget for the CFTL by appropriation category. Recurrent expenditure in the CFTL increases from \$563.4 million to \$686 million from 2011 to 2012 driven mainly by an increase in expenditure on Goods and Services. There is then moderate growth in recurrent expenditure of 4% each year from 2012 to 2016. This is in line with the SDP's commitment to prudent increases in recurrent expenditure. CFTL capital expenditure increases from \$118.3 million to \$157.9 million from 2011 to 2012.

Table 4.4 CFTL Expenditure by Appropriation Category in \$ millions

	2010 Actual	2011 Budget	2012 Budget	2013 Budget	2014 Budget	2015 Budget	2016 Budget
Total Expenditure	758.7	681.7	843.9	877.7	912.8	949.3	987.2
<i>Recurrent</i>	<i>505.0</i>	<i>563.4</i>	<i>686.0</i>	<i>713.4</i>	<i>742.0</i>	<i>771.7</i>	<i>802.5</i>
Salary and Wages	91.5	116.8	140.1	145.7	151.5	157.6	163.9
Goods and Services	245.1	269.1	346.3	360.2	374.6	389.5	405.1
Public Transfers	168.4	177.5	199.6	207.6	215.9	224.5	233.5
<i>Capital</i>	<i>253.7</i>	<i>118.3</i>	<i>157.9</i>	<i>164.2</i>	<i>170.8</i>	<i>177.6</i>	<i>184.7</i>
Minor Capital	38.1	29.3	42.9	44.6	46.4	48.3	50.2
Capital and Development	215.6	89.0	115.0	119.6	124.4	129.4	134.5

Source: Budget Directorate, Ministry of Finance, 2011.

Salaries and Wages

Key policy decisions in the Salaries and Wages appropriation category include:

- Increasing the salary and wages budget of the Ministry of Education by \$2.6 million to account for the teachers' career regime. This regime increases the pay of teachers who have gained appropriate qualifications, motivating them to gain better qualifications. Better qualified teachers will contribute to better educational outcomes in Timor-Leste.
- In order to strengthen higher education UNTL has been appropriated a separate budget from the Ministry of Education. The increase for Salaries and Wages for UNTL is \$3.5 million.
- The Government has granted permanent contracts to temporary staff in the Public Service causing its Salaries and Wages budget to increase from \$17.7 million in 2011 to \$23.2 million in 2012 including for special career regime, allowances for attaches, and new recruitments.

Goods and Services

The total budget for this category is \$346.3 million. This represents a significant increase compared to the \$269.1 million included in the 2011 budget. The main measures in this area include:

- \$104.1 million in 2012 for EDTL. This represents a sharp increase compared to the 2011 figure of \$45.5 million, but this increase is justified in light of the current international oil price, which increases the costs of fuel for generators (representing the larger share in the allocated goods and services funds to EDTL), and the Government's commitment to increase the supply of electricity.
- \$2.4 million is budgeted in 2012 for the professional training of teachers. This training will increase the competency and professionalism of teachers, raising teacher standards and leading to students receiving a better standard of education in the medium and long term.
- An increase in the operational services item in the Ministry of Education from \$2.8 million in 2011 to \$5.2 million in 2012 mainly to account for increases in the budget for the school feeding program. This increase is necessary due to the increase in food prices seen during the first 6 months of 2011.
- Expenditures for celebrations of the centenary of Dom Boaventura and other important days in the amount of \$6 million.
- Expenditures for elections in the total amount of \$14.5 million in which \$8 million for STAE, \$1.5 million for CNE, \$4 million for PNTL, \$0.5 million for F-FDTL, and \$0.5 million for RTTL.

Public Transfers

Public Transfers are budgeted to increase by 12.4% in 2012 compared to 2011. The total budget for Public Transfers in 2012 is \$199.6 million. The main transfer programs budgeted for in 2012 are:

- \$79.8 million in the National Directorate of Veterans of the Ministry of Social Solidarity, mainly to pay personal benefits for war veterans. The payment of these benefits is justified in light of the brave service of war veterans during Timor-Leste's struggle for independence and their current needs.
- \$35.6 million in the Ministry of Social Solidarity's National Directorate of Social Security, which will use these funds to pay personal benefits of \$30 per month to those over 60 years of age with a proven inability to work. Approximately 89 thousand people directly benefit from this scheme, which has helped to reduce poverty.
- \$6.3 million in the Ministry of State Administration and Territorial Organisations to pay for the PDL program. This program provides small scale grants in districts for the construction and rehabilitation of infrastructure. It also encourages the growth of small companies in districts and boosts economic growth.
- \$20.7 million for the Secretary of State for Professional Training and Employment (SEFOPE) for labour intensive capital works to create jobs in the rural areas.

Minor Capital

The Government has increased the budget for Minor Capital from \$29.3 million in 2011 to \$42.9 million in 2012. The main expenditures in this category for 2012:

- \$1.4 million in the Ministry of Health to purchase ambulances and \$0.5 million for medical equipment for hospitals.
- \$5 million for the Ministry of Defence and Security's Minister Cabinet.
- \$4.2 million for PNTL for elections.

CFTL Capital and Development

Table 4.5 shows CFTL Capital and Development expenditure.

Table 4.5 CFTL Capital and Development Expenditure in \$ millions

Capital and Development	2011 Budget	2012 Budget	2013 Budget	2014 Budget	2015 Budget	2016 Budget
PDD1 Sub-district, Suco and Aldeia	15.5	34.4	35.8	37.1	38.7	40.2
PDD2 District	28.8	30.1	31.3	32.6	33.9	35.2
Ministries / Agencies	44.7	50.6	52.6	54.6	56.9	59.2
Total	89.0	115.0	119.6	124.2	129.4	134.5

Source: Budget Directorate, Ministry of Finance, 2011

The PDD1 and PDD2 programs finance the development of small scale infrastructure. Roads, education facilities, health facilities, water supply and sanitation and irrigation will all be constructed through these programs in 2012. These programs are also intended to encourage the growth of construction companies to build and maintain this infrastructure and contribute to the long term development of Timor-Leste.

The Government is committed to a fair, needs based distribution of PDD1 and PDD2 projects throughout Timor-Leste. The Ministry of State Administration and Territorial Organisation arranged a series of meetings with Suco chiefs, citizens and community leaders in 2010 to identify their demand for different types of PDD1 and PDD2 projects. These requests then developed into more detailed project proposals for consideration by the Budget Review Committee. This committee also considered indicators of service delivery in each Suco from the 2010 census when deciding which PDD1 and PDD2 projects to finance. Sucos where a low proportion of people have access to clean drinking water are more likely to have funding for drinking water through PDD1 or PDD2 projects included in the 2012 state budget. Budget Book 3 discusses the PDD1 and PDD2 programs in more detail.

Infrastructure Fund

Core infrastructure is necessary to develop and support a modern and productive economy. Timor-Leste currently lacks this infrastructure. The Government is committed to rectifying this situation by developing electricity, transport and education infrastructure. It is also committed to improving infrastructure on the South Coast to attract investment in the downstream petroleum sector.

Large scale infrastructure projects often require financing for more than one year. The Government established the Infrastructure Fund in 2011 to finance the development of large (over a \$1 million) and multi-year projects. In recognition of their importance projects which contribute to the development of the MDGs are also financed through the Infrastructure Fund.

Human Capital Development Fund

For Timor-Leste to become a successful, healthy, educated and safe nation it must invest in its citizens. The building of human resources is a priority for the Government. The multi-year Human Capital Development Fund (HCDF) was established in 2011 to finance activities to improve human capital development. Table 4.6 shows the budget for the HCDF.

Table 4.6 Human Capital Development Fund in \$ millions

	2010act	2011bud	2012bud	2013bud	2014bud	2015bud	2016bud
HCDF	0.0	25.0	30.0	35.0	40.0	45.0	45.0

The objectives of the fund are to:

finance training and human resource development;

- provide a whole, across Government coordinated approach;
- provide certainty in the negotiation and execution of contracts that extend beyond one year; and
- promote transparency and accountability through improved systems of reporting.

Specific initiatives in the fund for 2012 include:

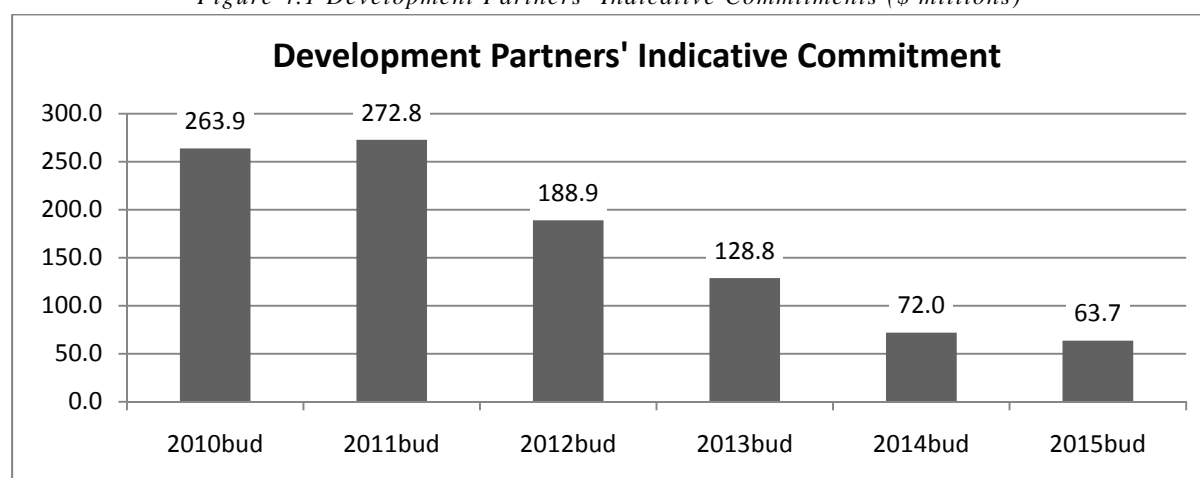
\$8.3 million for the Ministry of Education;

- \$2.6 million for the Ministry of Health; and
- \$4.9 million for the Ministry of Justice.

Development Partners

Development partners will provide a total of \$188.9 million to Timor-Leste in 2012; representing 10.1% of the total combined sources budget. Book five outlines and discusses the details of these commitments.

Figure 4.1 Development Partners' Indicative Commitments (\$ millions)



Note: 2011 and 2010 figures for development partners' commitments represent the latest available data.

Source: National Directorate of Aid Effectiveness, 2011

Part 5: Revenues

Introduction

Total Revenues in 2012 is estimated to be \$1.90 billion, with the bulk of it (\$1.77 billion) flowing from Petroleum Revenues and the remaining \$136.1 million being Domestic Revenues.

Going forward, despite this continued dominance of Petroleum Revenues, as the economy expands and administration is improved Domestic Revenues will show robust growth and reach \$256.3 million by 2016. As a percentage of Total Revenue, these changes will see Domestic Revenues rise from 7.2% of the total in 2012, to an estimated 13.8% in 2016, and continued growth, will become all the more important as Petroleum Revenues begin to decline.

Table 5.1 Total Revenues Projections, 2010 - 2016 (\$'m)

	2010	2011	2012	2013	2014	2015	2016
	Actual	Estimate			Projection		
Total Revenues	2,213.7	2,657.6	1,901.9	1,723.3	1,595.9	1,774.4	1,852.9
Domestic Revenues	96.4	110.7	136.1	158.7	185.5	217.8	256.3
Petroleum Revenues	2,117.3	2,546.9	1,765.8	1,564.6	1,410.4	1,556.6	1,596.6

Source: Macroeconomic Directorate, Ministry of Finance, 2011

Domestic Revenues

Domestic Revenues are comprised primarily of Taxes (Direct and Indirect), User Fees and Charges, Interest, and revenues from Autonomous Agencies. Additionally, revenues also come from the sale of subsidised rice and other products, following on from a temporary measure introduced by Government to ease the hardship caused by the spike of world food prices in 2008.

Table 5.2 shows that taxes, fees and charges, and autonomous agencies continue to increase from 2010 through 2016. The rolling back of the subsidy program means that revenue from rice sales have fallen considerably and projected to remain at these lower levels.

Table 5.2 Revenue projections 2010 - 2016 (\$'m)

	2010	2011	2012	2013	2014	2015	2016
	Actual	Estimate			Projection		
Direct Taxes	18.2	22.3	40.6	43.2	46.4	50.4	53.7
Indirect Tax	31.9	42.6	54.5	64.4	74.6	85.0	95.8
Fees and Charges	19.7	16.2	19.0	24.0	30.9	40.8	55.3
Rice Sales	12.6	10.0	0.8	0.9	1.1	1.2	1.3
Interest	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Auto Agencies	13.7	19.2	20.9	25.9	32.2	40.0	49.9
Social Game Receipt	0.0	0.3	0.2	0.2	0.2	0.2	0.2
Total	96.4	110.7	136.1	158.7	185.5	217.8	256.3

Source: Macroeconomic Directorate, Ministry of Finance, 2011

Taxes

Table 5.3 shows revenue projections by category and tax type. Direct Taxes are estimated to increase in 2011, reaching \$40.6 million in 2012 and with growth stabilising thereafter. These changes are largely due to the increased Government investment in the economy, through capital expenditures. They are projected to have increased on Withholding Tax, as building and construction contracts are subject to this tax type.

The projection for Indirect Taxes for 2012 is \$54.5 million, increasing to \$95.8 million in 2016. These projections are largely based on the continued requirement of imports to facilitate domestic growth and consumption on the one hand, and the continued ability of domestic infrastructure to accommodate these increases on the other. As such, changes in the port infrastructure or significant increases in domestic production to satisfy consumer and industrial demand could significantly alter these figures in the medium term.

Table 5.3 Total Tax Revenue Projections 2010 - 2016 (\$'m)

	2010	2011	2012	2013	2014	2015	2016
	Actual	Estimate			Projections		
Direct Taxes	18.23	22.30	40.56	43.21	46.44	50.45	53.73
Income Tax	5.53	7.10	<u>7.82</u>	8.13	8.46	8.79	9.15
Individual Income	0.68	1.29	<u>1.95</u>	2.03	2.11	2.20	2.28
Individual Inc Other	4.85	5.81	<u>5.87</u>	6.10	6.34	6.60	6.86
Corporate Tax	4.49	5.70	<u>5.59</u>	6.23	6.96	7.76	8.67
Withholding Tax	8.22	9.50	<u>27.15</u>	28.84	31.03	33.89	35.92
Indirect Taxes	31.94	42.60	54.50	64.40	74.59	85.05	95.83
Service Tax	3.49	4.00	<u>5.11</u>	6.15	7.43	8.98	10.86
Sales Tax	6.08	11.40	<u>13.34</u>	15.72	18.13	20.53	22.94
Excise Tax	16.88	17.70	<u>24.65</u>	29.08	33.53	37.97	42.42
Import Duties	5.48	9.50	<u>11.40</u>	13.44	15.50	17.55	19.61

Source: Macroeconomic Directorate, Ministry of Finance, 2011

User Fees and Charges

Table 5.4 contains the projected income from User Fees and Charges, which are expected to increase from \$16.2 million in 2011 to reach \$19.0 million in 2012. The fall in 2011 is due to exceptionally high receipts in the Other Non-Tax Revenue in 2010, and the underlying growth trend in this category will return going forward, seeing Fees and Charges receipts reach \$55.3 million in 2016.

Table 5.4 User Fees and Charges Projections 2010 - 2016 (\$'m)

	2010	2011	2012	2013	2014	2015	2016
	Actual	Estimate			Projection		
Fees and Charges	19.73	16.18	19.00	23.98	30.93	40.84	55.29
Business Reg. Fees	0.44	0.74	<u>1.31</u>	2.27	3.93	6.80	11.77
Postage Fees	0.07	0.06	<u>0.02</u>	0.02	0.02	0.03	0.03
Property Rentals	2.23	2.39	<u>4.01</u>	5.38	7.21	9.67	12.96
Water Fees	0.05	0.07	<u>0.06</u>	0.06	0.07	0.07	0.08
National University	0.39	0.47	<u>0.48</u>	0.54	0.60	0.67	0.74
Vehicle Registration	0.95	0.94	<u>1.33</u>	2.09	3.21	4.93	7.48
Vehicle Inspection Fees	0.00	0.24	<u>0.26</u>	0.38	0.57	0.86	1.29
Drivers Licence Fees	0.00	0.34	<u>0.36</u>	0.54	0.81	1.22	1.83
Other Transport Fees	0.00	0.00	<u>0.00</u>	0.00	0.00	0.00	0.00
ID & Passport	0.53	0.81	<u>0.96</u>	1.31	1.77	2.40	3.25
Visa Fees	1.03	1.48	<u>1.30</u>	1.46	1.64	1.84	2.06
Hospital & Medical Fees	0.08	0.07	<u>0.07</u>	0.08	0.09	0.10	0.11
Court Fees	0.00	0.00	<u>0.17</u>	0.19	0.22	0.24	0.27
Dividends, Profits & Gains	3.72	7.26	<u>5.23</u>	5.84	6.52	7.27	8.12
Mining & Quarrying	0.09	0.10	<u>0.07</u>	0.08	0.09	0.10	0.11
Radio & Television Fees	0.00	0.00	<u>0.00</u>	0.00	0.00	0.00	0.00
Bid Doc Receipts	0.05	0.05	<u>0.03</u>	0.02	0.02	0.01	0.01
Auctions	0.17	0.05	<u>0.01</u>	0.02	0.02	0.02	0.02
Other Non-Tax Rev	9.95	1.11	<u>3.32</u>	3.70	4.13	4.61	5.15

Source: Macroeconomic Directorate, Ministry of Finance, 2011

Rice Sales and Interest

Rice subsidies were introduced to buffer the Timorese people from spikes in world food prices in 2008. The need for the Government to intervene in this market has now been deemed to have subsided. As Government intervention reduces, revenues from this sector are projected to fall to \$0.8 million in 2012, and as further intervention is not envisaged, revenue increases will remain stable.

Interest, being monies received on Government bank account balances, represents only a small portion of Domestic Revenues. Interest receipts are projected to be \$0.1 million in 2012 and then increase modestly in the medium term.

Autonomous Agencies

Revenues from Autonomous Agencies (Equipment Management, Aviation, Port, and EDTL) are shown in Table 5.5.

EDTL, the most significant contributor to this category, is expected to see its revenues expand from \$14.52 million in 2011, to \$16.08 million in 2012. This strong growth is projected to continue into the future with the continued expansion of economic growth and demand for electricity, and continued efforts to increase pay for use among electricity consumers. It is also possible that the rates charged, which were revised in August of 2011, may be further modified as better-off clients could be asked to accept less of a subsidy for their electricity, and such changes could boost these revenues further.

Growth in Aviation revenue is projected to be steady, reaching \$1.35 million in 2012, though increased flight and passenger numbers, perhaps facilitated in the future by improved infrastructure, could see these figures rise significantly.

The Port revenues, estimated to be \$3.39 million in 2012, have shown robust growth which is projected to continue in the medium term, reaching \$6.46 million by 2016. Again, these increases are dependent on the continued increase of demand for imports, as well as increases in their price levels and the ability of the port facilities to accommodate these increases.

Table 5.5 Autonomous Agencies Projections 2010 - 2016 (\$'m)

	2010	2011	2012	2013	2014	2015	2016
	Actual	Estimate			Projection		
Equipment Mgt	0.03	0.00	<u>0.11</u>	0.12	0.13	0.15	0.16
Aviation	1.23	1.32	<u>1.35</u>	1.42	1.48	1.55	1.63
Port	2.46	3.10	<u>3.39</u>	3.99	4.68	5.50	6.46
EDTL	10.00	14.52	<u>16.08</u>	20.40	25.88	32.83	41.64
SAMES	0.00	0.00	<u>0.00</u>	0.00	0.00	0.00	0.00
Total	13.72	18.94	<u>20.94</u>	25.92	32.18	40.03	49.89

Source: Macroeconomic Directorate, Ministry of Finance, 2011

Petroleum Revenues

The main factors driving the inflow of petroleum revenues are prices, production and costs. Compared with the petroleum revenue forecasts in last year's budget, prices are somewhat higher, production is significantly lower and costs are significantly higher. Based on these assumptions, the petroleum revenues are expected to peak in 2011 at \$2.5 billion before starting to steadily decline to \$1.8 billion in 2012 and onwards to \$1.6 billion in 2015 (see Tables 5.6 and 5.7). The revisions reduce the accumulated revenues over the life of Bayu-Undan by about 20% compared with last year's forecasts.

Table 5.6 Estimated Petroleum Revenues 2011-2016 (\$millions)

	2010 Actual*	2011 Estimate	2012 Budget	2013 Projection	2014 Projection	2015 Projection	2016 Projection
Total Petroleum Revenue	2,339	2,830	2,092	1,906	1,758	1,917	1,980
BU** FTP/Royalties	159	165.66	119.28	114.40	108.26	117.37	115.08
BU Profit oil	1,031	1,275.18	930.97	780.30	676.69	767.06	843.39
BU Income Tax	458	420.00	251.58	264.29	280.21	323.41	277.02
BU Additional Profit Tax	374	472.74	300.86	291.99	236.89	293.26	320.20
BU Value Added Tax	35	8.48	13.43	13.64	13.00	9.79	10.40
BU Wages Tax	16	15.00	10.00	8.49	8.66	8.83	9.01
BU Pipeline Payments	7	8.56	8.56	8.56	8.56	8.56	8.56
BU Other Payments	19	136.60	25.00	20.00	-	-	-
BU Withholding Tax	18	10.57	16.73	16.99	16.20	12.20	12.95
Kitan		33.74	89.44	45.98	61.86	16.10	-
Petroleum Fund Interest Received	221	283	326	341	347	360	384

*) Actual Cash flow for 2010

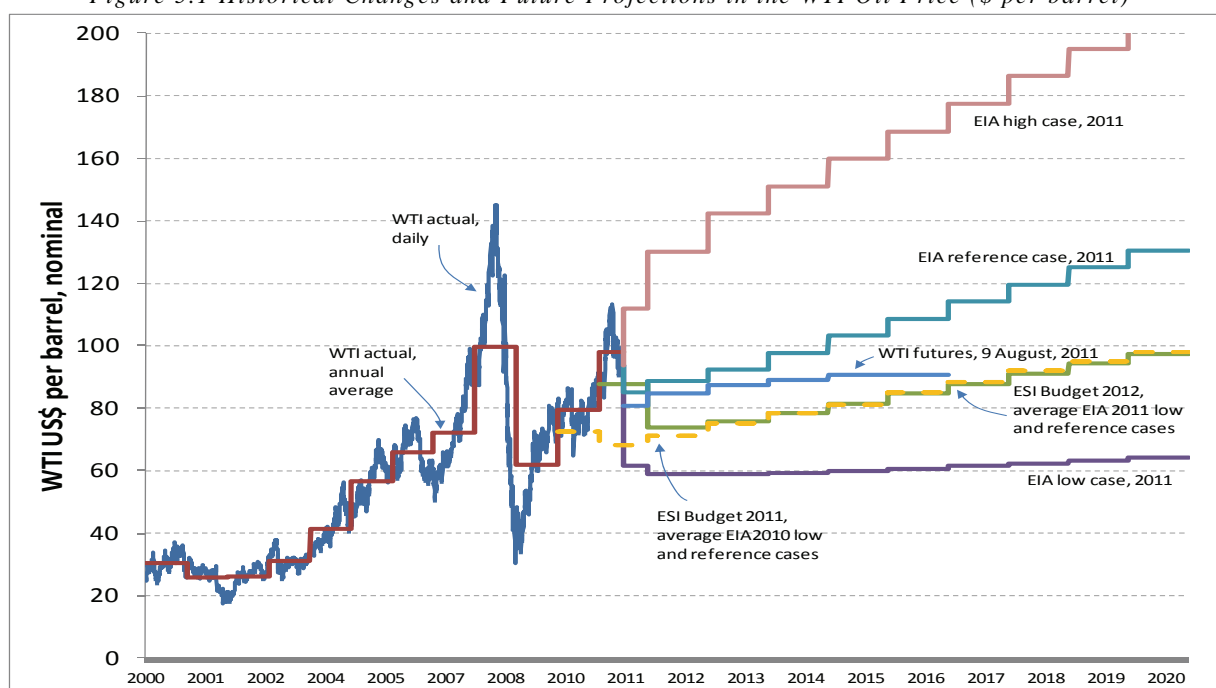
**) BU: Bayu Undan

Source: Petroleum Fund Directorate, Ministry of Finance, 2011

Oil Prices

The oil price for 2011 is estimated at \$88 per barrel, taking into account the actual development until July. This estimated oil price is about \$20 per barrel higher than anticipated in last year's budget. Oil prices are estimated at \$74 and \$76 per barrel for 2012 and 2013 respectively, slightly higher than previously expected. Figure 5.1 shows the oil price assumptions used in the petroleum revenue forecast. In particular, the figure shows two things: Firstly, the oil price assumptions, which is an average of the EIA reference and low case, has not changed materially from last year's forecast. Secondly, the oil price assumption is prudent, being lower than EIA's "most likely case" or reference case and WTI futures⁷, and significantly lower than EIA's high case. The oil price assumption methodology (as well as all the other key assumptions) was thoroughly discussed in Budget 2011.

Figure 5.1 Historical Changes and Future Projections in the WTI Oil Price (\$ per barrel)



Source: Energy Information Energy (EIA), *Annual Energy Outlook 2011*

Oil Production

The condensate and LPG (liquids) production forecast for Bayu-Undan is revised significantly downward compared to last year's ESI calculations, taking into account recent operational experience and the now fully assimilated results of 2010 Phase II drilling. As shown in Table 5.7, the total petroleum production on Bayu-Undan (also including LNG) has already peaked and is now set to ebb off before ceasing in 2024.

The Field Development Plan for the Kitan field was approved in 2010 and production expects to commence in the 4th quarter of 2011. The total production is modest compared to the Bayu-Undan field. Kitan's Low and Base Production Case are 26.8 and 35.5 million barrels

⁷ WTI Futures reflects the parties (seller and buyer) in the oil market expectations regarding the future oil price and quantity to be delivered.

of oil respectively over the life time of the project. The total revenue stream based on the Low Production Case is equivalent to \$247.1 million, or some 1% of Bayu Undan.

Costs

The estimated costs for the Bayu-Undan project, both upstream and downstream, have increased significantly. Total costs (capital and operating, at the upstream facility, on the pipeline, and at the downstream LNG plant) are around 40% higher than in last year's forecast. The change in the cost forecast derives primarily from the strengthened Australian dollar, in which a significant proportion of costs are incurred, and corrosion and other operational issues that require remedial action over the next few years. Table 5.7 shows the oil price, production volumes and undiscounted and discounted petroleum revenues for Timor-Leste over the life time of the two projects.⁸

Table 5.7 Sustainable Income Calculations – Oil Price Assumptions, Production and Revenue Forecasts 2002-2025

Timor-Leste Petroleum sector				
	Average WTI oil price	Production	Total Discounted Petroleum Revenues (Factor of 3.7%)	Total Undiscounted Petroleum Revenues
	\$/Barrel	million barrels oil equivalent	\$ million	\$ million
Total		892		27,266
Total from 1 January 2012		548	13,496	18,864
to 2002				
2003				10
2004	44	17	0	174
2005	54	29	0	336
2006	65	57	0	609
2007	72	58	0	1,288
2008	100	64	0	2,272
2009	62	62	0	1,653
2010	79	57	0	2,060
2011	88	59	0	2,547
2012	74	50	1,734	1,766
2013	76	52	1,482	1,565
2014	79	47	1,288	1,410
2015	82	50	1,371	1,557
2016	85	47	1,356	1,597
2017	88	44	1,245	1,521
2018	91	37	953	1,207
2019	94	38	986	1,295
2020	97	36	949	1,292
2021	101	36	918	1,297
2022	104	33	741	1,085
2023	106	18	376	572
2024	109	0	60	94
2025	112	0	37	61

Source: Petroleum Fund Directorate, Ministry of Finance, 2011

⁸ Includes revenue streams from Bayu Undan and Kitan fields.

Investment Return

The net investment return on the investments in the Petroleum Fund was \$221 million or 3.8% nominal in 2010. During 2010 inflation in the USA was 1.5%, hence the real return was 2.3%. From 2011 and onwards it is assumed a return on investments of 3.7%, which translate into \$283 million in 2011 and \$326 million in 2012 (nominal). Going forward, the assumed return on investments will reflect the expected return on the Fund as the asset allocations develop in line with the amended Petroleum Fund Law investment policy.

As of the second quarter of 2011, the net investment return of the Petroleum Fund is 1.7%. The annual return for the 12 months to June 2011 is 3% nominal. The annual return on the investments since the inception of the Fund is 4.2% nominal.

Petroleum Fund

According to the Petroleum Fund Quarterly Report published by Banking and Payments Authority (BPA), the Fund's balance was \$8.3 billion as of second quarter 2011. This is an increase of \$1.4 billion from the start of the year. The Fund balance is expected to be \$8.7 billion by the end of 2011 after deducting the estimated withdrawal of \$1.1 billion in 2011 adopted by Parliament.

Notwithstanding lower production, higher costs and higher withdrawals than earlier anticipated, the value of the Petroleum Fund is set to increase to \$9.3 billion by the end of 2012, \$9.5 billion by the end of 2013 and \$10.9 billion by the end of 2016.

The forecasts of the future Petroleum Fund balance is shown in table 5.8.

Table 5.8 Estimated Petroleum Fund Savings 2011 - 2016 (\$millions)

	2010 Actual	2011 Estimate	2012 Budget	2013 Projection	2014 Projection	2015 Projection	2016 Projection
Opening Balance	5,377	6,904	8,679	9,276	9,524	9,596	10,227
Petroleum Revenue excluding PF Interest	2,117	2,547	1,766	1,565	1,410	1,557	1,597
Petroleum Fund Interest, Net*	221	283	326	341	347	360	384
Withdrawal	-811	-1,055	-1,495	-1,658	-1,686	-1,286	-1,306
Closing Balance	6,904	8,679	9,276	9,524	9,596	10,227	10,901

*) net of management and market revaluation

Petroleum Wealth and ESI calculation

According to the Petroleum Fund Law the Estimated Sustainable Income (ESI) shall be 3% of the Petroleum Wealth. The Petroleum Wealth, which comprises the balance of the Fund plus the net present value of future petroleum revenue, is estimated to be \$22.2 billion as of 1 January 2012. The estimated Petroleum Wealth has decreased by \$2.2 billion compared to the calculations provided in the Budget 2011, mainly as a consequence of the changes to production and cost assumptions discussed above. The key assumptions underlying the ESI calculations are listed in Table 5.9.

The Estimated Sustainable Income (ESI) is estimated at \$665.3 million for 2012. This is a decrease of \$69 million from the 2012 ESI estimate in last year's budget.

Table 5.9 Key assumption behind ESI

Asset recognition	Forecast petroleum revenues are included only for projects with approved development plans. This includes Bayu-Undan and Kitan.
Petroleum Reserves and Production Forecasts	Production estimates are provided by project operators. Low case production is used, consistent with a 90% probability that actual will exceed the forecast. For Bayu-Undan the difference between the low (P10) and central (P50) case is only around 7-12%.
Oil price forecast	ESI for Budget 2012 as for 2011 is prepared using the average of Energy Information Agency (EIA) low case and reference case for light sweet crude oil (WTI ⁹).
Prices for specific petroleum products	Bayu Undan produces condensate, Liquefied Petroleum Gas (LPG) and Liquefied Natural Gas (LNG) while Kitan is planned to produce only condensate. Forecast assumptions for each product are derived from historic differentials observed with WTI. LNG prices are forecast using contractual pricing formulae for the short term and an assumed relationship with oil prices for the longer term using advice from market experts.
Production costs	Central estimate of future capital and operating costs as provided by project operators.
Discount rate	A specific discount rate is calculated for each year of the petroleum revenue forecast using the ten year average of US bond rate for each respective maturity date. For descriptive purposes a single implicit discount rate is then calculated that results in the same net present value as arrived at with the specific discount rate.

Source: National Directorate of the Petroleum Fund, Ministry of Finance, 2011

Table 5.10 shows the ESI calculation for 2012 and Figure 5.2 the ESI together with the petroleum revenue forecast.

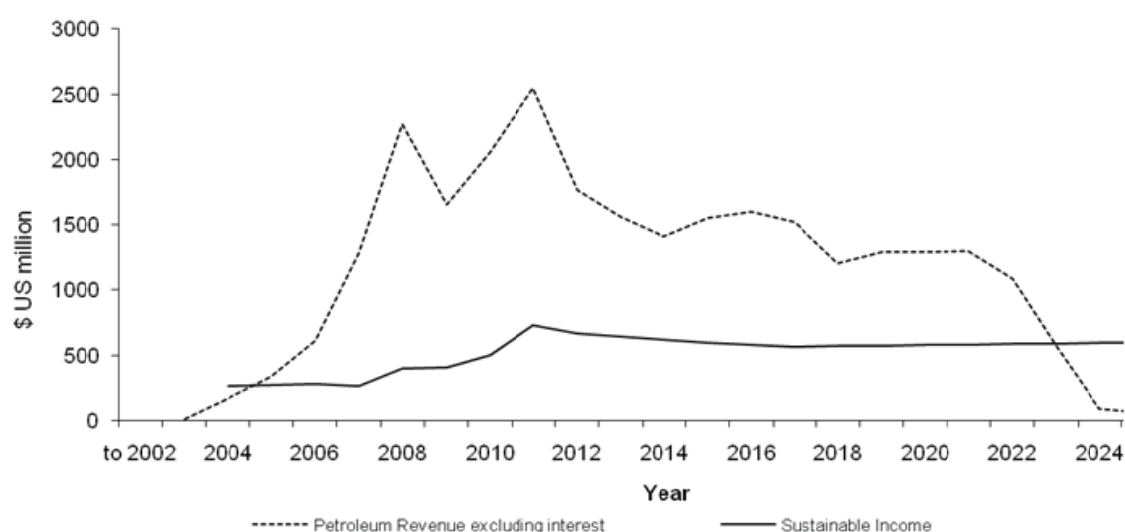
Table 5.10 ESI as of 1 January 2011 compared to figures in Budget 2010

US\$ million	2011 Budget	2012 Budget	2013 Budget	2014 Budget	2015 Budget	2016 Budget
Petroleum Fund balance	6,617	8,679	9,276	9,524	9,596	10,227
+ Net Present Value of future revenues	17,847	13,496	12,197	11,055	10,028	8,814
Total Petroleum Wealth (PW)	24,465	22,175	21,473	20,579	19,624	19,041
Estimated Sustainable Income (PWx3%)	734	665.3	644.2	617.1	588.7	571.2

Source: Petroleum Fund Directorate, Ministry of Finance, 2011

⁹ The EIA "Low Sulfur Light Oil" is stated in EIA documentation to be the same as WTI.

Figure 5.2 Timor-Leste Petroleum Revenues and Estimated Sustainable Income 2002-2024



Source: Petroleum Fund Directorate, Ministry of Finance, 2011

Changes in the ESI from 2011 to 2012

Figure 5.3 shows the key incremental changes in 2012 ESI since the 2011 Budget. Main driving factors include oil price, petroleum production and costs. Refer to Table 5.9 for a general introduction to the key ESI assumptions.

Oil prices

The 2011 low and reference case from EIA are essentially unchanged. The 2011 price of \$88 per barrel used for Budget 2012 ESI is the weighted average of actual \$98 per barrel for the 7 months to July 2011¹⁰, and the average of the EIA AEO 2011 low and reference cases of \$73 per barrel. This is significantly higher than the Budget 2011 forecast of \$68 per barrel. The revised forecasts for 2012 and 2013 are also slightly higher than previous forecasts but thereafter revert to basically the same as the average of EIA low and reference cases used for Budget 2011. The change in the WTI forecast increases 2012 ESI by \$21 million, mainly from the increase in 2011, 2012 and 2013 prices.

Liquids price differentials

The assumed values of Bayu-Undan (BU) condensate and LPG relative to WTI in the future have been slightly revised as discussed above. The change in liquids differential increases 2012 ESI by \$4 million.

LNG price differentials

There is a modest effect from reflecting specific spot-sale differentials as forecast by Poten&Partners for 2012-2013. The Japan Crude Cocktail (JCC) differential has been revised to WTI minus 3.5% (Budget 2011 WTI minus 5%). These changes increase ESI by \$5 million.

¹⁰ Source EIA http://www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm; average of monthly prices series until July 2011.

Liquids production

ConocoPhilips (COP) has revised the production forecast for Bayu-Undan significantly downwards taking into account recent operational experience and the now fully assimilated results of 2010 Phase II drilling. This reduces 2012 ESI by \$69 million. Explanations by ConocoPhilips on the revision include:

- In late 2010 liquids production started deviating from the base case forecast which had previously been a highly accurate predictor of production.
- After investigation, COP is now undertaking a bottom up rework of its reservoir modeling and fully incorporated the results from Phase II drilling program carried out in 2010. This will be completed towards the end of 2011.
- Work completed so far has resulted in a reduction of the Gas Initially In Place (GIIP) estimate from 8.0 Tcf to 7.6 Tcf, and a reduction particularly in the GIIP for the high liquids content Plover formation, reducing liquids forecast overall.
- Reservoir pressure has declined faster than expected resulting in some potential for condensate and LPG to drop out in the reservoir, and therefore not be produced.
- There is increased water production, and some evidence of lean gas breakthrough (re-injected gas migrating to producing wells and being preferentially produced ahead of liquids)
- The design of the field with only 12 producing wells provides limited operational flexibility.

LNG production

The LNG forecast is the COP P50 case, modified to end in 2023 when low case liquids production ceases. This still reflects a reduction from the 2011 low case resulting in a decrease in ESI of \$20 million. If the low case as presented by COP is used without adjustment, ESI would decrease by a further \$20 million, however the Ministry of Finance believes this would be excessively prudent.

Cost

ConocoPhilips has significantly increased its estimate of base case costs for the Bayu Undan project, both upstream and downstream. Total costs (capital and operating, at the upstream facility, on the pipeline and at the downstream LNG plant) are around 40% higher than in last year's forecast, resulting in a decrease in ESI of \$36 million. The change in the cost forecast derives primarily from the strengthened Australian dollar, in which a significant proportion of costs are incurred, and corrosion and other operational issues that require remedial action over the next few years.

Sixty-three per cent of Bayu-Undan costs are incurred in Australian dollars, as are 85% of Darwin LNG costs. The current forecasts assume an exchange rate of 1.07 US\$ = 1 AUS\$ for the life of the project, which is roughly a 38% increase in US\$ based costs relative to last year. The Government takes the view that although there is a possibility that the \$AUS could

moderate in relative strength over time, it remains prudent to use the COP costs reflecting the 1.07 US\$ assumption.

Kitan

The development plan for Kitan was approved by the ANP during 2010 and forecast revenues from Kitan are therefore included in the ESI calculation. The \$3 million ESI increase reflects the Kitan low production case.

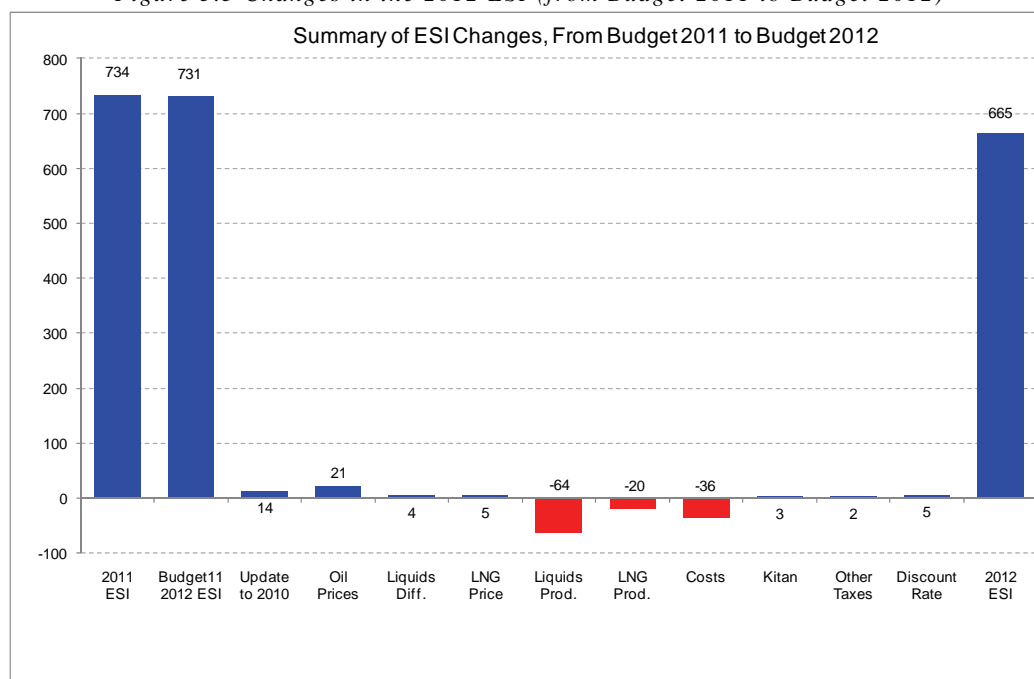
Taxes on exploration

Recognising their relative immateriality, 2011 ESI included a very simple forecast of wages and other taxes related to the non-Bayu-Undan exploration activity. This turned out to have understated these revenues. Tax collections from subcontractors and exploration drilling are forecast for Budget 2012 consistent with recent collections and taking into account exploration work commitments as advised by ANP. The change in the forecast of other taxes increases 2012 ESI by \$2 million. There are no firm exploration work commitments beyond 2013 therefore no revenues are assumed past this date.

Discount rate

The discount rate used is the 10-year rolling average of U.S. Treasury bond rates, which has continued to fall. The discount rate has been reduced from 4.0% to 3.7%. A lower discount rate increases the present value of future petroleum revenues, and has increased ESI by \$5 million.

Figure 5.3 Changes in the 2012 ESI (from Budget 2011 to Budget 2012)



Source: Petroleum Fund Directorate, Ministry of Finance, 2011

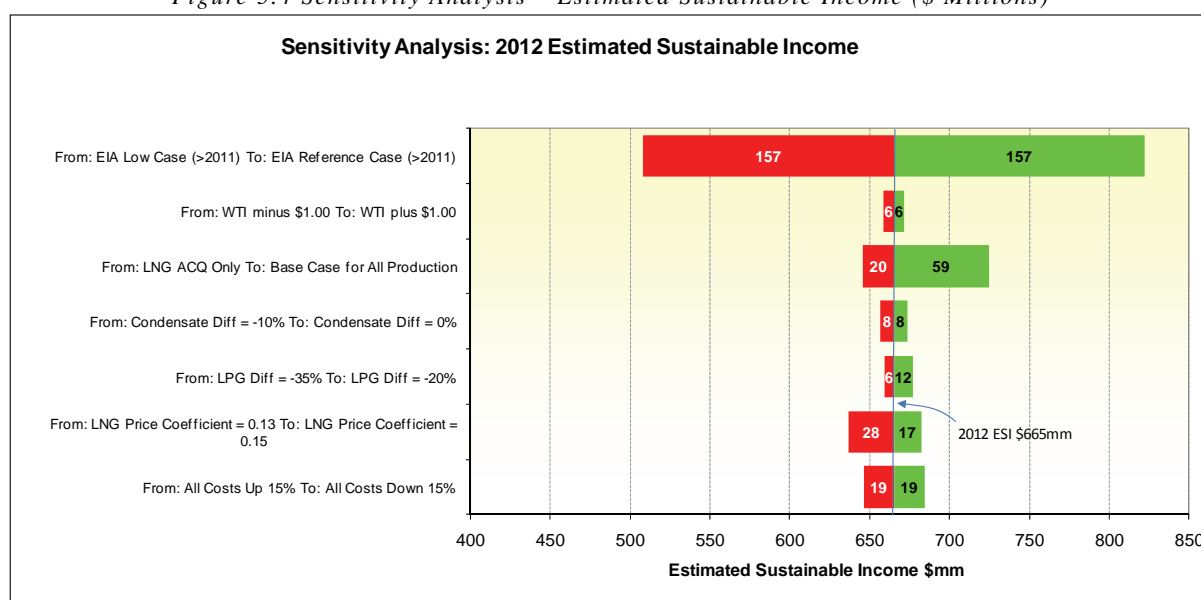
Sensitivity analysis

The Government's objective is to prepare an estimate of ESI that is prudent overall. Assumptions for each key input into the forecast of future petroleum revenues have been developed taking into account the best information available and advice from experts.

However, each input is subject to uncertainty. Figure 5.4 shows how 2012 ESI changes when key assumptions are changed individually. The sensitivity analysis starts with the 2012 ESI of \$665.3 million and shows by how much ESI would change if a different assumption for each key variable was used. For sensitivity to oil prices, the forecast used in the 2012 estimate is compared to the EIA low case and reference case forecasts (in both cases starting in 2012). For other key assumptions, the parameters used in the sensitivity analysis reflect a judgmentally determined range from key base assumptions.

This analysis shows that the oil price and production forecasts are by far the most important assumptions with others of secondary importance. Accordingly ESI is prepared with prudent assumptions for oil prices and production, and with assumptions generally consistent with (P50, expected outcome) for others, being conscious that prudence in each input would result in excessive prudence overall.

Figure 5.4 Sensitivity Analysis – Estimated Sustainable Income (\$ Millions)



Source: Petroleum Fund Directorate, Ministry of Finance, 2011

Review of methodology

Schedule 1 of the Petroleum Fund law requires the ESI to be estimated using prudent assumptions reflecting international best practice and based upon recognised international standards. The Ministry of Finance undertook a comprehensive review of the methodology for the ESI prepared for Budget 2011 with technical assistance from the Fiscal Affairs Department of the International Monetary Fund. No material changes in methodology have been implemented for Budget 2012.

As in previous years, for liquids production (condensate and LPG) low case production forecasts are used for ESI. For LNG a modified base case is used as a consequence of a change in the methodology of ConocoPhillips.

The Petroleum Fund Law Amendments

The Petroleum Fund Law amendments were passed by Parliament on 23 August 2011. Two principles are especially reflected in the legislation: good governance and diversification. These principles are explained below, along with a discussion of key changes in the amended legislation.

The Petroleum Fund Annual Report 2010 also discusses in length the application of these principles in the law, with specific emphasis on the governance framework and the risk-return trade-off embedded in the new investment policy.

Good Governance

Based on the “Santiago principles¹¹”, the Petroleum Fund governance model is based on a high degree of transparency and disclosure of information. This helps build public support for wise management of petroleum revenues and reduces the risk of bad governance. Transparency ensures that information can be used to measure the authorities' performance and also guards against any possible misuse of powers. Transparency serves to enable accountability, which means authorities and whoever handles public money can be held responsible for their actions.

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

The amended Petroleum Fund Law further strengthens this internationally recognised governance framework by improving reporting requirements, strengthening checks and balances and strengthening the requirements for technical skills in the management of the Fund.

Diversification

Obtaining financial returns involves taking risk. Where capital is systematically allocated to assets other than those that deliver a risk-free rate of return, investors expect a higher return as a reward for the additional risk they are taking. That is, risk and expected return are related. This relationship is discussed and quantified in the Petroleum Fund Annual Report 2010.

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

The amended Petroleum Fund Law states that the objective of the investment policy is to maximise the risk-adjusted return. A necessary condition to achieve this objective is to employ the principle of diversification. Diversification is the process of exposing an investment portfolio to a number of different asset classes, risk factors, and individual financial assets, rather than being concentrated in any one of these. Diversification is the antidote to many avoidable risks. The key to the diversification process is that different asset classes and other portfolio risk factors will usually not move in unison. Combining assets with returns that are less than perfectly correlated reduces risk and volatility.

The cornerstone of the fiscal policy is the Estimated Sustainable Income (ESI). The ESI is the guiding rule for withdrawals from the Petroleum Fund on sustainable basis and is at 3% of the petroleum wealth.

A necessary condition for the ESI to actually be sustainable is that the Fund's investments earn a real return of 3%. The real return of the portfolio from inception of the Fund in September 2005 to June 2011 has been 2.2%. Economic models predict that the narrow investment universe regulated in the previous Petroleum Fund Law will earn 2% real return over time. This investment policy is therefore not aligned with the fiscal policy. The amended law allows for a maximum of 50% of the Fund to be invested in equities. Modelling predicts this will give a reasonable probability of achieving a 3% real return over time with a risk level the Government is willing to accept, thus aligning the Petroleum Fund investment policy with the ESI budget spending guideline.

Part 6: Financing

The SDP calls for significant investment in infrastructure. To achieve this successfully, the Government is considering a number of financing and implementation options. These include borrowing at a concessional level where the cost of borrowing is lower than the economic returns of the project in the medium term.

Public-Private Partnerships

The Government with donor support has completed the development of the Public-Private partnership (PPP) policy and legal framework, and is in the process of developing internal operational guidelines and procedures, which will allow the adoption of Public-Private Partnerships (PPP). To be successful a proposal will need to demonstrate an overall community benefit and be consistent with the Government's plans and priorities. Early planning and studies are vital to ensure that the Government is receiving value for the rights that are granted. This is important as PPP are complex arrangements and are often prepared and negotiated over an extended period of time.

The PPP concept is a good policy option because it shares risks and can overcome capacity bottlenecks in delivering the required services. Within the SDP there are several projects that may be suitable for consideration for using PPP arrangements. The Government is currently exploring the following projects: port and airport among others. Most importantly, PPP arrangements can also be used to deliver social infrastructure. However, the PPP process is complex and there is an initial high cost for planning, negotiation and establishment. Accordingly, the Government expects at the outset that PPP will be used sparingly for very high economic return projects that will attract the appropriate private sector expertise. This will also allow lessons learned and international experience to grow organic capacity to deliver PPP.

Loans

Under Articles 20 and 21 of the Budget and Financial Management Law the Government has a legal basis to borrow. Further, on the 24 August 2011 Parliament approved the Public Debt Regime, which intends to establish a basis for facilitating the contracting of foreign loans between the Government, multilateral and bilateral funding institutions to supplement the financing needs of the SDP. The primary goal of external borrowing is to bring forward the implementation of strategic capital projects as identified in the SDP 2011-2015 Project Implementation Plan (PIP).

The loans available from multilateral agencies, and on a bilateral basis, will be undertaken over the longer period of time and at rates below the economic returns of the funded projects. It is envisaged the loans will be utilised for national priority projects such as roads and bridges. Table 6.1 shows the size of loans for different segments of roads across the country and for drainage in Dili. For 2012, it is expected the loans will be \$43.1 million. The size will increase in the next five years as indicated in Table 6.1. The funds from co-financing from the Government come from the Infrastructure Fund. Table 6.1 does not show repayment

because most of the loans have a ten year grace period. Until then, the Government will report the repayments through the State Budget.

Table 6.1. Financing needs for major infrastructure projects, 2012 – 2016 (\$ millions)

Roads	2012	2013	2014	2015	2016*	Total
Dili-Liquica, Tibar-Ermera	5.26	10.70	10.70			26.66
Manatuto-Natarbora	2.84	2.88	2.28	5.34	30.00	43.34
Dili-Manatuto-Baucau	0.27	1.35	10.85	18.99	19.77	68.70**
Maubisse-Ainaro/Same	5.00	10.00	20.00	5.00		40.00
South Coast Highway		30.00	40.00	50.00	100.00	220.00
Dili sanitation/drainage		20.00				20.00***

*. 2016 is proposed budget.

**. The total amount to be provided in Loan is 68.7 million. This total is made based on the information provided by JICA. Government will be funding 25% to complete 95 million of the total project cost.

***. The Exim Bank still need to do design in 2012 therefore there will be no expenses in 2012.

Table 6.2 Loans and Co-financing from the Government, 2012 – 2016 (\$ millions)

	2012	2013	2014	2015	2016*	
Loans	43.10	80.2	81.1	102.8	107.0	414.2
Government Co-Financing	9.93	24.05	24.32	30.85	54.00	143.15
	53.03	104.25	105.42	133.65	161.00	557.35

Source: Major Projects Secretariat, Ministry of Finance, 2011

*. 2016 is proposed budget.

ANNEX 1 – 2012 General State Budget Law

National Parliament Decree

Approving the 2012 State General Budget of the Democratic Republic of Timor-Leste

The 2012 State General Budget covers all revenues and expenditure of the State of Timor-Leste.

Attachment I to the 2012 State General Budget Law, henceforth called SGB, sets the total estimated SGB revenue from January to December 2012 derived from all sources: petroleum, non-petroleum, tax revenues, non-tax revenues and derived from loans. The total estimated revenue from all sources is US\$2.269,4 billion.

Attachment II to the State Budget Law sets all budget appropriations, systematised as follows:

1. \$140.1 million for Salaries and Wages;
2. \$376.3 million for Goods and Services;
3. \$199.6 million for Public Transfers;
4. \$42.9 million for Minor Capital;
5. \$915.3 million for Capital Development.

Excluding autonomous funds and services, special funds and borrowing, the total budget appropriation is \$723.4 million.

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

The total estimated expenditure for self-funded autonomous funds in 2012 is \$120.5 million, of which \$99.5 million is transferred from the SGB in order to subsidise expenditure exceeding the estimated own revenues.

The total budget appropriation for the Infrastructure Fund, including loans, is \$800.3 million.

The total budget appropriation for the Infrastructure Fund, excluding loans, is \$757.2 million.

The total budget appropriation for the Human Capital Development Fund is \$30 million.

Total estimated SGB expenditure is \$1.674,1 billion.

Maximum total approved for public borrowing in 2012 is \$43.1 million.

Estimated non-petroleum revenue is \$136.1 million.

Thus the tax deficit is \$1.538,0 billion, being funded by \$1.494,9 billion from the Petroleum Fund and \$43.1 million through the public borrowing.

Under section 95.3 (d) and section 145.1 of the Constitution of the Republic, the National Parliament decrees the following, to prevail as law:

Chapter I

Definitions and approval

Article 1

Definitions

For the purposes of the present Law:

- a) **“Expense Category”** means the grouping of expenses under the five following categories: Salaries and Wages; Goods and Services; Public Transfers; Minor Capital; and Capital Development, where:
 - i) **“Salaries and Wages”** means the full amount a Body may spend on Salaries and Wages for the holders of political offices and for permanent, temporary and part-time staff;
 - ii) **“Goods and Services”** means the full amount a Body may spend on the acquisition of Goods and Services;
 - iii) **“Public Transfers”** means the full amount a Body may spend on public grants and consigned payments;
 - iv) **“Minor Capital”** means the full amount a Body may spend on the acquisition of Minor Capital goods;
 - v) **“Capital Development”** means the full amount a Body may spend on Capital Development projects.

- b) **“Expenses paid by Revenues”** means expenses met by the *own revenues* charged by autonomous funds and services, provided that the amount does not exceed the full value of the revenues entered in the relevant Treasury accounts;
- c) **“Budget Appropriation”** means the full amount inscribed in the SGB in favour of a Body towards the payment of a certain expense;
- d) **“Body / Bodies”** is the generic term adopted by Budget to indicate the administrative public sector subjected to budget discipline and that, according to the organic classification, may be divided by such titles as: Office of the President of the Republic, Parliament, Government (Office of the Prime Minister, Presidency of the Council of Ministers, Ministers and Secretariats of State), Courts and Office of the Prosecutor General of the Republic, such as other institutions featured in Attachment II;
- e) **“Expenditure Items”** means the individual expenditure items within each *Expense Category*, based on the expenditure account code structure maintained by Treasury.

Article 2 Approval

The present Law approves the State General Budget for the period from 1 January to 31 December 2012, as well as:

- a) Total revenues per groupings, including own revenues from autonomous funds and services, special funds and loans featured in Attachment I to the present diploma, constituting integral part of it;
- b) Total expenses per groupings, including the amounts to be transferred from the State General Budget for autonomous funds and services in 2012, featured in Attachment II to the present diploma, constituting integral part of it;
- c) Total expenses from the autonomous funds and services to be funded from their own revenues and from the State General Budget subsidy, featured in Attachment III to the present diploma, constituting integral part of it;
- d) Total expenses corresponding to the appropriation for the Infrastructure Fund in 2012, featured in Attachment IV to the present diploma, constituting integral part of it;
- e) Total expenses funded through the public borrowing in 2012, featured in Attachment IV-A to the present diploma, constituting integral part of it;
- f) Total expenses corresponding to the appropriation for the Human Capital Development Fund in 2012, featured in Attachment V to the present diploma, constituting integral part of it.

Chapter II

Revenues

Article 3

Taxes

During 2012 the Government is authorised to collect taxes as well as other tributary impositions set by tributary law in force.

Chapter III

Authorisation to make transfers from the Petroleum Fund

Article 4

Authorised limit for credit the SGB

Under and for the purposes of the provisions of article 7 of Law no. 9/2005 of 3 August, in the redaction amended by the Law no. 12/2011 of 28 September, the transfer amount from the Petroleum Fund in 2012 doesn't exceed \$1.494,9 billion and only is transferred after complying with the provisions of the articles 8 and 9 of the law above cited.

Chapter IV

Constitution of the Public Debt

Article 5

Maximum Amount of Authorised Borrowing

1. In order to face the financing needs related with the construction of strategic infrastructures for the Country development, the Government is authorised under the article 20 of Law no. 13/2009 of 21 October and the article 3 of Law no. 13/2011 of 28 September, to resort to concessional external borrowing until the maximum amount of \$160 million, with a maximum deadline of 40 years.
2. Without prejudice of the provision of former number, in 2012, the financing derived from borrowing doesn't exceed \$ 43.1 million.

Chapter V

Budget Execution

Article 6

Payment of taxes on Government imports

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

Article 7

Appropriations for the whole Government

According to the clear and precise criteria set for the public expenses, the Government inscribes the following appropriation in the budget of the Ministry of Finance, to be managed by the latter:

- a) Counterpart Fund;
- b) External Audit;
- c) Contingency Reserve;
- d) International Organisation Membership Fees;
- e) Retroactive Funding;
- f) Payment of pensions to Former Holders and Former Members of Sovereignty Bodies;
- g) Construction of Integrated Posts at the Border;
- h) New Body for Implementing the Recommendations of the CAVR;
- i) Contribution Fund for Social Institutions;
- j) Provision for g7+;
- k) Provision for Telecommunications Liberalisation.

Chapter VI

Autonomous funds and services and special funds

Article 8

Own Revenues

1. Estimated revenues to be collected by autonomous funds and services are indicated in Attachment I.
2. Expenses resulting from transfers from the Government to the autonomous funds and to the special funds, as well as the estimate of the respective estimated expenses, are indicated in Attachment II.
3. The budgets by Expense Category concerning the autonomous funds and services funded by own revenues are indicated in Attachment III.
4. The appropriation for the Infrastructure Fund is featured in Attachment IV and in Attachment IV-A.
5. The appropriation for the Human Capital Development Fund is featured in Attachment V.

6. Expenditure Authorisation Notices in favour of autonomous funds and services from own revenues may only be authorised after the State receives the respective revenues. Such authorisations must be of an equal or lesser value.

Chapter VII

Final Provisions

Article 9

Funding through independent donors

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

Article 10

Entry into force

The present Law enters into force on 1 January 2012.

Approved on 25 November 2011.

The President of National Parliament,
Fernando La Sama de Araújo

Promulgated on / / 2011.

Let it be published.

The President of the Republic,
José Ramos-Horta

Attachment I

Estimated Revenues to be collected and loans in the 2012 State General Budget for the Democratic Republic of Timor-Leste (US\$ million)

1.	Total Revenues	2,269.4
1.1.	Petroleum Revenues	2,090.2
1.1.1.	Taxes on petroleum profits	931.0
1.1.2.	Timor Sea Duties	150.8
1.1.3.	Income Tax	309.5
1.1.4.	Additional Profit Tax	300.9
1.1.5.	Other Taxes and Petroleum Fees	73.7
1.1.6.	Petroleum Fund Interests	324.3
1.2.	Non-Petroleum Revenues	136.1
1.2.1.	Direct Taxes	40.6
1.2.2.	Indirect Taxes	54.5
1.2.3.	Other Revenues and Fees	19.0
1.2.4.	Rice Sales	0.8
1.2.5.	Treasury Account Interests	0.1
1.2.6.	Lottery Revenues	0.2
1.3	Donations	0.0
1.4	Own Revenues from Autonomous Funds	20.9
1.5	Own Revenues from the Infrastructure Fund	0
1.6	Own Revenues from the Human Capital Development Fund	0
1.7	Loans	43.1

Attachment II – Budget Appropriation for 2012 (\$'000)

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenditure
Including Autonomous Agencies, Special Funds and Loans	140,071	376,268	199,579	42,917	915,295	1,674,130
Excluding Autonomous Agencies and Special Funds and Loans	137,401	232,484	199,579	38,917	115,034	723,415
Including Autonomous Agencies	140,071	346,268	199,579	42,917	115,034	843,869
Total Autonomous Agencies	2,670	113,784	-	4,000	-	120,454
Total Special Funds	-	30,000	-	-	757,161	787,161
Total Loans	-	-	-	-	43,100	43,100
Presidency of the Republic	500	4,821	-	356	-	5,677
Civil Office of the President of the Republic	60	2,168	-	-	-	2,228
Directorate-General of the President of the Republic	440	1,546	-	356	-	2,342
Military House of the President of the Republic	-	669	-	-	-	669
Post-CAVR Technical Secretariat	-	438	-	-	-	438
National Parliament	4,095	7,242	-	4,182	50	15,569
National Parliament	3,001	1,755	-	3,352	50	8,158
Office of the President of Parliament	67	556	-	-	-	623
Parliamentary Benches	-	114	-	-	-	114
Secretariat of the National Parliament	1,027	3,981	-	809	-	5,817
Commission A	-	86	-	-	-	86
Commission B	-	69	-	-	-	69
Commission C	-	76	-	-	-	76

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenditure
Commission D	-	55	-	-	-	55
Commission E	-	33	-	-	-	33
Commission F	-	54	-	-	-	54
Commission G	-	65	-	-	-	65
Commission H	-	38	-	-	-	38
Commission I	-	9	-	-	-	9
Consulting Council of the Petroleum Fund	-	331	-	21	-	352
Women Parliamentary Group of Timor-Leste	-	20	-	-	-	20
Prime-Minister and Presidency of the Council of Ministers	3,826	18,022	39,506	844	32,220	94,418
Prime-Minister and Presidency of the Council of Ministers (CoM)	1,417	8,857	10,500	440	30,088	51,302
Office of the Prime Minister	90	-	-	-	-	90
Secretariat of the Prime Minister	34	602	-	-	-	636
Civil Society Advisory	-	57	10,500	-	-	10,557
Directorate of Administration and Finance	79	622	-	45	-	746
Directorate of Human Resources	83	15	-	-	-	98
Official Residence of the Prime Minister	-	43	-	-	-	43
Office of the Director-General	14	4	-	-	-	18
Office of the Vice Prime Minister	202	490	-	-	-	692
National Development Agency (ADN)	254	1,603	-	76	30,088	32,021
National Procurement Commission (CNA)	93	4,000	-	29	-	4,122
National Intelligence Service (SNI)	170	1,027	-	223	-	1,420
Inspectorate-General Office (IG)	398	394	-	67	-	859

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenditure
Secretary of State for the Council of Ministers	316	3,722	-	44	-	4,082
Office of the Secretary of State	60	557	-	-	-	617
National Directorate of Administration and Support to the Council of Ministers	110	718	-	9	-	837
National Directorate of Translation Services	53	77	-	13	-	143
Legal Support Unit	23	483	-	-	-	506
Directorate of Information Dissemination	42	1,624	-	-	-	1,666
Community Radio Centre	22	87	-	22	-	131
Office of Parliamentary Matters	6	176	-	-	-	182
Secretary of State for Youth and Sports	465	1,634	2,152	112	1,432	5,795
Office of the Secretary of State	65	898	-	-	-	963
Directorate of Administration and Finance	184	530	100	112	1,432	2,358
National Directorate of Youth	38	10	405	-	-	453
Directorate of Physical Education and Sports	41	66	1,122	-	-	1,229
Directorate of Development Policy	48	18	400	-	-	466
National Directorate of Arts	35	15	125	-	-	175
Office of the Director-General	10	14	-	-	-	24
Directorate of Communication	44	83	-	-	-	127
Secretary of State for Natural Resources	247	1,697	4,300	75	-	6,319
Office of the Secretary of State	54	856	-	-	-	910
National Directorate of Administration and Finance	96	318	-	75	-	489
National Directorate of Natural Resource Planning	34	48	4,300	-	-	4,382
National Directorate of Minerals	63	475	-	-	-	538

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenditure
Secretary of State for Energy Policy	181	618	1,757	30	700	3,287
Office of the Secretary of State	60	32	-	-	-	92
National Directorate of Administration and Finance	54	136	-	30	700	921
National Directorate of Alternative Energy Research and Policies	21	123	30	-	-	174
National Directorate for the Coordination of Renewable Energy Activities	46	22	486	-	-	554
Task Force for the Installation of Solar Panels	-	305	1,241	-	-	1,546
Secretary of State for Professional Training and Employment	926	550	20,697	82	-	22,255
Office of the Secretary of State	65	69	-	-	-	134
National Directorate of Administration and Finance	99	50	-	41	-	190
National Directorate of Professional Training	41	20	-	-	-	61
National Directorate of Employment	74	73	20,697	-	-	20,844
National Directorate of Labour Relations	75	26	-	-	-	101
Secretariat of Support to the National Labour Council	45	22	-	-	-	67
Legal Advisory Office	14	-	-	-	-	14
National Institute of Labour Development	15	8	-	-	-	23
Employment and Professional Training Fund Office	10	9	-	-	-	19
Attaché in South Korea	90	22	-	2	-	114
SENAI Training Centre	55	27	-	-	-	82
National Directorate of Procurement of SEFOPE	13	9	-	-	-	22
Directorate-General of SEFOPE	134	150	-	34	-	318
Office of Inspectorate-General of Labour	73	42	-	5	-	120
National Directorate of Labour Condition	39	5	-	-	-	44
National Directorate of Prevention of Professional Risk	28	6	-	-	-	34

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenditure
National Directorate of Placement, Employment and Unemployment Protection	28	6	-	-	-	34
National Directorate of Security and Social Protection	28	6	-	-	-	34
Secretary of State for the Promotion of Equality	274	944	100	60	-	1,378
Office of the Secretary of State	65	219	-	-	-	285
Office of the Director-General	27	209	-	6	-	242
Directorate of Administration, Logistics and Finance	78	259	100	51	-	488
Directorate of Gender Policy and Development	103	257	-	4	-	364
Ministry of Defence and Security	23,073	26,876	1,980	8,535	3,618	64,082
Minister of Defence and Security	52	1,912	1,980	5,002	-	8,946
Office of the Minister	52	1,912	1,980	5,002	-	8,946
Office of the Secretary of State for Defence	297	621	-	330	915	2,163
Office of the Secretary of State	57	343	-	330	-	730
National Directorate of Administration and Finance	51	106	-	-	915	1,072
National Directorate of Planning and International Exchange	59	2	-	-	-	61
National Directorate of Procurement	38	13	-	-	-	51
National Directorate of Legacy	25	128	-	-	-	153
Office of the Director-General	13	2	-	-	-	15
Inspectorate and Audit Office	20	5	-	-	-	25
National Defence Institute	34	23	-	-	-	57
FALINTIL-Defence Forces of Timor-Leste	6,988	14,362	-	2,527	2,703	26,580
FALINTIL-Defence Forces of Timor-Leste	-	13,054	-	2,527	2,703	18,284
F-FDTL Headquarters	6,988	1,308	-	0	0	8,296

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenditure
Secretary of State for Security	3,267	2,798	-	394	-	6,459
Office of the Secretary of State	65	66	-	0	0	131
Office of the Director-General	33	33	-	0	0	66
National Directorate of Finance	58	24	-	0	0	82
National Directorate of Civil Protection	1,150	514	-	307	0	1,970
National Directorate of Public Building Security	1,601	668	-	-	0	2,269
Inspectorate and Audit Office	45	19	-	-	0	64
National Directorate of Administration	86	828	-	-	0	914
National Directorate of Community Conflict Prevention	79	64	-	-	0	143
National Directorate of Procurement	83	46	-	-	0	129
Civil Migration Services	68	537	-	88	0	693
National Police of Timor-Leste	12,469	7,183	-	282	-	19,934
PNTL-National Directorate of Administration and Finance	1,542	1,283	-	85	0	2,910
PNTL-Special Police Unit	1,585	1,133	-	161	0	2,879
PNTL-Migration Services	319	-	-	-	0	319
PNTL-Border Patrol Unit	1,012	656	-	5	0	1,673
PNTL-Maritime Unit	237	763	-	12	0	1,012
PNTL-National Operational Command	919	910	-	1	0	1,830
PNTL-Police Training Centre	355	755	-	19	0	1,129
Region I	2,640	779	-	0	0	3,419
Region II	1,914	413	-	0	0	2,327
Region III	1,538	386	-	0	0	1,924
Special Region of Oecussi	407	105	-	0	0	512

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenditure
Ministry of Foreign Affairs	7,965	11,650	2,000	463	-	22,078
Office of the Minister	-	309	1,500	0	0	1,809
Head Office of the MFA	7,965	3,899	500	358	0	12,722
Dollar Depreciation	-	845	-	37	0	882
Celebration of National Days	-	550	-	-	0	550
Office of the Vice Minister	-	64	-	0	0	64
Permanent Mission in New York	-	377	-	0	0	377
Embassy – Lisbon	-	180	-	0	0	180
Embassy – Jakarta	-	187	-	0	0	187
Embassy – Washington	-	353	-	0	0	353
Embassy – Canberra	-	264	-	0	0	264
Embassy – Kuala Lumpur	-	135	-	0	0	135
Embassy – Brussels	-	272	-	0	0	272
Embassy – Bangkok	-	124	-	0	0	124
Embassy – Tokyo	-	394	-	0	0	394
Embassy – Beijing	-	220	-	0	0	220
Embassy – Maputo	-	145	-	0	0	145
Consulate – Sidney	-	216	-	0	0	216
Consulate – Denpasar	-	139	-	0	0	139
Consulate – Kupang	-	49	-	0	0	49
Independence Memorial Hall	-	185	-	0	0	185
Land Border Demarcation	-	451	-	0	0	451
Embassy – Havana	-	141	-	0	0	141

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenditure
Embassy – Manila	-	109	-	0	0	109
Embassy – Geneva	-	261	-	0	0	261
Official Travels	-	175	-	0	0	175
Embassy – Vatican	-	216	-	0	0	216
Embassy – Brasilia	-	204	-	0	0	204
Embassy – Seoul	-	190	-	0	0	190
Embassy – CPLP/UNESCO	-	127	-	0	0	127
Embassy – Pretoria	-	148	-	0	0	148
Embassy – Luanda	-	272	-	0	0	272
Consulate – Manchester	-	102	-	0	0	102
Embassy – Singapore	-	302	-	0	0	302
Embassy - Vietnam	-	45	-	68	0	113
Ministry of Finance	3,345	9,925	-	1,512	919	15,700
Offices of the Minister and of the Vice Minister	201	-	-	-	-	201
Directorate-General of Corporate Services	639	9,925	-	1,512	919	12,994
Directorate-General of State Finance	1,162	-	-	-	-	1,162
Directorate-General of Revenues and Customs	978	-	-	-	-	978
Directorate-General of Policy Analysis and Research	365	-	-	-	-	365
Whole of Government Appropriations	2,050	30,826	5,558	5,393	3,168	46,995
WGA-Counterpart Funds	-	2,204	-	0	0	2,204
WGA-External Audit	-	2,000	-	0	0	2,000
WGA-Retroactive Funding	2,000	208	-	0	0	2,208
WGA-Contingency Reserve	-	21,206	-	0	0	21,206

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenditure
WGA-Membership Fees in International Institutions	-	1,000	-	0	0	1,000
WGA-Pensions for Former Holders	-	-	5,358	0	425	5,783
Construction of Integrated Posts	-	-	-	5,393	2,743	8,136
New Public Body for Implementing CAVR Recommendations	50	208	-	0	-	258
Contribution Fund for Social Institutions	-	-	200	0	-	200
Provision for g7+	-	1,000	-	0	-	1,000
Provision for Telecommunications Liberalization	-	3,000	-	0	-	3,000
Ministry of Justice	2,885	7,355	-	188	1,442	11,870
Office of the Minister	73	26	-	0	-	99
Office of the Director-General	20	16	-	1	-	37
National Directorate of Administration and Finance	229	357	-	20	1,442	2,048
National Directorate of Legal Advisory and Legislation	94	71	-	5	-	170
National Directorate of Human Rights and Citizenship	90	54	-	5	-	149
National Directorate of Registry and Notary Services	430	1,078	-	36	-	1,544
National Directorate of Prison Services and Social Reinsertion	702	996	-	7	-	1,705
Legal Training Centre	78	80	-	16	-	174
Public Defence	549	74	-	10	-	633
National Directorate of Lands, Properties and Mapping Services	498	4,258	-	37	-	4,793
National Commission of Children Rights	23	107	-	8	-	138
Inspectorate and Audit Office	36	59	-	13	-	108
Office of the Vice Minister	63	17	-	-	-	80
Police Directorate of Criminal Investigation	-	162	-	30	-	192
Ministry of Health Including Autonomous Agencies	16,133	19,314	9,064	3,812	-	48,323

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenditure
Ministry of Health Excluding Autonomous Agencies	15,856	13,835	9,064	3,812	-	42,567
Office of the Minister	69	268	-	0	-	337
Office of the Vice Minister	62	151	-	0	-	213
National Laboratory	260	142	-	0	-	402
National Hospital Guido Valadares	2,419	1,768	-	0	-	4,187
Reference Hospital of Baucau	907	945	-	0	-	1,852
Reference Hospital of Maliana	526	546	-	0	-	1,072
Reference Hospital of Maubisse	365	538	-	0	-	903
Reference Hospital of Oecussi	430	499	-	0	-	929
Reference Hospital of Suai	458	516	-	0	-	974
District Health Services of Aileu	496	108	-	0	-	604
District Health Services of Ainaro	491	156	-	0	-	647
District Health Services of Baucau	815	123	-	0	-	938
District Health Services of Bobonaro	636	103	-	0	-	739
District Health Services of Covalima	644	115	-	0	-	759
District Health Services of Dili	967	147	-	0	-	1,114
District Health Services of Ermera	730	170	-	0	-	900
District Health Services of Lautém	731	164	-	0	-	895
District Health Services of Liquiçá	489	128	-	0	-	617
District Health Services of Manatuto	768	193	-	0	-	961
District Health Services of Manufahi	592	174	-	0	-	766
Health Science Institute	293	171	-	0	-	464
District Health Services of Oecussi	494	112	-	0	-	606

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenditure
District Health Services of Viqueque	863	143	-	0	-	1,006
Office of the Director-General	220	228	-	0	-	448
National Directorate of Planning and Finance	141	2,336	4,006	2,601	-	9,084
National Directorate of Community Health	321	2,595	838	-	-	3,754
National Directorate of Human Resources	169	193	4,100	-	-	4,462
National Directorate of Hospital Services	187	222	120	-	-	529
National Directorate of Administration, Logistics and Procurement	206	814	-	1,211	-	2,231
Office of Inspectorate, Verification and Audit	108	67	-	0	-	175
SAMES (Self-Funded Agency)	277	5,479	-	0	-	5,756
Ministry of Education and Culture	51,832	36,725	-	6,216	-	94,773
Office of the Minister	70	142	-	0	-	212
Office of the Vice Minister	60	104	-	0	-	164
Office of the Inspector-General	126	193	-	0	-	319
National Directorate of Finance and Logistics	279	3,463	-	2,117	-	5,859
National Directorate of Planning, Statistics and IT	189	123	-	-	-	312
Legal Office	47	150	-	-	-	197
National Directorate of Recurrent Education	216	2,723	-	-	-	2,939
National Institute for the Training of Teachers and Education Professionals (INFORDOPE)	448	4,151	-	209	-	4,808
Protocol and Media Office	104	301	-	235	-	640
National Directorate of School Curriculum and Evaluation	86	7,401	-	0	-	7,487
Regional Directorate -I	219	71	-	0	-	290
Regional Directorate -II	223	60	-	0	-	283

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenditure
Regional Directorate -III	165	62	-	0	-	227
Regional Directorate -IV	208	59	-	0	-	267
Directorate of the Region of Oecussi	165	71	-	0	-	236
National Directorate of Human Resources	217	67	-	0	-	284
Directorate-General of Corporate Services	56	98	-	0	-	154
Directorate-General of School Administration, Innovation and Curricular Development	77	30	-	0	-	107
Directorate-General of Higher Education	46	26	-	0	-	72
National Directorate of Procurement	53	30	-	0	-	83
National Directorate of University Higher Education	78	855	-	0	-	933
National Directorate of Technical Higher Education	59	64	-	0	-	123
National Directorate of Science and Technology Development	54	19	-	0	-	73
National Directorate of School Social Action	160	8,044	-	0	-	8,204
National Directorate of Pre-School Education	71	86	-	500	-	657
National Directorate of Basic Education	40,416	2,927	-	0	-	43,343
National Directorate of General Secondary Education	77	216	-	35	-	328
National Directorate of Technical and Vocational Secondary Education	71	266	-	2,250	-	2,587
National Agency for Academic Assessment and Accreditation (ANAAAA)	-	229	-	4	-	233
District Education Services of Dili	76	24	-	-	-	100
District Education Services of Baucau	72	29	-	0	-	101
District Education Services of Aileu	66	27	-	0	-	93
District Education Services of Alnaro	60	28	-	0	-	88
District Education Services of Bobonaro	76	33	-	0	-	109
District Education Services of Ermera	66	33	-	0	-	99

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenditure
District Education Services of Lautém	66	34	-	0	-	100
District Education Services of Liqueia	64	23	-	0	-	87
District Education Services of Manatuto	66	33	-	0	-	99
District Education Services of Manufahi	60	29	-	0	-	89
District Education Services of Covalima	70	31	-	0	-	101
District Education Services of Viqueque	60	29	-	0	-	89
National Directorate of Museums and Library	100	253	-	0	-	353
National Directorate of Cultural Legacy	95	61	-	0	-	156
National Directorate of Arts, Culture and Creative and Cultural Industries	69	257	-	0	-	326
Office of the Secretary of State for Culture	62	82	-	0	-	144
Directorate-General of Culture	47	132	-	99	-	278
National University of Timor Lorosae	6,617	3,556	-	767	-	10,940
Ministry of State Administration and Territorial Planning	3,678	19,799	11,509	2,496	37,091	74,572
Office of the Minister	76	36	-	0	-	111
National Printer House	84	74	-	0	-	158
National Archive	74	72	-	0	-	146
National Institute of Public Administration	157	76	-	0	-	233
Technical Secretariat of Electoral Administration	366	61	-	0	-	427
Elections of 2012	-	8,000	-	0	-	8,000
Office of the Secretary of State for Administrative Reform	62	66	-	0	-	128
National Directorate of Local Development and Territorial Planning	227	412	-	0	-	639
Local Development Program	-	135	6,383	0	-	6,517
Decentralized Development Package I	-	-	-	0	34,386	34,386

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenditure
Office of the Secretary of State for the Special Region of Oecussi	82	96	-	0	-	178
Office of the Director-General	32	19	-	0	-	51
National Directorate of Administration and Finance	219	8,767	-	2,496	2,705	14,187
National Directorate of Planning, Assessment and External Cooperation	16	36	-	0	-	52
National Directorate of Local Administration	97	111	-	0	-	208
District Administration of Manufahi	91	62	327	0	-	481
District Administration of Viqueque	113	67	467	0	-	647
District Administration of Lautém	100	67	373	0	-	540
District Administration of Manatuto	118	71	287	0	-	475
District Administration of Covalima	143	75	345	0	-	563
District Administration of Ainaro	97	62	270	0	-	430
District Administration of Aileu	87	62	337	0	-	485
District Administration of Ermera	106	112	619	0	-	837
District Administration of Liquiçá	73	54	287	0	-	413
Office of Inspector-General	78	53	-	0	-	131
District Administration of Díli	806	814	447	0	-	2,067
District Administration of Bobonaro	117	71	518	0	-	706
District Administration of Baucau	123	111	669	0	-	903
District Administration of Oecussi	87	62	179	0	-	328
National Directorate of Support to Suco Administration	49	95	-	0	-	145
Ministry of Economy and Development	1,711	3,970	3,701	633	-	10,015
Office of the Minister	82	172	-	0	-	254
Inspectorate and Audit Office	40	99	-	0	-	139

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenditure
Institute for Supporting Business Development	375	390	300	144	-	1,209
Institute for Promoting Investment and Exports	10	425	121	19	-	575
Office of the Vice Minister	66	87	-	-	-	153
National Directorate of Research and Planning for National Development	65	256	-	11	-	332
Office of Secretary of State for Environment	65	68	-	-	-	133
National Directorate of Environment	243	277	50	81	-	651
National Directorate for International Environment Issues	50	127	-	20	-	197
Office of Secretary of State for Rural Development and Cooperatives	62	40	-	-	-	102
National Directorate of Rural Development	306	284	250	120	-	960
National Directorate of Cooperatives	141	349	250	48	-	788
Office of the Director-General	35	84	-	118	-	237
National Directorate of Corporate Services	22	62	-	10	-	94
Office for Gender Equality	26	67	30	8	-	131
National Directorate of Administration and Finance	106	1,137	2,700	43	-	3,986
Department of Procurement	17	46	-	11	-	74
Ministry of Social Solidarity	1,727	3,226	120,687	554	1,792	127,986
Office of the Minister	77	61	-	0	-	138
Inspectorate and Internal Audit	19	79	-	5	-	103
Office of the Director-General	42	94	-	12	-	148
National Directorate of Administration and Finance	468	1,158	-	102	1,792	3,520
Office of Secretary of State for Former National Liberation Combatants	62	55	-	-	-	117
National Directorate of Former National Liberation Combatants	324	264	79,816	13	-	80,417
Office of Secretary of State for Social Assistance and Natural Disasters	61	55	-	-	-	116

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenditure
National Directorate of Social Assistance	133	523	884	265	-	1,805
National Directorate of Social Reinsertion	233	380	2,970	24	-	3,607
National Directorate of Disasters Management	134	389	1,400	100	-	2,023
Secretary of State of Social Security	61	55	-	-	-	116
National Directorate of Social Security	113	113	35,617	33	-	35,876
Ministry of Infrastructure Including Autonomous Agencies	5,963	115,365	100	4,699	29,352	155,479
Ministry of Infrastructure Excluding Autonomous Agencies	3,570	7,060	100	699	29,352	40,781
Office of the Minister	62	37	-	0	-	99
Office of the Director-General	16	21	-	0	-	37
Communications Regulatory Authority	67	61	-	0	-	128
Directorate of Maritime Transport Services	53	95	-	0	-	148
Directorate of Meteorology and Geophysics	47	39	-	0	-	86
National Directorate of IT	103	88	-	0	-	191
National Directorate of Land Transports	282	406	-	0	-	688
National Directorate of Timor-Leste's Post Office	86	317	-	0	-	403
Civil Aviation Authority of Timor-Leste	47	172	-	0	-	219
Airport and Air Navigation Administration of Timor-Leste (Self-Funded Agency)	258	246	-	0	-	504
Port Authority of Timor-Leste (Self-Funded Agency)	151	142	-	0	-	293
Equipment Management Public Institute (Self-Funded Agency)	984	1,873	-	0	-	2,857
Berlin – Nakroma Operations	-	1,957	-	0	-	1,957
Office of Secretary of State for Electricity, Water and Urbanization	58	21	-	0	-	79
Office of Director-General	4	14	-	0	-	18

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenditure
National Directorate of Water Services	748	1,804	100	0	600	3,252
Electricity of Timor-Leste EDTL (Self-Funded Agency)	1,000	104,087	-	4000	-	109,087
EDTL Officers for Monitoring the Power Plant Project	420	-	-	0	-	420
National Directorate of Water Quality Control	107	47	-	0	-	154
National Directorate of Basic Sanitation	96	34	-	0	-	130
Office of the Secretary of State for Public Works	61	47	-	0	-	108
Office of the Director-General	21	34	-	0	-	55
National Directorate of Buildings, Housing and Urban Planning	229	136	-	0	-	365
National Directorate of Research and Development	86	137	-	0	-	223
National Directorate of Roads, Bridges and Flood Control	544	355	-	0	25,675	26,574
National Directorate of Housing and Urban Planning	67	58	-	0	-	125
Office of the Vice Minister of Infrastructure	62	42	-	0	-	104
Office of Directorate-General of Corporate Services	24	2,367	-	623	-	3,014
National Directorate of General Administration	60	263	-	-	-	323
National Directorate of Budget and Finance	105	339	-	76	3,077	3,597
National Directorate of Procurement	42	68	-	-	-	110
National Directorate of Planning	73	58	-	0	-	131
Ministry of Tourism, Trade and Industry	1,365	14,784	1,950	481	314	18,894
Office of the Minister	68	272	-	0	-	340
Internal Audit Office	38	46	-	0	-	84
Directorate-General of Corporate Services	77	93	-	0	-	170
National Directorate of Administration of Human and Material Resources	38	95	-	0	-	133
National Directorate of Procurement and Logistics	53	69	-	363	-	485

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenditure
National Directorate of Management and Finance	64	766	400	-	314	1,544
National Directorate of Research and Development	66	89	-	-	-	155
National Directorate of Foreign Trade	340	210	-	-	-	550
National Directorate of Internal Trade	78	2,456	-	-	-	2,534
National Directorate of Industry	59	89	400	-	-	548
Food and Economy Inspectorate	98	477	-	100	-	675
Inspectorate-General of Lotteries	63	174	-	-	-	237
Directorate-General of Trade and Industry	27	20	-	-	-	47
National Directorate of Manufacturing Industry	65	98	-	-	-	163
National Directorate of Tourism	25	180	-	-	-	205
Directorate-General of Tourism	27	16	-	-	-	43
National Directorate of Planning and Tourism Development	60	50	-	-	-	110
National Directorate of Projects, Activities and Tourism Products	37	387	1,150	-	-	1,574
Food Security Fund	68	9,097	-	18	-	9,183
Legal Office	14	102	-	0	-	116
Ministry of Agriculture and Fisheries	5,365	6,205	524	577	3,515	16,186
Office of the Minister	70	29	-	0	-	99
Legal Office	15	9	-	0	-	24
Inspectorate and Audit	21	14	-	0	-	35
Protocol and Media Office	16	9	-	0	-	25
National Directorate of Administration and Finance	294	348	-	51	3,515	4,208
National Directorate of Research and Special Services	221	81	-	-	-	302
National Directorate of Quarantine and Biosecurity	195	97	-	113	-	405
National Directorate of Agriculture Technical Training	346	164	-	37	-	547
National Directorate of Policy and Planning	103	74	-	2	-	179

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenditure
Office of the Director-General	25	15	-	-	-	40
Office of the Secretary of State for Agriculture and Arboriculture	60	22	-	-	-	82
National Directorate of Agriculture and Horticulture	528	1,767	-	30	-	2,325
National Directorate of Plants, Industry and Agribusiness	118	203	-	-	-	321
National Directorate of Forestry	273	238	16	15	-	542
National Directorate of Irrigation and Water Use Management	148	316	-	-	-	464
Office of the Secretary of State for Fisheries	60	14	-	-	-	74
National Directorate of Fisheries and Agriculture	305	187	-	146	-	638
Office of the Secretary of State for Livestock	58	22	-	-	-	80
National Directorate of Livestock and Veterinary Services	279	493	-	163	-	935
National Directorate of Support to Agriculture Commercial Development	126	185	508	20	-	839
Agriculture Services in the District of Aileu	108	72	-	-	-	180
Agriculture Services in the District of Ainaro	139	117	-	-	-	256
Agriculture Services in the District of Baucau	228	273	-	-	-	501
Agriculture Services in the District of Bobonaro	221	248	-	-	-	469
Agriculture Services in the District of Covalima	190	253	-	-	-	443
Agriculture Services in the District of Ermera	151	74	-	-	-	225
Agriculture Services in the District of Liquiçá	136	45	-	-	-	181
Agriculture Services in the District of Lautém	188	89	-	-	-	277
Agriculture Services in the District of Manatuto	162	179	-	-	-	341
Agriculture Services in the District of Manufahi	179	200	-	-	-	379
Agriculture Services in the District of Oecussi	205	184	-	0	-	389
Agriculture Services in the District of Viqueque	197	184	-	0	-	381
Courts	875	1,809	-	106	-	2,789
Superior Council of the Judiciary	13	10	-	0	-	23

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenditure
Court of Appeal	700	1,584	-	77	-	2,361
District Courts	163	215	-	29	-	406
Office of the Prosecutor-General of the Republic	1,155	1,097	-	486	1,553	4,291
Office of the Prosecutor-General of the Republic	818	1,058	-	486	1,553	3,915
District Prosecution of Baucau	137	18	-	0	-	155
District Prosecution of Suai	101	11	-	0	-	112
District Prosecution of Oecussi	99	10	-	0	-	109
Office of the Provider for Human Rights and Justice	495	675	-	79	-	1,249
Office of the Provider for Human Rights	495	675	-	79	-	1,249
Public Radio and Television Broadcasting Service of Timor-Leste	632	2,208	-	487	-	3,327
Directorate of Information	214	230	-	-	-	444
Administration and Finance	104	1,682	-	3	-	1,789
Directorate of Programming at RTTL (Public Company)	145	204	-	4	-	353
Directorate of Technical Support at RTTL (Public Company)	170	92	-	480	-	742
National Elections Commission	529	2,218	3,000	101	-	5,848
National Elections Commission	529	2,218	3,000	101	-	5,848
Anti-Corruption Commission	470	824	-	148	-	1,442
Anti-Corruption Commission	470	824	-	148	-	1,442
Civil Service Commission	402	1,333	-	570	-	2,305
Civil Service Commission	402	1,333	-	570	-	2,305

Attachment III

**Autonomous Funds partly funded from own revenues within the 2012 State General
Budget for the Democratic Republic of Timor-Leste
(US\$'000)**

	Expenses	Own Revenues	Government Subsidy
Electricity of Timor-Leste			
Salaries and Wages	1,000		
Goods and Services	104,087		
Minor Capital	4,000		
Capital Development	0		
Total	109,087	16,080	93,007
ANATL			
Salaries and Wages	258		
Goods and Services	246		
Minor Capital	0		
Capital Development	0		
Total	504	1,350	-846
APORTIL (Including Berlim-Nakroma)			
Salaries and Wages	151		
Goods and Services	2,099		
Minor Capital	0		
Capital Development	0		
Total	2,250	3,390	-1,140
IGE			
Salaries and Wages	984		
Goods and Services	1,873		
Minor Capital	0		
Capital Development	0		
Total	2,857	110	2,747
SAMES			
Salaries and Wages	277		
Goods and Services	5,479		
Minor Capital	0		
Capital Development	0		
Total	5,756	0	5,756
Total Self-Funded Agencies	120,454	20,930	99,524

Attachment IV – Budget Appropriations for 2012 (\$'000) – Infrastructure Fund

Programmes	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses	Own Revenues	Appropriations
Total Including Loans	-	-	-	-	800,261	800,261	-	800,261
Total Excluding Loans	-	-	-	-	757,161	757,161	-	757,161
Agriculture	-	-	-	-	9,384	9,384	-	-
Irrigation	-	-	-	-	9,384	9,384	-	-
Water and Sanitation	-	-	-	-	13,500	13,500	-	-
Urban and Rural Development	-	-	-	-	6,913	6,913	-	-
Public Buildings	-	-	-	-	39,200	39,200	-	-
Education	-	-	-	-	11,171	11,171	-	-
Schools	-	-	-	-	11,171	11,171	-	-
Electrical Energy	-	-	-	-	282,000	282,000	-	-
IT Equipment	-	-	-	-	7,100	7,100	-	-
MDG	-	-	-	-	75,000	75,000	-	-
Water and Sanitation	-	-	-	-	20,420	20,420	-	-
Housing	-	-	-	-	54,580	54,580	-	-
Health	-	-	-	-	3,352	3,352	-	-
Hospitals / Clinics	-	-	-	-	3,352	3,352	-	-

Programmes	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses	Own Revenues	Appropriations
Security and Defence	-	-	-	-	9,130	9,130	-	-
Social Solidarity	-	-	-	-	1,250	1,250	-	-
Monuments	-	-	-	-	1,250	1,250	-	-
Tasi Mane	-	-	-	-	162,800	162,800	-	-
Airports	-	-	-	-	10,000	10,000	-	-
Roads and Bridges	-	-	-	-	45,220	45,220	-	-
Oil and Gas	-	-	-	-	107,580	107,580	-	-
Transports	-	-	-	-	136,361	136,361	-	-
Airports	-	-	-	-	9,386	9,386	-	-
Roads and Bridges	-	-	-	-	115,550	115,550	-	-
Ports	-	-	-	-	11,425	11,425	-	-
Loans	-	-	-	-	43,100	43,100	-	-

Attachment IV-A – Budget Appropriations for 2012 (\$'000) – Expenditure funded through public borrowing

Programmes	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses	Own Revenues	Appropriations
Total	-	-	-	-	43,100	43,100	-	43,100
Transports	-	-	-	-	23,100	23,100	-	-
Roads	-	-	-	-	23,100	23,100	-	-
Water and Sanitation	-	-	-	-	20,000	20,000	-	-
Drainage	-	-	-	-	20,000	20,000	-	-

Attachment V – Budget Appropriations for 2012 (\$'000) – Human Capital Development Fund

Programmes	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses	Own Revenues	Appropriations
Human Capital Development Fund	-	30,000	-	-	-	30,000	-	30,000
Professional Training	-	10,033	-	-	-	10,033	-	-
Technical Training	-	1,033	-	-	-	1,033	-	-
Scholarships	-	11,874	-	-	-	11,874	-	-
Other Types of Training	-	7,060	-	-	-	7,060	-	-

Annex 2 – Transfer from Petroleum Fund

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

Dear Prime Minister,

SUBJECT: REQUIREMENT FOR TRANSFERS FROM PETROLEUM FUND

This report is provided in accordance with Article 8 a) and b) of the Petroleum Fund Law.
The Estimated Sustainable Income is calculated in accordance with provisions outlined in Schedule 1 of the Petroleum Fund Law.

Estimated Sustainable Income For Financial Year: 2012	Amount (USD) \$665.3 million
Estimated Sustainable Income For preceding Financial Year: 2011	Amount (USD) \$734 million

A review of the methodology which the ESI-calculations are based on is included in the Budget 2012.

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

Yours sincerely



Emilia Pires
Minister of Finance

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

Dear Prime Minister,

SUBJECT: REQUIREMENT FOR TRANSFERS FROM THE PETROLEUM FUND

This report is provided in accordance with Article 9 b) of the Petroleum Fund Law.


As required in Article 9 b) the table below shows the reduction of Estimated Sustainable Income for Fiscal Years commencing after 2012, as a result of the proposed transfer from the Petroleum Fund of an amount in excess of the Estimated Sustainable Income in 2012:

Fiscal Year	Estimated Sustainable Income Withdrawals in 2012	
	\$665.3 million	\$1,494.9 million
2013	669.5	644.2
2014	673.9	648.4
2015	678.2	652.5
2016	682.6	656.8
2017	687.0	661.0
2018	691.4	665.3
2019	695.9	669.6
2020	700.4	673.9
2021	704.9	678.2
2022	709.5	682.6
2023	714.0	687.0
2024	718.7	691.4
2025	723.3	695.9

According to Article 9 c) the Independent Auditor shall certify the estimates of reduction in the Sustainable Income. The certification report will be submitted to Parliament once it is available.

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

Yours sincerely



Emília Pires
Ministra das Finanças

To Your Excellency
President of National Parliament
Mr. Fernando Lasama de Araújo
National Parliament
Dili

Dili, 27 September 2011

Excellency,

Further to the submission of 2012 State General Budget Law Proposal to National Parliament for consideration and approval, I hereby present to Your Excellency the reasons underlying the Transfer of Funds from Petroleum Fund, considering that an amount of financing exceeding the Estimated Sustainable Income is necessary to enhance the growth of the national economy and thereby ensure compliance of sustainable development policies for the Country.

Therefore, and under the Article no. 9 of Petroleum Fund Law, the present letter comes to justify the need of these amounts to the long term interests of Timor-Leste and its citizens.

As Your Excellency is aware, over these last two years, we had the capacity to consolidate the state of the Nation when, in close cooperation with other Sovereign Bodies, we guaranteed a more peaceful and safe environment and made a larger public investment, from infrastructure to agriculture, health and education areas and also not forgetting investment in social justice.

Inspired by our difficulties but also by the experience of other fragile nations, which on average take about 10 to 15 years to restore stability, we boosted a strong investment on initiatives which have a direct impact on the life of the population, building the confidence and participation of the population in conflict resolution and in the consolidation of the Unit and National Stability.

“Good-bye Conflict, Welcome Development” has been and will continue to be our Nation’s motto and so this motto has been internalised by our people so that we become a model for all the post-conflict and fragile countries, as it is seen through the leadership of g7+. The g7+ includes 17 post-conflict countries, which represent around 350 million people.

Summarising, *it* was by taking advantage of institutional, political and legislative reforms and benefiting from the political and social stability which was achieved and made possible by focusing on sector investments that resulted in an unprecedented period of economic growth.

Your Excellency Mr. President of National Parliament, Timor-Leste still has motives to be pleased by the way we are managing the natural resources. Our Petroleum Fund has been monitoring and gaining oil revenues with transparency and efficiency.

Currently, the Petroleum Fund has a balance of nearly \$8.3 billion, becoming the first country in Asia and the third in World to proceed according to the Extractive Industries Transparency Initiative. This international recognition allowed us to be elected to a second Mandate as an International Council Member of EITI.

To the Government, transparency is one of the essential points of the Timor-Leste management reform. We know that without the implementation of strong principles of good governance we cannot expect a dynamic participation of civil society and private sector in the construction of our economy and the construction of our State.

Thereby over these last four years, the Government of Timor-Leste is reinforcing the institutional capacity of the Public Administration with the aim to defend the best interest of the State, improve the quality of the public service and, obviously, promote good governance.

Ours reforms in Public Finance Management are already well-known by the Distinguished Members of Parliament. Also the creation of the Civil Service Commission, Anti-Corruption Commission and the process of implementation of a Control Superior Institute, our Chamber of Auditors, as an organisation which promotes transparency and accountability in public accounting, are strong indicators of our commitment to guarantee good governance.

To ensure the highest level of transparency and public participation, we conducted several debates, as a preparation to the State General Budget, about Public Administration and Financial Management that were televised directly to the public of Timor-Leste on television.

Already this year we launched the Transparency Portal and the eProcurement Portal allowing access to daily updated data concerning the State General Budget process and its fiscal execution, as well as public consultation on all public projects announced, enabling competitive tendering on a global level, giving specific deadlines to determine if payments are promptly executed and at the same time making it possible to know the results of the contracts.

Considering these developments, we are able to move the Country forward towards development. 2012 State General Budget will be the first budget made to reflect the development aims embodied in the Strategic Development Plan. This Plan is a product of the collective aspirations of our people; aspirations through an extended public consultation held in 65 sub-districts, including villages and sucos of the nation.

Strategic Development Plan, covering three crucial areas for national development: social capital, infrastructure and economic development, was also informed by accurate data to substantiate real progress and define required policies and programs. I refer to the results of Census 2010, which captured a real and objective portrayal of the population thereby ensuring the implementation of sustainable policies.

The methodology featured in Strategic Development Plan contains an integrated package of strategic policies to be implemented in the short term (one to five years), medium term (five to ten years) and in the long term (ten to twenty years), which will guide an inclusive, sustainable and long term development.

In this way, the Budget for 2012 and the transfer of funds from the Petroleum Fund enable the consolidation of what has been achieved in terms of national progress and at the same time positioning us in the next challenge for the Nation: transforming our country to a middle-high income country by 2030.

Therefore, in the next year we will continue to invest in the construction and maintenance of essential and productive infrastructures, bringing together our people and boosting our emerging industries, including an improvement in the quality of our roads and commercial ports, an improvement in water and sanitation and providing energy and a modern system of communication at affordable prices.

Access to electricity is a basic right and a pillar of our economic future. We continue to act in order to ensure that by 2015 all residents in Timor-Leste have access to a reliable supply of electricity 24 hours a day, through the investment already made in new power plants and better systems of transmission and distribution.

We will improve South Coast infrastructures to attract investment in the downstream petroleum sector. On the other side, and still investing in infrastructure, we will continue to implement and develop programmes that were a success in 2011, such as Decentralised Development Package and Local Development Program.

In 2012 these programmes will fund infrastructure development on a small scale, such as road construction, education facilities, water supply, public sanitation and irrigation systems.

Knowing that three quarters of our population live in rural areas, we will continue to invest in agriculture projects to increase productivity in this sector, which along with the PDD I and II and the PDL, will promote the creation of new jobs for youth and adults living in rural areas.

2012 State General Budget also estimates an investment to capitalise the Investment Company of Timor-Leste created by the Government. This Company promotes investment opportunities and national wealth growth, carrying out important strategic projects in the trade area. The creation of the TLIC seeks to assist the State of Timor-Leste to achieve a sustainable national economy through the transformation of Petroleum Fund wealth in to a non-oil economy and through an economic growth and diversification. Thereby the economy will no longer be dependent on oil and gas, but based on industry and services.

Considering that the infrastructure development is not by itself sufficient for a sustainable development of the Nation, we will continue to invest in training the national human resources through the appropriations estimated for 2012.

This training involves teachers on a large scale in order to increase their competence and professionalism, ensuring a better education in the medium and long term and also increasing the training in strategic sectors for the national growth, such as justice, health, infrastructure, agriculture, tourism and financial and petroleum management.

The development of national technical employees is crucial in this initial growth stage of the national economy, allowing a sustainable and competitive development in the context of regional development in which it is integrated.

Still in the context that investing in human resources is investing in the future, we will continue our public transfers program, including the subsidies payment for Former National Liberation Combatants, the elderly and vulnerable groups. Our government experience showed that these types of social stability and justice programmes have an invaluable and long term return for the Country.

For all mentioned above we can justify a withdrawal exceeding the 3% of the ESI considering that all policies and strategies featured in 2012 State General Budget are integrated and with a distinct aim: ensure a sustainable development for the Country in the long term.

Finally, the certified report of the independent auditor will be submitted to National Parliament as soon as it is available. Please find attached, under the Article 9 b), the table that shows the reduction of Estimated Sustainable Income for fiscal years commencing after 2012.

Yours sincerely,

José Luís Guterres

Acting Prime-Minister of the Democratic Republic of Timor-Leste



Ministry of Finance
Democratic Republic of Timor-Leste
Edifício No. 5, Res-do-Cao
Palacio do Governo, Dili, Timor-Leste

21 December 2011

For the attention of: Ms. Emilia Pires, Minister of Finance

Dear Minister

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

In accordance with Amendment #07, Contract No. RDTIL 83683 dated 27 October 2010 we have performed certain agreed upon-procedures solely for the purpose of providing a report to the Government of the Democratic Republic of Timor-Leste in accordance with Article 9 (c) of the Petroleum Fund Law 9/2005. Our engagement was performed in accordance with the International Standard on Related Services (ISRS) 4400 *Engagements to Perform Agreed-upon Procedures Regarding Financial Information*. This report should be read in conjunction with our contract which sets out the basis on which our work was performed.

Scope of work and statement of responsibility

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

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

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

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

Procedures and Findings

Procedures	Findings
<ol style="list-style-type: none"> 1. Obtain the underlying calculations which support the report of Government that is to be provided to Parliament pursuant to Article 9(b); 2. Agree the calculation methodology to the Estimated Sustainable Income calculation for the Fiscal Year Budget 2012 as previously obtained by Deloitte; 3. Obtain the value of the proposed Government transfer being an amount in excess of the Estimated Sustainable Income calculated by the Government for purposes of the Fiscal Year Budget 2012 and agree the value to the updated underlying calculation, which incorporates the proposed Government transfer; 4. Repetition of the calculation of the estimated reduction in the Estimated Sustainable Income for the Fiscal Years commencing 1 January 2012 that results from the proposed Government transfer from the Petroleum Fund in Fiscal Year 2011; 5. Provide a report to Government in accordance with Article 9(c) of the Petroleum Fund Law 9/2005. 	<ol style="list-style-type: none"> 1. The underlying calculations which support the report of Government to be provided to Parliament pursuant to Article 9(b) were obtained from the Ministry of Finance on 18 September 2011. 2. The calculation methodology was agreed to that of the Estimated Sustainable Income calculation used for the Fiscal Year Budget 2012 as previously obtained by Deloitte. 3. A Government transfer of US\$1,494.9 million was advised by the Ministry of Finance to Deloitte and is noted to exceed the Estimated Sustainable Income of US\$665.3 million as previously calculated by the Government for purposes of the Fiscal Year Budget 2012, by US\$829.6 million. The US\$1,494.9 million was incorporated into the updated underlying calculation. For the avoidance of doubt, the Ministry of Finance had initially advised Deloitte of a proposed transfer of US\$1,594.2, and which was subsequently revised to US\$1,494.9 million. 4. The calculation of the estimated reduction in the Estimated Sustainable Income for future Fiscal Years commencing 1 January 2012 was re-performed without exception. The estimated reduction in the Estimated Sustainable Income in each future year from 2012 to 2025 ranged from US\$25.3 million to US\$27.4 million over the period as set out in Appendix A. 5. Report herewith.

Yours faithfully

Heille Touche Tohmatsu

Deloitte Touche Tohmatsu

Projected future payments

Excess of the Estimated Sustainable Income in 2012:

Fiscal Year	Estimated Sustainable Income Withdrawals in 2012	
	\$665.3 million	\$1,494.9 million
2013	669.5	644.2
2014	673.9	648.4
2015	678.2	652.5
2016	682.6	656.8
2017	687.0	661.0
2018	691.4	665.3
2019	695.9	669.6
2020	700.4	673.9
2021	704.9	678.2
2022	709.5	682.6
2023	714.0	687.0
2024	718.7	691.4
2025	723.3	695.9

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



MINISTRY OF FINANCE

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