REPÚBLICA DEMOCRÁTICA DE TIMOR-LESTE

State Budget

2013

Budget Overview

Book 1

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

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 2013, promulgated by His Excellency President of the Republic, following the debate in the plenary session of the National Parliament.

The documentation for the General Budget of the State 2013 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
Bok 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 the Finance, www.mof.gov.tl. Inquiries relating to this publication should be directed to the National Director of Budget, Mr. Agostinho Castro on email acastro@mof.gov.tl or telephone +670 333 952.

I consider that this document will increase awareness and understanding of the Government's finances and help people to become good citizens and heroes to our nation by providing them with relevant information on the 2013 State Budget.

Emília Pires
Minister of Finance

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Ladies and Gentlemen,

It is a great privilege and honour to address Your Excellency, the Speaker of Parliament, and all the honourable Members of Parliament in this Great House, to present the 2013 State Budget.

Last September I had the opportunity of presenting here, at this Great House, the Program of the Fifth Constitutional Government. At that time I underlined the fact that today we have a vision, and a plan to implement, to transform Timor-Leste from the poor country it is today into an upper-middle income country by 2030, with a safe, healthy, educated and productive population.

In these ten years as an independent and sovereign State we have had setbacks, due to our situation as a post-conflict country. However, and more so than in other countries, the consistent political will shown by Timorese leaders, and the participation of all parts of our society, enabled us to overcome this post-conflict situation with courage and clarity.

In this decade-long process of State building (from scratch) and consolidating, we were aware that we were part of the LDC (Least Developed Countries) group.

There were long studies made by experts on how LDCs develop, within perspectives of sustainability and without losing sight of the Millennium Development Goals.

These theories and experiences by agencies that were familiar dealing with the entrenched poverty of others helped us to lead the dialogue of the g7+, which consists of 18 countries representing over 350 million people. We have insisted with the international community regarding the need to adopt new mechanisms to replace the old ones, which have been used for dozens of years and have proven to be completely ineffective.

The New Deal launched in Busan, South Korea, and debated in the hallways of the UN, basically reflects the need for developing countries to know their own (social, political and economic) reality, their weaknesses and their potential, so that they can own the process and choose the best path to steady and sound development, in order to ensure stability.

Another guiding principle of the Group is to take into account the macro principles and the universal micro doctrines, but only to guide annual and medium and long term policies. These policies must in turn reflect the current and actual needs of each country, so as to prevent governments from becoming too theoretical and too subjective in their action plans.

The macroeconomic theories have failed to solve the great global financial crisis. Today's world requires a more humane doctrine to free itself from the mathematic calculations of profits and money that defines the statistic GDP of nations, as an instrument for separating rich and poor, with the latter being subject to the speculations of the markets. These speculations and markets show that in the US and in the European Union, the rich and powerful transfer every year $1.7 trillion and $1.3 trillion respectively, to avoid paying taxes.

The world has already realised that the current system is not merely sick but rotten inside. The world has also realised that 99% of humanity is at the mercy of the rich and powerful, whose experts, working in their comfortable offices and earning huge salaries, draft doctrines to be followed by the poor.

Just in 2004, Timor-Leste signed the UN's global anti-poverty programme, known as the Millennium Development Goals. Despite the short time we had, we have achieved some small success (reducing child mortality, improving the fight against tuberculosis, etc.), better than some countries that have been independent for over half a century. Nevertheless, we keep our feet on the ground and do not forget that what we are achieving is very relative, since we are a small country with only 1 million people. We cannot compare ourselves with nations that already have very sound economies and where classic macroeconomic concepts (such as employment and unemployment, imports and exports, expenditure and revenues) would be easier to apply, even though they are not.

This is the current challenge of the modern and globalised world, in which the poor absorb or consume concepts and theories without realising that these concepts and theories only serve the large decision-making centres and the ones that have the money and keep the weak and the poor down with tricks and threats.

Your Excellencies,

While the Strategic Development Plan sets the rules for the next 20 years, the Fifth Constitutional Government presented its 5-year political program, setting the goals to be achieved by the end of its mandate. It is with particular satisfaction that I now present to the honourable members of Parliament the 2013 SGB, which responds to the program of the first year of our mandate.

I would like to remind the honourable members of Parliament and all the People that the 5-year plan is, in practice, the program for the first five years of the SDP.

This Government must necessarily look to the future, lest it become too busy with immediate day to day problems. The Government is aware that unless it adopts a broad vision or a Road Map to start and continue a steady and consistent development process we will lose ourselves in small reviews and become confused in our efforts.

A social and economic process, particularly at the start as is the case in Timor-Leste, is always complex requiring thorough review of priorities with medium term impact and of the connection between activities covered.

As such, national projects must take into account the goals they seek to achieve in the medium and long term. The policies to be developed must also be staged in consideration of impacts and benefits, which cannot be immediate, since the immediate is always temporary.

Consequently, the projects concerning the National Power Grid and Tasi Mane must also be seen as a whole, taking into consideration the impact and the benefits that they will stimulate and produce in the medium and long term.

The Government has adopted the idea of a new development benchmark. The fight against poverty is the eternal slogan of the international community, with the United Nations, the World Bank, the IMF and OECD being at the forefront of the fight against poverty. The results are plain to see, particularly in Africa. Billions and billions of dollars are invested and much of the world population continues to go without food, shelter, health, education or safety.

Some curious person found out that in Timor-Leste, between the end of 1999 and 2007, the international community invested over 8 billion dollars and yet we, the Timorese, were responsible when the number of poor people increased by 5% in 2007.

We Timorese must avoid following the trend of simple statistical and mathematical calculations regarding the outcome of our actions only to justify the investments we want to make. When millions of Americans fear to lose their homes because they cannot continue to pay their mortgages, when millions of Europeans cannot afford a single meal a day, do we say that they are poor or simply that they are unemployed? In Timor-Leste we have adopted the international standard that considers as poor someone who 'lives with under $1 every day'.

I ask these questions so that we do not lose sight of our reality and can look to the medium and long term.

The First Constitutional Government set the goal of 'Fighting poverty' as a 'National Cause', and we continue committed to eradicating poverty in our country.

The Program of the Fifth Constitutional Government, in line with the Strategic Development Plan, creates and promotes the Special Economic Zones. The Constitution of the RDTL grants special regimes to Oecussi and Ataúro, however it is necessary to carry out proper and thorough studies before both these territories may acquire their special status.

Timor-Leste has been the leading player in various international initiatives, at least in regard to the EITI (Extractive Industries Transparency Initiative), being the 3rd country in the world and the 1st in Asia to be granted full compliance status and having already provided support to several countries that want to become more familiar with our practice in order to replicate it. Timor-Leste is also leading the 'g7+'.

We Timorese will star in another initiative under the new development benchmark to try convincing the world that it is effective in the sustainable fight against poverty.

Making use of the legal and conceptual bases available to us, the Government has decided to start a Special Economic Zone pilot project in Oecussi, to be called, under the new benchmark, a 'Social and Market Special Economic Zone'.

Being a member of the CPLP and part of the Economic Forum of Macau, as well as close to entering ASEAN, which is debating the subjects of 'common market' and 'market chain', the Special Economic Zone of Oecussi should be a trade and industrial centre directed to the market but also with social concerns regarding the 'atoni' population and consequently the whole of Timor-Leste.

With the agreement of the President of the Republic, the Government has decided to appoint Dr Mari Alkatiri as the representative of the State in this initiative of studies, reviews and contacts with the CPLP countries and – why not? – the ASEAN and Pacific countries. This strategically relevant program will then be expanded to Ataúro and other parts of the country.

Your Excellencies,

The philosophy that guides this Government is the same that guided the Fourth Government. In other words, this Government has received the mission to continue implementing the successful programs and reforms. Continuity implies the ongoing correction of operating mechanisms and working systems, as well as the fine-tuning of methodologies and of administration and management.

The budget I present today to Parliament takes into consideration the macroeconomic policy goals and is the financial expression of what we want to do in the short term in order to eradicate poverty in Timor-Leste in the medium and long term.

This is a complex challenge requiring strong economic growth, better infrastructure and a skilled labour. Achieving these goals will require significant public investment.

The economic miracles in the 2nd half of the 20th century, many without the help of natural resources, show a consistent focus on public investment, in the creation of basic conditions for generating other types of wealth, in maintaining a double-digit growth rate and in dealing with a double-digit inflation rate. The question put to them when seeking proper solutions in each of their programs' period of implementation was how low it should be and how high it can be. However the real dilemma was whether they should stop development programs in order to focus on inflation or whether they should merely strive not to let inflation run wild while continuing with the development programs that were requiring significant public investment.

The 2013 Budget invests in new policies, based on the Program of the Fifth Government and on the Strategic Development Plan, while strengthening investment in policies started in previous years, which have led the country to greater stability, better management of State affairs and economic growth.

Timor-Leste has enormous wealth in natural resources, namely oil and gas. We all know that these resources are not renewable, which is why I have already stated before this Parliament that they must be used so that in a not so distant future we may have an economy that is not dependent on the petroleum sector.

Since the First Government we have made a commitment to the Timorese People to use the money from petroleum revenues in a sustainable manner, so as to protect future generations. That was why Parliament authorised the diversification of Petroleum Fund investments.

Financially, this means that there is a perspective that overall public spending will be reduced in the future. It also means that we must start immediately to limit the growth of current expenditure. This is a challenge for the entire public administration, and here we must bear in mind that our State agencies are also growing. This Government is committed to improving service delivery to the people and to correcting management irregularities, so as to achieve the budget stabilisation of current expenses.

Only by thinking of ‘building and consolidating’ can we generate domestic revenue for funding a larger percentage of State expenditure and attract investments in productive sectors in order to benefit the Timorese People.

The 2013 State Budget enables the achievement of this goal in a prudent manner.

The 2013 State Budget sets priorities properly.

The 2013 State Budget is a balanced budget.

Your Excellency

The President of Parliament

Your Excellencies

The Members of Parliament,

The debate on the 2013 SGB, which we are starting today, must take into account the successes and achievements of the previous Government’s policies and budgets.

As we turn the page on our first decade as an independent Nation, we must acknowledge that, despite the obstacles, we have managed to build a sound political and institutional architecture that has brought us social stability.

In 2013, Timor-Leste finds itself in a different and special situation. Last year we had two landmark moments in our experience as a sovereign Nation: we had presidential and parliamentary elections, strengthening the soundness of our democracy, and we witnessed the withdrawal of the United Nations Mission and of the International Stabilisation Force, confirming that we are ready to become the masters of our fate.

Our commitment to ensuring an atmosphere of peace and security has not been for nothing, since presently Timor-Leste is a promise of development.

Development progress can be measured in many ways. One way is through economic growth, which in our nation has been an average of 11.9% since 2007!

In the international press, the renowned Economist magazine recently stated that Timor-Leste was the sixth fastest growing economy in the world. This recognition fills us with confidence and resilience to meet the future ahead. The Economist does not say we are the world’s sixth largest economy, it merely says we are growing well and that we are doing so in a very difficult time for the entire world.

This economic growth means that there is greater economic activity in the country. It reflects the existence of an emerging private sector, the creation of more employment, the increase of commercial and tourist activities, greater production levels (including agricultural production) and a larger percentage of tax revenues to support State services. In short, it means generation of wealth.

Progress in development can also be measured by looking at health and education. Here Timor-Leste is also making strong progress. From 2010 to 2011 the total number of children enrolled increased by 5%, 8% and 17% in basic, general secondary and secondary technical education respectively. Child mortality rates have also seen a sharp decline from 83 to 64 per thousand live births between 2003 and 2009/2010. Life expectancy at birth has also increased from 59.5 in 2006 to 64.64 in 2011.

Your Excellencies

The Members of Parliament,

For the good of the future generations, it is up to us to use the available resources in a way that is balanced and responsible, but also ambitious. As such, the Fifth Constitutional Government has set very clear priorities for the country, and will continue to focus on four key aspects:

- Development of social capital, particularly investment in the capacity building of our human resources and in the education and health of the Timorese;
- Development of the basic infrastructure;
- Development of the economy, particularly agriculture, tourism and the petroleum industry;
- Consolidation of the institutional framework, continuing to promote good governance and starting the decentralisation process.

Economic growth may only be considered a favourable indicator of national development if it observes two fundamental principles: inclusiveness and equity.

This means that every Timorese citizen should, directly or indirectly, be able to experience the benefits and opportunities of this economic growth. It does not matter whether they are men or women, young or old, whether they live in Fatumean or Tutuala, Nítibe or Laklubar, Alas or Ataúro, or whether they are farmers, fishers, carpenters, traders or teachers.

Since the First Government we have been working to establish administrative decentralisation and to implement Local Power. In 2013 we will be creating the establishment framework for the municipalities. We will also be promoting a broad public consultation, to be started in April, so that we may choose together the model best suited to the needs of the Timorese. After this we will start creating the Municipal Installation Committees in each of the 13 districts.

The creation of the Municipalities will bring citizens and the public administration closer and, along with a more effective local democratic participation, will promote the supply of public services able to drive social and economic growth, nurture the development of the private sector in rural areas, ensure environmental sustainability and promote gender equality. Furthermore, it will enable us to mobilise more efficiently the collective effort for implementing the Strategic Development Plan.

The Local Development Program, the Suco Development Plan and the Decentralised Development Program (which started in 2010), have enabled local and district administrations to become familiar with systems and actions in terms of planning, management and execution of projects, making our country better prepared for this unique process of greater democratisation and development. There are still aspects to be corrected, however we now have greater confidence and certainty in terms of improving implementation.

Based on previous experiences, the District Integrated Development Plan (PDID) established a budget planning and implementation system at district and sub-district level, preparing the Districts before the creation of the Municipalities.

The Government will continue to improve the management of the two main funds – the Infrastructure Fund and the Human Capital Development Fund. These funds will receive special attention this year, since their impact is expected to cover the entire society. These two pillars are essential for a balanced and sustainable economic development project and are a source of opportunities for men and women of all ages throughout the country.

As such, the number of scholarships provided by this Fund will be increased. We awarded 3,256 scholarships in 2012 and this year we intend to continue awarding scholarships in areas that are very important for the development of the country. Nevertheless, in 2013 the Government wants to carry out a study in order to improve the application of the HCDF, including a plan on more specialised training in strategic areas to meet the needs the country will have in 7-15 years.

We will also be providing professional training to an average of 2,500 young people a year, ensuring that access to capacity building will be the same in the capital as it is in the Districts. In view of this, we will be acknowledging 20 new community professional training centres a year.

The supply of basic education and health services is a priority in 2013.

We will continue to build health posts in order to ensure that every Suco has access to essential care, giving particular attention to those located in remote areas. In the next few years we will also start to improve considerably the services of the National Hospital and to expand the care provided.

In the area of education, we are planning to build 250 new pre-schools and, as a priority, 5 new technical and vocational schools and 4 Polytechnic Institutes. There is a pressing need to build the capacity of young people in order to obtain professional employment without forcing everyone to go to higher education facilities in Dili. Therefore we will be giving young people alternatives to acquire know-how that will prepare them to find productive employment.

In 2013 we want to generate wealth by creating more employment. This will be done by investing in the economic sectors.

Poverty reduction is also closely connected with the direct improvement of the living situation of the Timorese. The 2013 SGB foresees that drinkable water systems will start to be installed in 25,000 rural households. Additionally, the MDG Sucos project will continue, building 55,000 houses in several community clusters throughout the country within the next few years.

The traditional economic sectors such as agriculture and fisheries will be nurtured in parallel with areas where Timor-Leste may become extremely competitive, such as tourism.

This year we are planning the construction of a Training Centre of Tourism and Hospitality and we will be establishing two new Tourist Information Centres, one in Batugade and the other in Dili. We will prepare, through an implementation unit, the establishment of the Academy of Arts, Culture and Creative Industries of Timor-Leste, complete one of six new Regional Cultural Centres and move forward with the establishment of the Library, Museum and Cultural Centre of Dili, for which land has already been allocated. We will also be continuing the work in terms of identifying the Timorese cultural legacy.

While the Government has a key role to play in making major investments in these essential areas, it is also a priority to strengthen the private sector so that it may take on a greater role in the development of Timor-Leste in the medium term. The inclusion of a Secretary of State for the Support and Promotion of the Private Sector in the Organic Structure of the Fifth Constitutional Government is both necessary and timely.

However, infrastructure must also respond to the needs of the country's economic characteristics, which requires a strong effort in terms of building the national roads. The Government is also focusing on the South Coast, building a set of refinery and petrochemical infrastructure as well as roads, so as to ensure that the economic potential of this cluster is not wasted.

The Government foresees that by the end of the mandate it will establish 7 Public-Private Partnerships that will contribute to the national development goals.

This year there are two Public-Private Partnership projects that will begin construction works: the expansion of Airport President Nicolau Lobato and the Tibar Port. The current Dili port can no longer deal with the flow of commodities and this has contributed to price increases in consumable goods, since in the present conditions it is inevitable to have mooring delays. For instance, a few weeks before Christmas we had 24 freighters in the Dili territorial waters and some of them are yet to unload their cargo.

Only by improving the country's administrative and financial management can we ensure good governance.

As such, the Government will focus its attention in assisting State agencies so that they become characterised by their effectiveness, transparency and accountability. The Secretary of State for Institutional Strengthening will implement a performance and verification audit in every line ministry, thereby promoting the operational capacity building of public administration.

The Ministry of Finance will also continue to promote training in the areas of procurement, contract management and legal and administrative procedures, as well as to report to the public the policy decisions of the Government, including in the areas of Budget, Assistance, Procurement and Outcomes, by way of the Transparency Portal.

The Government defends the ongoing correction of systems and processes and even policies that prove to be inefficient or weak. This implies permanent oversight, which is why we will establish a Commission to review the Government's policy and expenditure options and to suggest corrections.

The work of this Commission will include the drafting of spending reports and reviews, namely on the Infrastructure Fund, the Decentralised Development Programs I and II and other topics suggested by Parliament, in view of the long term sustainability of social policies and other economical impact studies.

The Government continues to be fully committed to good governance. Performance by State agencies in this area has been acknowledged by the Corruption Perceptions Index of Transparency International in 2012, with Timor-Leste climbing up 30 places in the ranking – a significant improvement that must not make us think that we can stop working hard in this area.

Your Excellencies

Ladies and Gentlemen,

The Government is aware that strong economic growth has been accompanied by high inflation. Year on year inflation in Timor-Leste peaked at 15.4% in December 2011 but then dropped and stabilised at around 11%.

We know that increases in prices of goods, particularly food, reduce the purchasing power of our citizens. We also recognise that high inflation increases the costs of materials and causes problems for businesses in Timor-Leste, affecting the quality of works in their relation with the profits to which businesses are entitled. We further recognise that inflation increases the costs of Goods and Services and Minor Capital acquired by the State.

It is for these reasons that the Government is seriously committed to reducing inflation. As such, we have been carefully recording, monitoring and analysing inflation.

Nevertheless, the causes of inflation are complex and vary over time. Due to the global recession and its effects so far, the American dollar has decreased in value compared to the currencies of our trading partners, such as Indonesia and Australia, which led to imports becoming more expensive. Increases in international food and commodity prices have also contributed to inflation in the past. These causes, along with the rise in the price of oil, either due to war or economic sanctions, are outside of the Government's control.

Another cause of inflation in Timor-Leste is the balance between the amount of money and goods produced. In our fledgling economy there must be a persistent and ongoing effort to produce goods in the country. There is no other magical solution.

As such, Timor-Leste needs to produce more. The current budget gives priority to agriculture. A greater (public and private) investment in agriculture, livestock and fisheries should contribute to a production increase in the short and medium term.

The Government proposes to facilitate the establishment of new companies by creating business incubators and a “one-stop shop” to simplify their registration and reduce the time necessary for establishing companies. This will also provide support to micro and small companies, cooperatives and industrial and commercial groups, in order to nurture employment creation and stimulate various productive sectors.

Increasing productivity, skilled labour and business competitiveness is the only way to support strong economic growth in the long term and to reduce and stabilise inflation. The Government will do everything it can to reduce inflation below 8%, in accordance with the priorities set in the 2013 State Budget.

Your Excellency

The President of Parliament

Your Excellencies

The Vice Presidents of Parliament

Your Excellencies

The Members of Parliament

Ladies and Gentlemen,

In 2013 we will be investing a total of $1,797.52 million to meet the needs of the country, giving priority to Infrastructures, Agriculture, Health and Education.

In comparison with the previous year, we have increased the investment in agriculture by 28%, in education by 12% and in health by 15%.

The 2013 State Budget is set to invest $892 million in development capital, including $753 million for large multi-year projects in the Infrastructure Fund.

The three largest programmes in the Infrastructure Fund are:

Power ($173.9 million)

In 2013 we will be finalising the works in Betano and thus completing the construction of the National Transmission and Distribution Grid. Improving power generation and supply should support strong economic growth in both micro and small companies in the districts and future medium and large industries.

One key error in these ten years of State building was the absence of a maintenance culture. In order to rectify this situation, we have allocated $10 million in the category of Goods and Services of the respective Ministry to ensure the operation and maintenance of the Hera Power Plant and of the substations. The increase in electricity production due to the completion of the Hera and Betano power plants will boost industry and require higher fuel consumption. To pay for this, we have allocated $117.8 million.

Roads ($116 million)

The Government is determined to build high quality roads throughout the country, in order to facilitate the transport of people and commodities and to reduce the costs of manufactured goods.

In addition to building the roads set out in the Infrastructure Fund, the Government is also building the Dili – Manatuto – Baucau road and the Dili – Liquiçá – Tibar – Ermera road. These works will be paid for by borrowing from JICA and the Asian Development Bank, respectively.

The Government will be investing around $44 million in this loan program to fund projects with high rates of economic return. The rate of interest on both of these loans is significantly lower than the estimated yield on Petroleum Fund investments. We, alongside financial agencies and other countries, are continuing to study the feasibility of other loans concerning major projects such as the Aileu – Ainaro – Maubisse road and the Manatuto – Natarbora road.

Tasi Mane ($139 million)

The creation of the National Company TIMOR GAP resulted in a boost for starting works in the South Coast, including on the petrochemical projects and the Supply Base. Just last February 1st a Memorandum of Understanding was signed between TIMOR GAP and Thailand's PTT.

Another $139 million included in the category of capital development of the Consolidated Fund for Timor-Leste will fund the development of small infrastructure, namely the construction of education and health facilities and of water supply, sanitation and irrigation systems, in accordance with local needs. These projects shall be awarded to Timorese construction companies, thereby nurturing local development and keeping profits in Timor-Leste.

The investment of $68.2 million, through the PDID, seeks to continue promoting the construction of infrastructure throughout the country, so as to meet the basic needs of the population in a fair and inclusive manner that relies on the active participation by local citizens and leaders.

I would like to inform the illustrious Members of Parliament that the 2013 State General Budget only considered as eligible the capital development projects that met the following criteria:

- Certification by the Directorate of Land and Property regarding land use;
- Approval of design and BoQ's by ADN; and
- Approval by the Policy Budget Review Committee.
- In this way, we want to ensure better execution rates for infrastructure projects.

Your Excellencies,

Ladies and Gentlemen,

The Government is determined to boost agricultural production. Better agricultural production is essential to reduce imports and improve food security. We are also conducting a thorough study on malnutrition that takes into account the calories that exist in Timorese produce, as well as encouraging a new food diet in our society.

The 2013 State Budget allocates $3 million to the Goods and Services budget in the Ministry of Agriculture for buying seeds. This should boost the volume and value of farm production. The Infrastructure Fund also includes nearly $10 million of expenditure on agriculture projects.

Much of this expenditure is for the construction and supervision of irrigation schemes which the Government believes will increase agricultural productivity.

Three areas of health spending have received increased budgets.

First, we have increased expenditure with Salaries and Wages to $21 million, in order to implement the new career regime for health professionals. This regime will increase the pay of health professionals with appropriate qualifications. The Government will be stricter in ensuring that health professionals respond to these incentives by displaying enthusiasm, dedication and empathy in the performance of their duties. The Government will also employ and adequately compensate recently qualified health professionals from Cuba. Better qualified and more motivated staff should improve the quality of healthcare in Timor-Leste in the short term.

Second, the Ministry of Health's budget for the purchase of medicines and drugs has been increased to $7 million. This will contribute to better health care and outcomes.

Third, $5 million has been allocated to purchase medical equipment in the Ministry of Health. This money will be used to purchase operation theatre equipment, anaesthesia machines, heart monitoring machines, a defibrillator and other medical equipment.

Education is another key factor in the development of a nation. The Government will pay due attention to the ‘Education for All’ Program, as this is related to the ‘Education First’ initiative by the Secretary General of the United Nations. I believe that all children should receive a decent education and that an educated workforce is a productive work force. Some progress has already been made and going forward we are determined to further improve education in Timor-Leste.

The quality of teaching is an important determinant of education outcomes. As such, the Government will continue to strive to ensure quality education in every school level. The Government is aware that no one should be pleased with the quantity of graduates every year given that the quality of education continues to be below expectations. Furthermore, education costs the parents of the students a lot of money. These parents are making sacrifices to try and provide better futures for their children.

The 2013 State Budget includes measures to raise the salaries of key groups of educators. More specifically, the UNTL’s salary and wage budget has been increased to $7.6 million, due to the new career regime for higher education professionals. We will also be paying salaries to teachers who had previously worked as volunteers.

Additionally, the $42 million allocated to the Human Capital Development Fund, which includes the Scholarship Program, the Professional Training Program, the Technical Training Program and other types of training in key sectors, will train and build the capacity of our human resources to become the leading actors of national development.

In 2013 we will continue to invest in social policies seeking to improve the living situation of the Timorese. Investing in the people, particularly the most vulnerable ones, is a moral obligation of the State. For this purpose we have allocated $236.5 million in the category of Public Transfers, namely:

- $84.8 million for personal benefits to Veterans.
- $38.2 million for our elderly and to those with demonstrated disabilities.
- $18 million for supporting Non-government Organisations and Religious Organisations promoting cultural and religious activities, thereby contributing to the social, cultural and spiritual wellbeing of the Timorese.
- $10.5 million for funding SEFOPE's "cash for work" programme, thereby contributing to lower unemployment.
- $8 million for funding the Suco National Development Program, directly involving communities in their own development.
- $3.7 million for paying pensions to civil servants, in accordance with the approved Law.
- $3 million for land-related compensation.
- $5 million for funding the "Ita Nia Rai" Program.

Finally, the Government will continue to invest in key sectors contributing to the consolidation of our democratic State under the rule of law.

We want to increase the PNTL's Salary and Wage budget to $13.6 million, thus ensuring the recruitment of more police officers to ensure safety in the country. We will also increase the F-FDTL's Salary and Wage budget to $7.9 million, so as to strengthen the capability of the Armed Forces.

Associated with this investment we have a $1.3 million grant for acquiring furniture for the houses of soldiers and police officers throughout the country, as well as $1.2 million for purchasing vehicles and equipment in order to help improve security at the airport.

We cannot neglect our foreign policy, particularly at a stage where Asia continues to be the fastest growing region in the world, boosting the growth of emerging and developing economies. As such, Timor-Leste is located in a region that presently offers strategic advantages.

This year, in addition to establishing two new Embassies, namely one in the United Kingdom and one in New Zealand, as well as consulates in Darwin and Atambua, which resulted in an increase of $9.1 million in the Ministry of Foreign Affairs and Cooperation's salary and wage budget, we will be investing in other key aspects:

- Establish a Unit that will carry out the preparatory work in order for Timor-Leste to assume the presidency of CPLP in 2014-2016. This is even more important because it will test our organisation capabilities before becoming full-fledged members of ASEAN.
- Prepare the establishment of the Diplomatic Study Centre in order to train and build the capacity of Timorese diplomats.
- Intensify the process on the demarcation of land and maritime borders.
- Continue to preside over the g7+ and to promote fragile States in terms of their collective development goals.
- Participate in the High Level Panel on the Post-2015 Development Agenda, represented by the Minister of Finance.

These regional and international diplomacy and integration efforts will, in the medium and long term, result in immeasurable benefits for the future generations of Timorese citizens. In today's globalised world, no country can overcome the obstacles to development by working alone and isolated from the dynamics of international relations.

Your Excellency

The President of Parliament

Your Excellencies

The Vice Presidents of Parliament

Your Excellencies

The Members of Parliament

Ladies and Gentlemen,

In the 2013 State Budget this Government clearly explains how all expenditures will be paid for. Domestic revenue receipts are forecasted at $146 million for 2013. This represents a 9% increase compared to 2012.

Our goal is to lower steadily the percentage of the budget effort that is paid by the Petroleum Fund. For this purpose we will draft a broad reform in order to expand the tax base and to increase State revenue receipts. During the mandate period, it is estimated that this reform will allow us to increase domestic State revenue receipts from $134 million in 2012 to $218.4 million in 2017.

The difference between domestic revenue and expenditure is approximately $1,651 million. This is paid for by withdraws from the petroleum fund, the use of funds held in the Government's accounts and borrowing.

The 2013 State Budget includes $1,198 million of withdraws from the Petroleum Fund. This represents a sharp fall compared to the $1,495 million withdrawn in 2012. The decrease in the amount of money withdrawn from the petroleum fund shows the Government's commitment to fiscal prudence and sustainability.

Additionally, budget execution rates have been increasing since 2007. In 2012, and although we are not yet ready to present final figures as the accounts are yet to be audited, we estimate that the Consolidated Fund for Timor-Leste will have a "cash" budget execution of approximately 88%.

If we take into account the execution of the Special Funds, the overall cash execution rate is estimated at 66%.

We recognise that the execution rate of the Special Funds, particularly the Infrastructure Fund, has not corresponded to the initial estimates, due to the persistent weakness in terms of implementing physical projects and other factors outside the Government's control. Nevertheless, the ongoing correction of the system and the introduction of new policies give us confidence that we will overcome this challenge in 2013.

In conclusion,

Your Excellencies,

Ladies and Gentlemen,

People of Timor-Leste

Today, more than ever, we are responsible for the path we want our country to follow!

Our ambition in terms of development, or better still our moral duty to reduce poverty among our People, requires coordinated sustainable policies, a plan and responsibility.

The Government I have the duty of leading is committed to being successful in this path towards development.

However, this will take time! We must walk this journey step by step, looking back to see how far we have come, correcting our stride whenever necessary and constantly reassessing the path still ahead of us.

In this collective effort, no one should be left behind. More importantly still, we cannot “cheat” our travelling companions.

Consequently, the 2013 State General Budget is another important step in this journey. As such, I look forward to having a constructive debate on this budget that will determine the development of our country and our nation in the short, medium and long term.

Thank you very much.

Kay Rala Xanana Gusmão

4 February 2013

Part 2: Description and Analysis of the 2013 State Budget

2.1: Executive Summary

2.1.1: Introduction

The Government is determined to transform Timor-Leste into an upper-middle income country with a secure, healthy and well-educated population by 2030. The Programme of the Fifth Constitutional Government of Timor-Leste outlines detailed policies to achieve this goal. This 2013 State Budget appropriates expenditures to finance these policies.

Table 2.1.1.1 shows the Combined Sources Budget for Timor-Leste. Total expenditure in 2013 is $1850.9 million. This comprises Government expenditure of $1,647.5 million and $203.4 million from Development Partners. Commitments from Development Partners are less than 11% of the total budget, demonstrating that Timor-Leste is not heavily dependent on external assistance to finance its development programs.

Table 2.1.1.1: Combined Sources Budget 2011-2017, $ million[1]

	2011 actual	2012 budget *	2013 budget**	2014 budget	2015 budget	2016 budget	2017 budget
Combined Sources Budget	**1,379.8**	**2,028.3**	**1,850.9**	**2,088.5**	**2,078.4**	**2,015.4**	**2,050.9**
Government Expenditures by Fund	*1,095.9*	*1,806.5*	*1,647.5*	*1,949.0*	*2,045.8*	*2,012.3*	*2,050.9*
CFTL	604.7	893.9	1,000.7	1,040.7	1,082.4	1,125.6	1,170.7
HCDF	16.8	37.5	42.4	40.0	45.0	45.0	49.0
Infrastructure Fund	474.4	875.1	604.4	868.3	918.4	841.7	831.2
Development Partner Commitments	*283.9*	*221.8*	*203.4*	*139.5*	*32.6*	*3.1*	*0.0*

* Final 2012 Budget after rectification and rollover

** After rollover

Sources: National Directorate of Budget and Development Partnership Management Unit, Ministry of Finance, 2012

[1] A note regarding data in tables and figures: Throughout the Budget book, numbers are generally given to one decimal place in tables and graphs, usually either in millions of US Dollars or as percentages. Occasionally on close inspection it may seem that minor errors have been made in the decimal place when adding up the figures in order to get to a 'total'. This is a result of rounding error, which is inevitable when displaying such large figures in a readable manner. A rounding error is not really an error it is just the way addition works when large figures are displayed to a few decimal places. For example, using the numbers for Loans from 2013-17, which are $43,588,000, $70,600,000, $120,900,000, $121,650,000 and $122,950,000 respectively, gives a total of $479,688,000 . When rounded to the nearest million, the figures are $43.6, $70.6, $120.9, $121.7 and $123.0 but the correct rounded total is $479.7, not $497.8.

Table 2.1.1.2 shows a consolidated fiscal table for Timor-Leste. This table shows expenditure, revenue, financing and key economic indicators. The Government has sharply decreased the overall budget (by $159.0 million) between 2012 and 2013 in order to maintain fiscal sustainability and ensure that aggregate demand within the economy is consistent with acceptable levels of inflation. Due to the decline in total expenditure, increased revenue, a higher ESI and a reduction in the amount of cash held in Government bank accounts, excess withdraws from the petroleum fund are forecasted at $0.0 in 2013.

This is in line with long term fiscal sustainability. Strong economic growth is forecast to continue over the medium term.

Table 2.1.1.2: Fiscal Table with Memorandum Items, $ million

	2009 actual	2010 actual	2011 actual	2012 budget*	2013 budget**	2014 budget	2015 budget	2016 budget	2017 budget
Total Expenditure by Appropriation Category	**603.8**	**760.3**	**1,095.9**	**1,806.5**	**1,647.5**	**1,949.0**	**2,045.8**	**2,012.3**	**2,050.9**
Recurrent	*394.2*	*506.1*	*507.8*	*757.3*	*841.0*	*870.5*	*908.8*	*943.3*	*983.2*
Salary and Wages	87.3	91.5	111.6	139.0	160.5	167.0	173.6	180.6	187.8
Goods and Services (including HCDF)	212.8	245.9	253.5	384.6	441.5	455.0	476.6	493.9	515.9
Public Transfers	94.1	168.7	142.6	233.7	239.0	248.5	258.5	268.8	279.6
Capital	*209.6*	*254.3*	*588.2*	*1,049.1*	*806.5*	*1,078.4*	*1,137.0*	*1,069.0*	*1,067.6*
Minor Capital	38.7	38.3	27.2	49.2	49.6	51.6	53.6	55.8	58.0
Capital and Development (including all Infrastructure Exp.)	170.9	215.9	561.0	1,000.0	756.9	1,026.9	1,083.3	1,013.2	1,009.6
Domestic Revenue ***	**90.8**	**96.4**	**108.5**	**134.1**	**146.3**	**163.1**	**181.7**	**200.3**	**218.7**
Non-Oil Fiscal Balance	**-513.0**	**-664.0**	**-987.4**	**-1,672.4**	**-1,501.2**	**-1,785.8**	**-1,864.0**	**-1,812.0**	**-1,832.2**
Financing	**513.0**	**664.0**	**987.4**	**1,672.4**	**1,501.2**	**1,785.8**	**1,864.0**	**1,812.0**	**1,832.2**
Estimated Sustainable Income (ESI)	408.0	502.0	734.0	665.3	787.0	797.9	784.8	771.9	761.2
Excess Withdrawals from the PF	104.0	309.0	321.0	829.6	0.0	917.3	958.3	918.4	948.0
Use of Cash Balance	1.0	-147.0	-67.6	134.4	670.6	0.0	0.0	0.0	0.0
Borrowing/Loans	0.0	0.0	0.0	43.1	43.6	70.6	120.9	121.7	123.0
Selected Economic Indicators									
Nominal GDP (Non-Oil Sector)	775.6	859.1	975.9	1,292.7	1,506.9	1,769.2	2,099.7	2,507.1	3,006.5
Fiscal Deficit / GDP (Non-Oil Sector)	66.1%	77.3%	101.2%	129.4%	99.6%	100.9%	88.8%	72.3%	60.9%

* Final 2012 Budget after rectification and rollover

** After rollover

*** The domestic revenue figure shown is that used when the Government estimated revenue for the outer years. This figure is slightly different from that shown in the audited accounts.

Sources: National Directorate of Budget, National Directorate of Economic Policy, Petroleum Fund Administration Unit and Major Projects Secretariat, Ministry of Finance, 2012

2.1.2: Economic Overview

The "Timor-Leste's National Accounts 2004-2010" publication[2] describes both the composition and the value of Timor-Leste's economy. In 2010, GDP was $4,140.4 million of which 79.3% came from the petroleum sector. GDP from the non-oil sector stood at $859.1 million. During 2011 Timor-Leste's non-oil economy benefited from strong Government expenditure which boosted the growth of specific sectors, such as construction, leading to a nominal value of $975.9 million. Regarding the real non-oil economic growth rate trend, Timor-Leste has achieved one of the highest rates of growth in the world, averaging 11.9% per year since 2007.

Strong economic growth in 2011 has been accompanied by very high inflation, reaching 15.4% (year-on-year) in December 2011. After increasing to nearly 18% in January 2012, inflation decreased to 10.1% in March[3] and has since stabilised at c. 11%. The lower inflation rate observed at the end of the first quarter of 2012, compared to the last quarter of 2011 and the very start of 2012 can be mainly attributed to an improvement in international factors. These are the strengthening of the US$ compared to Timor-Leste's main trading partners, which reduces the price of imported goods, and relatively lower international prices for individual commodities. Nevertheless, an inflation rate of 11% is still relatively high compared to other countries. The Government is determined to ensure that inflation further declines over the medium term and recognises that carefully controlling total expenditure will be important in achieving this goal. This policy is reflected in this 2013 State Budget which significantly reduces total budgeted expenditure in 2013 compared to 2012.

2.1.3: Expenditure

Total expenditure in 2013 is $1647.5 million; representing an 8.8% decrease compared to 2012. The Government has reduced total expenditure to contribute towards fiscal sustainability and the control of inflation. Capital and Development expenditure in 2013 has been reduced by 24.3% compared to 2012 partly to maintain fiscal sustainability but also because the Government recognises the need to ensure that infrastructure spending is set at a level whereby projects can be implemented effectively. Recurrent expenditure has been sharply increased. Between 2012 and 2013 expenditure on Salaries and Wages and Goods and Services has substantially increased. Spending on civil service pensions, the new career regime for health professions and the new career regime for educators who previously worked on a

[2] National Directorate of Statistics (DNE), 2012. (N.B.: With the release of the first preliminary 2011 GDP from expenditure side (GDP-E) estimates , the 2004-2010 figures for GDP-E have also been revised due to the changes in the respective sources data, including the data on development partners spending, household expenditure, and other, and the consequent changes in other indicators)

[3] The 15.4% Inflation rate refers to Timor-Leste CPI change; Timor-Leste CPI is currently measured on a quarterly basis, therefore the 18% and 10% figures refer to Dili CPI change which is instead measured monthly.

voluntary basis have contributed to higher recurrent expenditure. The Government considers these expenditures to be in accordance with the goals and policies stated in the SDP. Expenditure on fuel for generators and operation and maintenance of electrical power plants has also increased in 2013. This increased spending is necessary to maintain and operate the high quality power generation facilities that have recently been constructed.

2.1.4: Revenue

Domestic revenue collections are forecast at $146.3 million in 2013. This represents a 9.2% increase compared to the 2012 forecast of $134.1 million. This increase is being driven in particular by increases in some taxes – corporate, excise and withholding – and is partially offset by a forecast reduction in revenue from the rice programme.

In 2013 domestic non-oil revenue collections are forecast to finance 8.9% of total expenditure. High projected rates of economic growth, as well as growth in tax efficiency mean that by 2017 total domestic revenues are projected to rise to $218.7 million.

Petroleum revenues from Bayu-Undan and Kitan peaked in 2011 and are forecasted to decline to $2,309.1 million in 2013, before temporarily levelling off until 2017. The Petroleum Fund balance is set to increase from $9,310.3 million at the end of 2011 to $10,776.7 million by the end of 2012, and $12,787.6 million by the end of 2013.

2.1.5: Financing

The non-oil fiscal deficit is equal to domestic revenue minus total expenditure. This is an important financial/economic indicator as it gives an approximate indication of the amount of additional money and demand that Government spending is contributing to the economy. The non-oil deficit in 2013 will be $1,501.2 million. This deficit is mainly financed by withdrawals from the Petroleum Fund, which are equal to the Estimated Sustainable Income in 2013. Loans of $43.6 million and the use of $670.6 million of cash held in Government bank accounts also contribute to the financing of this deficit.

2.2: A Review of Recent Reforms in Public Financial Management

2.2.1 Overview of Public Financial Management Reforms

The Public Financial Management (PFM) system consists of the institutions, laws and information technology infrastructure through which the Government spends, collects and manages money. A strong and effective PFM system is essential for maintaining strong economic growth, controlling corruption and efficiently delivering Government services. In Timor-Leste an effective PFM system is critical to transforming mineral resources into public wealth.

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

2.2.2 Comprehensive Petroleum Tax Audit

The Government is determined to ensure that petroleum companies' taxpayers pay their taxes in accordance with the applicable taxation laws of Timor-Leste. Since December 2010 NDPR has been undertaking a comprehensive tax audit of petroleum companies, which has already led to the collection of over $300 million of additional taxes, including interest and penalties. The comprehensive tax audit is on-going and the primary focus is the examination of approximately $4,800 million of capitalised expenditures relating to the Bayu-Undan project (including the LNG Pipeline and the Darwin DLNG), Transfer Pricing, Capital Gains and approximately $44,000 million of revenue accruing to the taxpayers and their related parties during the 2005-2010 tax years.

The capitalised expenditure associated with Kitan Project is also under tax audit. NDPR is variously assisted by top-flight law and accounting firms hired specifically to support the comprehensive tax audit for both the Bayu-Udan and Kitan Projects.

NDPR has developed and implemented New Audit Guidelines as the manual for the audit of the petroleum taxpayers. The NDDR national audit staff was constituted in 2011 and members of the Audit Team continue to improve their skills through participation in audit and training seminars to prepare them for the field audits.

To close certain loopholes and provide clarity in the existing tax legislations, several Public Rulings as well as new Tax Regulations were issued between 2011 and 2012 tax years. It is reasonably anticipated that the new Regulations will save Timor-Leste approximately $50-100 million over the next five years by “clogging” tax loopholes, especially those associated with related party transactions.

2.2.3 Providing Budget Documentation that Transparently Describes the Government’s Policies

The Government has made a sustained effort to further improve the quality, clarity and comprehensiveness of the budget documentation provided to parliament and citizens. There are currently six budget books and a Citizen’s Guide to the Budget (published shortly after the annual budget law is promulgated by the President). Together these documents achieve the following goals:

- **Describe the Government’s overall fiscal policies:** Budget Book 1 clearly shows total expenditure, revenue and financing over the medium term. The impact of excess withdraws on the ESI and fiscal sustainability are shown and described.
- **Explain the main activities financed by spending:** Budget Book 2 shows the main activities that ministries will use their budgets for.
- **Show how spending contributes to district development:** Budget Book 3 describes the distribution of spending between districts and specific projects that contribute to district development.
- **Provide a detailed breakdown of the budget:** A breakdown of the budget by chapter, title, division and item is provided in Budget Book 4.
- **Explain and analyse donor commitments**: This goal is achieved in Budget Book 5.
- **Provide information on the budget of different programmes and projects in the Infrastructure Fund and Human Capital Development Fund:** This is achieved in Budget Book 6.
- **Provide a simplified, non-technical overview of the budget:** through the “A Citizen’s Guide to the State Budget” publication**.**

Together these documents provide a comprehensive overview of the budget and its impact. An important report by the IMF rated Timor-Leste as **"A"** – the highest grade attainable - for comprehensiveness of information included in the budget documentation. This means that the information provided by the Government in the budget documentation compares favourably to many other countries. Going forward, the Government is committed to better linking expenditures to activities and improving the accuracy of the medium term forecasts in the budget documentation.

2.2.4 Improving Expenditure Management

The Government has improved expenditure management mainly through the strengthening of the Integrated Financial Management Information System (IFMIS). Line ministries now have access to this system and can raise commitments up to the limit imposed by the budget. They can also access reports showing their cash expenditures, obligations and commitments to date. The final approval for payment of invoices and virements (as allowed by law) across ministries' budgets is still controlled centrally by the Ministry of Finance using the IFMIS system. This arrangement provides an appropriate balance between the decentralisation of expenditure management to line ministries who are responsible for providing public services and the centralised control and recording of expenditures. The implementation of this system has both increased execution rates and reduced fiduciary risk. It has also allowed real time reporting to the public through the transparency portal.

Over the medium term the Government plans to further strengthen expenditure management. The full implementation of a contract management module, which line ministries are currently receiving training on, will allow the Government to better understand when payments are likely to become due. This in turn should minimise the risk of short term debt occurring due to late payment of invoices and should allow the Government to better manage cash throughout the financial year. It will also allow the Government to better review contracts and ensure they provide strong value for money and are not overly generous to contractors.

2.2.5 Transparency

The Government is committed to transparency. The creation of the online transparency portal has been a key tool in achieving this goal. The portal consists of the Budget, Aid, E-procurement and Results sub-portals. These sub-portals draw data from the IFMIS and present them in an interactive and clear way so that all citizens can gain a better understanding of policy, procurement and expenditure and hold the Government to account.

The Budget sub-portal is now fully operational. It provides live, real-time access to data on expenditures and revenues. This allows the public to instantly view how budget execution and revenue collection are proceeding at any time during the year. The publication of such data is in line with international best practice and makes Timor-Leste an international leader among developing countries in the publication of financial data.

The Aid Management sub-portal provides detailed data on commitments and actual disbursements from donors. This allows citizens to see what development partner money is being spent on and how it is contributing to development in Timor-Leste.

The E-procurement sub-portal shows both current procurement opportunities and awarded contracts. The current procurement opportunities portal provides an open, level playing field to different contractors and encourages strong competition for Government tenders. In the long term this will drive down costs and allow the achievement of better value for money. The database of awarded contracts allows the public to gain a better understanding of Government expenditure and form an opinion on whether contracts have or have not represented value for money. The Government is committed to improving the number of contracts recorded in this sub-portal and the details on each contract over the medium term.

The results sub-portal shows what has been achieved by key Government projects and programmes. This allows the public to better understand the impact of Government policies.

2.2.6 Improving the Analysis, Review and Efficiency of Expenditure

The Government recognises that strong economic growth and poverty reduction will depend on well-targeted and efficient spending. The Government is therefore committed to a programme of constantly reviewing, critiquing and amending policies to ensure that public money is well spent. Such a process requires high-level oversight. Therefore over the coming year a committee that will review and suggest amendments to the Government's policies and expenditures with the aim of ensuring that they fully contribute towards the implementation of the SDP will be established. This committee will commission and review expenditure reports and analysis with the aim of ensuring that no dollar spent by the Government is wasted. Over the first year this committee will: a) review and comment on a report on Infrastructure Fund spending; b) review a report on spending on the PDD1 and PDD2 programmes (consolidated as the PDID programme from 2013 on); c) commission reports on topics that may include: long term fiscal sustainability and spending in the social sectors; and d) review regular reports drafted by the Ministry of Finance on Government expenditure.

The work of the commission will be in addition to, and not instead of, ongoing activities to record and monitor expenditure. The Government will for instance continue to report to parliament on expenditures on a quarterly basis and the accounts will continue to be audited by an independent, international audit company.

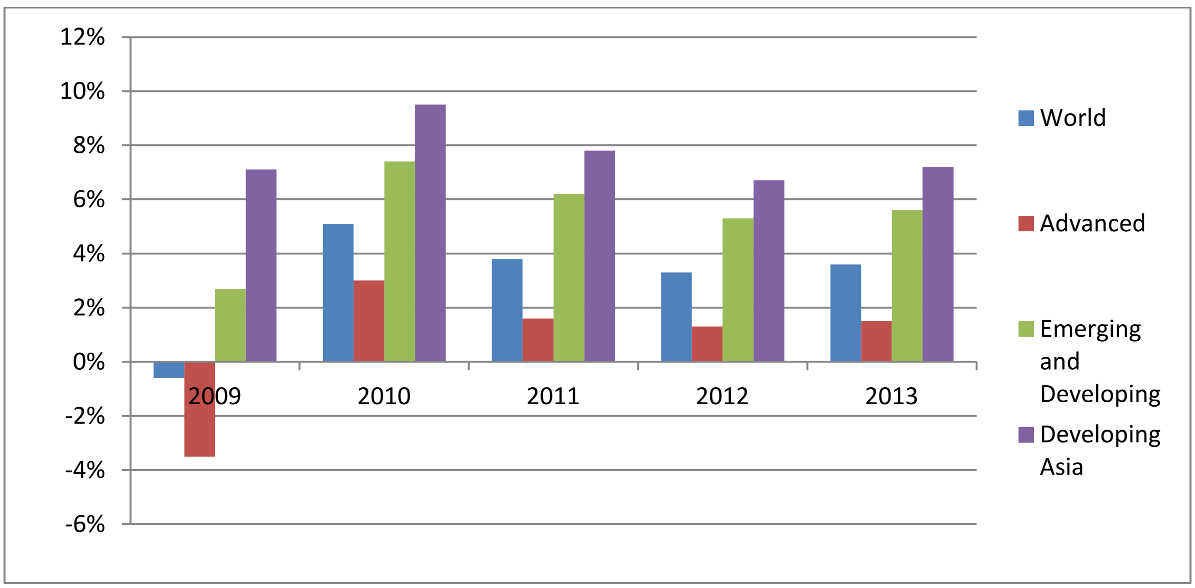
2.3: Economic Overview

2.3.1: International Economy

2.3.1.1: Trends in International Growth

Global growth slowed to 3.9% in 2011 from 5.3% in 2010 due to the continued weak recovery from the financial crisis, especially in advanced economies, which has continued in 2012. Overall, global growth is projected to continue to slow to 3.3% in 2012 before moderately increasing to 3.6% in 2013 (Figure 2.3.1.1.1)[4]. Despite suffering from reduced export growth rates because of the slowdown in Europe and the United States, and from lower domestic demand, developing Asia remains the fastest growing region, driving both the emerging and developing economies' growth.

Figure 2.3.1.1.1: Real Economic Growth 2009 – 2013(%)



Sources: National Directorate of Economic Policy, Ministry of Finance, 2012 and IMF WEO October 2012

Growth in advanced economies is projected to be 1.3% in 2012 and 1.5% in 2013. The ongoing euro crisis continues to foster uncertainty and provide a drag on a robust recovery in Europe and other markets. After a strong first quarter, the data from the U.S. and the U.K. once again also suggest that growth continues to be slow, and unemployment remains high.

Developing economies are projected to grow by 5.3% in 2012 and 5.6% in 2013. Although the rapid growth seen in countries such as China, India and Brazil has slowed somewhat, it is still

[4] Unless otherwise stated, the figures reported in the International Economy section are from the IMF World Economic Outlook, October 2012.

high compared to the developed world, and should be helped by looser policies introduced at the end of 2011.

Table 2.3.1.1.1: Real Regional GDP Growth Rates (%)

Country	Actual			Projection	
	2009	2010	2011	2012	2013
China	9.2%	10.4%	9.2%	7.8%	8.2%
Australia	1.4%	2.5%	2.1%	3.3%	3.0%
Singapore	-1.0%	14.8%	4.9%	2.1%	2.9%
ASEAN-5	1.7%	7.0%	4.5%	5.4%	5.8%
Indonesia	4.6%	6.2%	6.5%	6.0%	6.3%
Vietnam	5.3%	6.8%	5.9%	5.1%	5.9%
Philippines	1.1%	7.6%	3.9%	4.8%	4.8%
Thailand	-2.3%	7.8%	0.1%	5.6%	6.0%
Malaysia	-1.5%	7.2%	5.1%	4.4%	4.7%
Timor-Leste*	**12.8%**	**9.5%**	**10.8****	**10.6*****	**10.4*****

* Timor-Leste GDP refers to the non-oil sector only
** Preliminary estimate
*** Targets
Sources: National Directorate of Economic Policy, Ministry of Finance, 2012 and IMF WEO October 2012

2.3.1.2: Trends in International Prices

In this climate of weak growth and decreasing demand, global inflation is projected to fall from 4.5% in the final quarter of 2011 to 3-3.5% in 2012-13. This decline reflects reductions in projected consumer prices for both advanced and emerging and developing economies, expected to decrease to 1.9% and 6.1% for 2012 and to 1.6% and 5.8% for 2013, respectively.

Oil Prices[5]

Oil prices rose in the first quarter of 2012 due to increasing economic activity and rising tension over potential instability in the Middle East affecting supply. Since March, both of these trends have become less of a factor which has been consequently reflected in a more than 22% drop in prices to $90 a barrel at the end of Q2 2012[6]. However, in July and August prices have increased again to above $105 because of production disruptions in North America, the North Sea and the Middle East associated with the seasonal increase in demand[7]. Overall, oil prices are expected to average $106 across 2012 and moderately decline throughout 2013 to $105. Future markets

[5] For a description of how international oil prices affect oil revenues in Timor-Leste see "Petroleum Revenues", section 2.5.3.
[6] Simple average of WTI, UK Brent and Dubai crude oil prices.
[7] US Energy Information Administration Short-Term Energy Outlook, September 2012.

indicate that the prices of oil are expected to decline in the medium term. These forecasts reflect, amongst other factors, expectations of weak global oil demand continuing and both OPEC and non-OPEC increases in crude oil production.

Agricultural Commodity Prices

Bad harvests in the U.S., Eastern Europe and Central Asia raised concerns of the possibility of a food price crisis. In July international agricultural commodity prices surged, in particular for maize, soy and wheat, with monthly increases in prices for single commodities reaching 25%. However, the latest international market data indicate that it is unlikely that a crisis such as 2007-08 will reoccur in the next few months. A major reason for that crisis was the poor rice yields. This year however, production in China, Indonesia, Thailand, Philippines and the U.S. more than offsets the bad crop year in other Asian countries such as India, Cambodia and Nepal[8]. Moreover, the consequences of the worst U.S. drought in over half a century on maize production may have been overblown[9].

For Timor-Leste, close monitoring of international food price dynamics is strongly advisable (see Focus Box: International agricultural commodity prices - high and volatile) as the evolution of such prices are likely to have a strong impact on domestic inflation. In fact, the weights of food and beverages in Timor-Leste's consumer price index (CPI) imply that approximately 60% of total household expenditures are spent on food, and a large proportion of this is imported.

[8] FAO Cereal Supply and Demand Brief, September 2012; FAO Food Outlook, May 2012.
[9] USDA World Agricultural Supply and Demand Estimates, September 12, 2012.

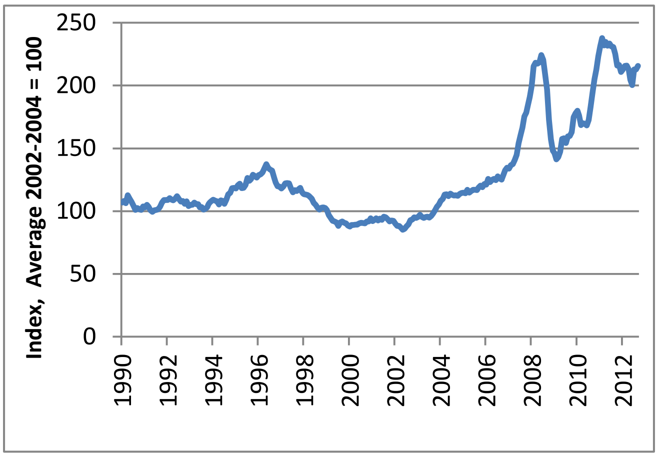
Focus Box: International agricultural commodity prices - high and volatile

Trend

In recent years, food price volatility has increased considerably. After the 2007-08 food crisis which led to dramatic food inflation, food insecurity and consequentially civil disorder in several emerging and low income countries, food prices fell sharply during the second half of 2008 and the first months of 2009 (Figure 1). Prices then regained and surpassed their 2008 peak level during most of 2011 before gradually decreasing once again below the 2008 level. In July 2012, however, there was a 6.2% increase in the FAO food price index, which raised the possibility of a new food price crisis. At the time of writing, this seems to have been averted, but caution is warranted given uncertainties about supply and demand dynamics in the short-run.

For the medium-term outlook, reports indicate that volatility is expected to continue in future years, affecting producers and consumers, but also governments which need to ensure policies are developed to counteract the negative effects.

Figure 1: FAO Food price index – 1990 to 2012



Sources: National Directorate of Economic Policy, Ministry of Finance and Food and Agriculture Organisation of the United Nations (FAO) 2012

Causes

High and volatile prices result traditionally from disequilibria in specific market fundamentals, i.e. disruptions in the supply and/or demand of agricultural produce. The most common factors affecting supply are weather events (droughts, floods, hurricanes, etc.), the presence and spread of pests and/or diseases, and low stocks reinforcing the inelasticity of supply of agricultural commodities in the short-term. Demand-side factors mostly relate to population growth and rising incomes in emerging and developing countries, which result in increased demand for agricultural goods.

Recently, however, additional factors have been reinforcing volatility in agricultural commodity prices and are therefore worth considering in light of both the current increase in prices and longer-term prospects. These include, amongst others, climate change related shocks (which amplify the frequency and force of floods and droughts), increasing association between agricultural commodity prices and energy prices, and financial speculation. Agricultural commodity prices were traditionally linked to energy prices via the impact of oil prices on agricultural inputs (fertilisers) and on transport costs. Today this link is being reinforced by increased use of agricultural produce to provide biofuel alternatives to petrol. Regarding financial speculation, it is increasingly being cited as a 'new' cause of increased price volatility, although evidence remains inconclusive. What used to be a mechanism for commercial traders (i.e. farmers, processors, traders) to hedge against future risk of price changes and to obtain liquidity has been transformed into a vast market used by financial speculators and hedge and pension funds to diversify their investments and increase their returns. This flow of trade from financial investors is thought to have led to disturbances in the derivatives markets for agricultural commodities and thus to increased movements in prices, notably in the short-term.

Recommendations

When reacting to volatility in agricultural commodity prices, both short-term and long-term actions should be considered. In the short-term, careful and continuous monitoring[10] and proactive preparation for the possible implementation of safety nets for consumers and producers are advised. Moreover, and on a more general/international level, subsidies for biofuels should be reduced, better international trade policy coordination should be ensured (e.g. to avoid the negative effects of export restrictions from main exporting countries), and greater transparency and possibly regulatory improvements should be implemented with respect to futures markets.

In the longer term it is essential, particularly for food-importing developing countries such as Timor-Leste, to assist local farmers in increasing domestic production so as to reduce dependency on imported foods. This can be done by implementing fundamental regulatory reforms (e.g. land reforms), investing directly in the agricultural sector (e.g. irrigation schemes; education and training; insurance schemes; research and development; input subsidies – use of improved seeds, fertilisers, pesticides/fungicides), investing in sectors that affect the agricultural value chain (e.g. infrastructures that reduce bottlenecks – rural and urban roads, bridges).

[10] In recognition of this the G20 launched in June 2011 the Agricultural Market Information System (AMIS) aimed at forecasting market outlooks for key agricultural commodities.

2.3.2: Domestic Economy

In May 2012, the 2004-2010 National Accounts were published[11]. This section provides information based primarily on this publication. Further preliminary data were used to provide estimates for 2011[12].

2.3.2.1: Gross Domestic Product (GDP)

The economy of Timor-Leste is very reliant on the petroleum sector. Table 2.3.2.1.1 shows that almost 80% of Gross Domestic Product (GDP) originates from the petroleum sector.

Table 2.3.2.1.1: Real GDP by Sector, Timor-Leste 2011

	GDP, $ millions	Percent of Whole
Whole Economy	**4,430.6**	**100.0%**
Petroleum Sector	3,478.4	78.5%
Non-petroleum Sector	952.2	21.5%

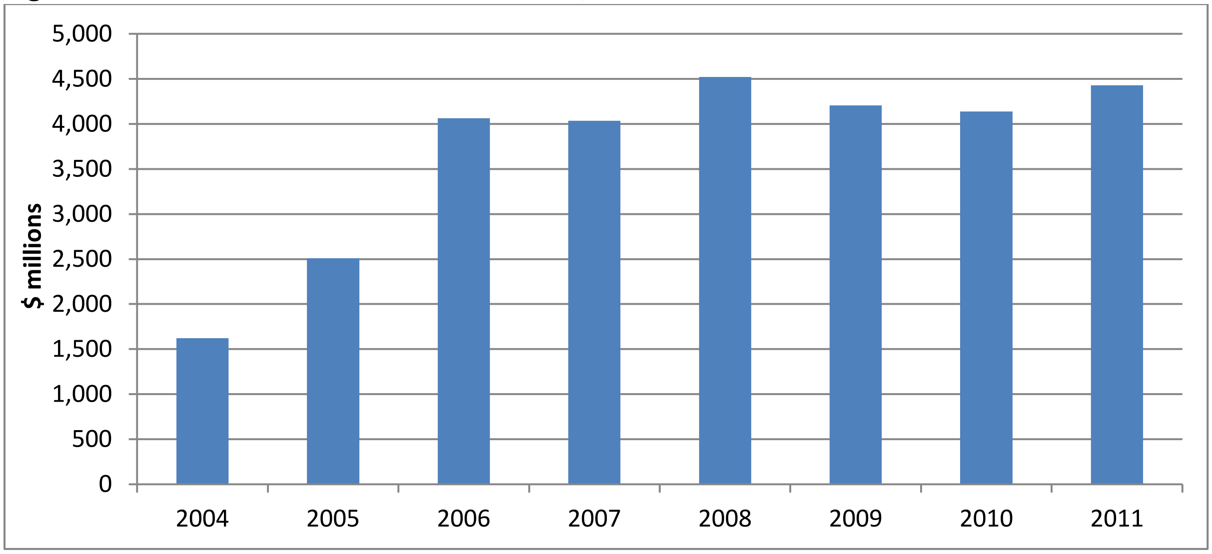
Sources: National Directorate of Economic Policy and Statistics Directorate, Ministry of Finance 2012

Between 2004 and 2011, GDP increased substantially, reaching more than $4,400 million in 2011. In 2011 GDP was over 2.7 times the 2004 GDP level. However, between 2004 and 2011 GDP peaked in 2008 (at around $4,500 million). Real GDP subsequently declined in 2009 and 2010, and, although it increased by 7.0% in 2011, it remains below 2008 levels (Figure 2.3.2.1.1). Given the weight of the petroleum sector in GDP mentioned above, and the dynamics governing the revenues from this sector (see section 2.4.2.), this evolution is not surprising, and justifies focusing on the non-oil sector of GDP when considering the development of the Timorese economy.

[11] National Directorate of Statistics (DNE), 2012

[12] The preliminary data were obtained using the Expenditure Approach to measuring GDP. For this reason, sector/category specific decompositions are not yet available for 2011. As a result, the sector/category decompositions described in section 2.3.2.2 are limited to the 2004-2010 time horizon and are based on the GDP from production side (GDP-P) data (DNE, 2012).

Figure 2.3.2.1.1: Real GDP 2004 - 2011, $ millions



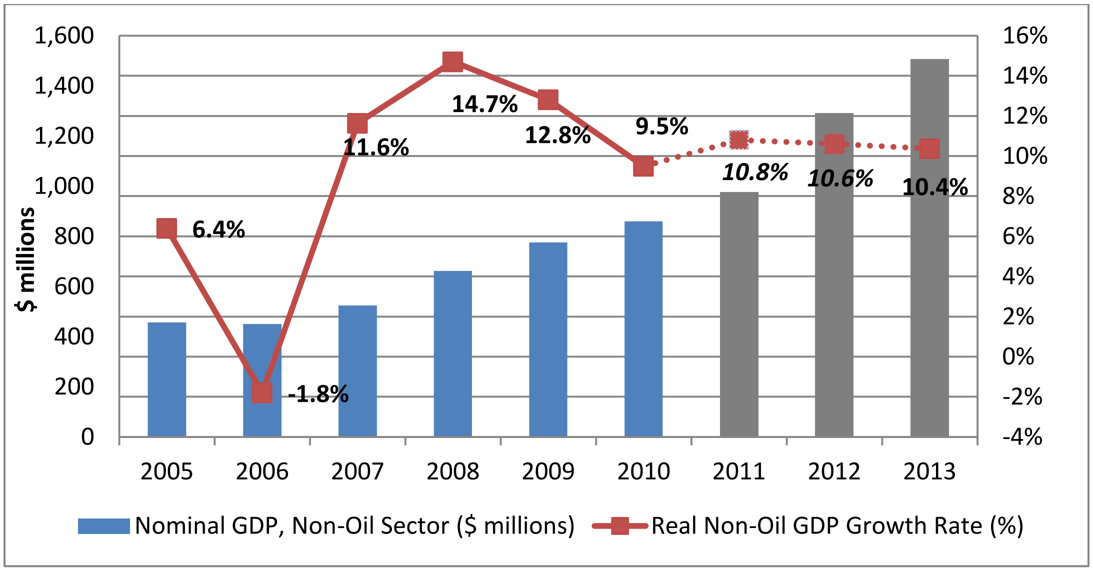
Sources: National Directorate of Economic Policy and Statistics Directorate, Ministry of Finance 2012
Notes: 2011 preliminary estimate

2.3.2.2: Non-Oil Economy

Figure 2.3.2.2.1 illustrates the evolution of actual GDP in the non-petroleum sector from 2005 to 2010, preliminary estimates for 2011 and the targets for 2012 – 2013. Since the 2006 crisis, the country has benefitted from strong economic growth, averaging 11.9% per year up to 2011. The latest actual data available reveal that non-oil GDP reached $859.1 million in 2010, having grown 9.5% in real terms since 2009.

Preliminary estimates for 2011 indicate that real GDP in the non-oil sector increased by 10.8%. This increase reflects very strong growth in construction activity during the year, spurred mostly by the execution of Government-financed projects. Although representing less than 10% of the non-oil economy (see Figure 2.3.2.2.2. for 2010 data), growth in this sector more than outweighed the relative decline in the dominant agricultural sector, which has been falling, in real terms, for two consecutive years. 2012 should offer brighter prospects for agriculture, as production of both rice and maize (the main staple crops in Timor-Leste) has recovered from the dramatic decrease seen in 2011, and should, between them, exceed domestic consumption.

Figure 2.3.2.2.1: GDP, Non-Oil Sector 2005 – 2013



Sources: National Directorate of Economic Policy and Statistics Directorate, Ministry of Finance 2012
Notes: 2011 preliminary estimate; 2012-2013 targets

Within the non-oil economy, a further sub-classification comprising three broad sectors, namely the primary, secondary and tertiary sectors is presented in Table 2.3.2.2.1. The primary sector, includes activities related to the goods obtained from the earth (e.g. subsistence and commercial agriculture, forestry, fishing, mining and quarrying), the secondary sector includes construction activities and the production of manufactured goods, and the tertiary sector is composed of the service industry (including private and public sector services).

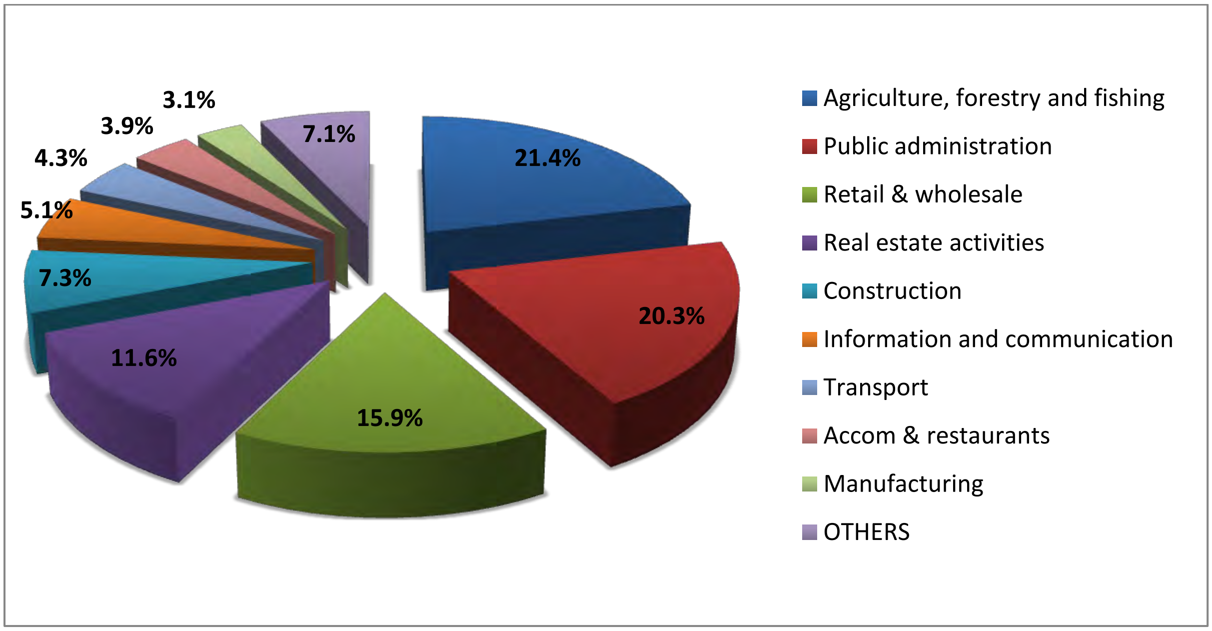
Table 2.3.2.2.1: Real GDP, Sector Shares in Non-Oil Economy (%)

	2004	2005	2006	2007	2008	2009	2010
Real Non-oil GDP	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Primary	***29.3%***	***28.7%***	***30.7%***	***26.8%***	***25.1%***	***24.2%***	***21.6%***
Secondary	9.9%	10.8%	8.8%	9.3%	10.1%	10.2%	10.4%
Tertiary	59.6%	58.8%	59.9%	64.0%	66.1%	66.4%	68.4%
Plus Taxes less Subsidies on Products	1.2%	1.6%	0.5%	-0.1%	-1.3%	-0.8%	-0.4%

Sources: National Directorate of Economic Policy and Statistics Directorate, Ministry of Finance 2012

This table shows that the primary sector has declined during the past seven years which data are available for, to the benefit of the secondary and tertiary sector. In particular, the share of the primary sector has decreased by over 8 percentage points. Most of this decrease was captured by the tertiary sector: this sector's share increased by 7.7 percentage points between 2004 and 2010, reaching over 68% of the total in 2010. The importance of this is that a thriving service sector is seen as an important goal within the Timor-Leste Strategic Development Plan (SDP)[13]. Finally, the secondary sector, which in Timor-Leste is particularly small because of the current lack of industrial activity, remains small up to 2010: its share has increased by less than half a percentage point during this period, and remains slightly over 10%.

Figure 2.3.2.2.2: 2010 GDP, Non-Oil sector by Category (%)



Sources: National Directorate of Economic Policy and Statistics Directorate, Ministry of Finance 2012

Regarding the contribution of the main categories of 2010 non-oil economy; the agriculture, forestry, and fishing sector, public administration sector, and retail and wholesale sector were the major contributors, with respective shares of 21.4%, 20.3%, and 15.9% (Figure 2.3.2.2.2).

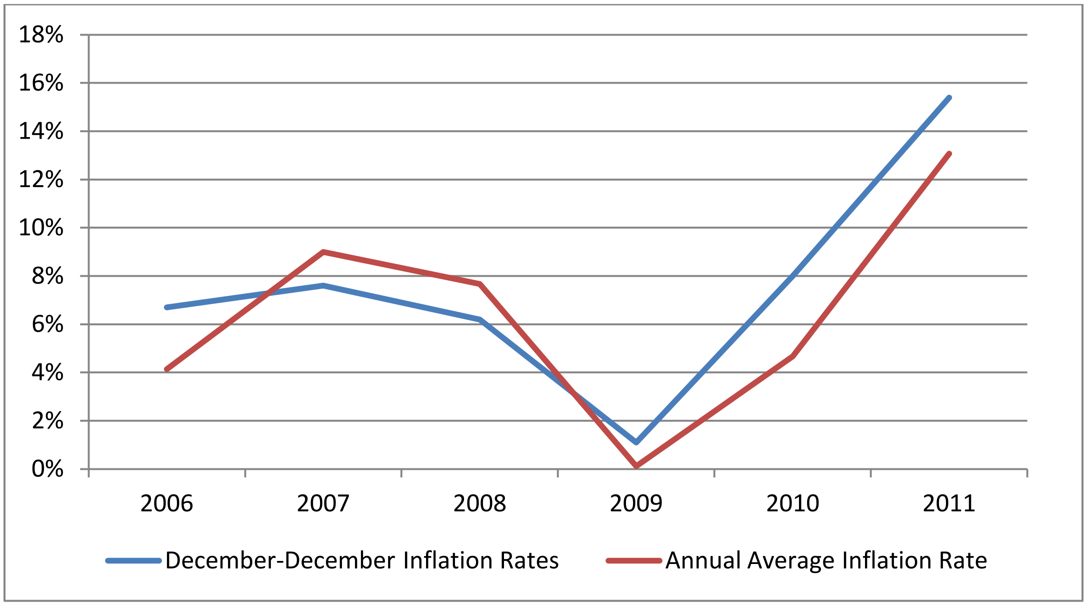
2.3.2.3: Domestic Inflation

In Timor-Leste, inflation is measured by the consumer price index (CPI), which is a measure of the cost of goods and services purchased by the average Timorese consumer. The National Directorate of Statistics (DNE) collects the prices of these goods

[13] SDP – Timor-Leste Strategic Development Plan, Government of Timor-Leste, 2011

on a monthly basis for Dili and on a quarterly basis for Timor-Leste[14]. This is shown for Timor-Leste since 2006 in Figure 2.3.2.3.1.

Figure 2.3.2.3.1: Change in Consumer Price Index Timor-Leste 2006-2011 (%)



Sources: National Directorate of Economic Policy and Statistics Directorate, Ministry of Finance 2012

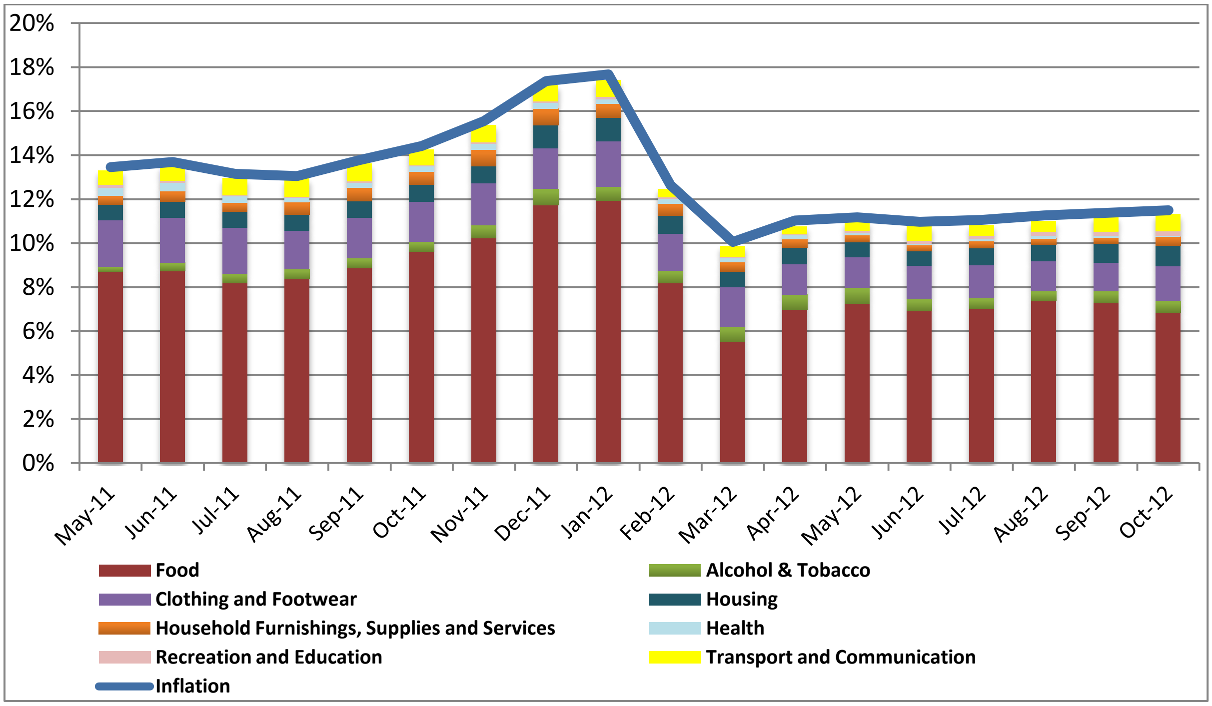
Year-on-year inflation in Díli peaked in January 2012 at 17.7%; it then fell to 10.0% in March, the lowest rate since January 2011, and has since stabilised around 11%. In October 2012 Díli CPI was 11.5% higher than October 2011. A similar trend can be observed for Timor-Leste's quarterly inflation index. Year-on-year inflation peaked at 15.4% in December 2011 and dropped to 11.0% at the end of Q3 2012.

Movements in the CPI for both Díli and Timor-Leste as a whole are in line with movements in prices of food and beverages, as this category alone makes up approximately 60% of the CPI basket weight, as shown in Figure 2.3.2.3.2. Increasing domestic food production and reducing supply bottlenecks (easier access to markets) and improving the agricultural value chain would help reducing reliance on specific imported goods, and, by fostering domestic supply, ease inflationary pressures on foods.

[14] Up to 2008 data for Timor-Leste was also reported monthly, but have been thereafter quarterly. This explains the relative smoothness of the graph after this year.

The main drivers of inflation have been the depreciation of the US$ with respect to Timor-Leste's main trading partners' currencies, the increase in commodity prices (in particular of foods) and increased domestic demand driven by government expenditure.

Figure 2.3.2.3.2: Change in CPI Díli Year-on-Year by Category (%), May 2011 to October 2012



Sources: National Directorate of Economic Policy and Statistics Directorate, Ministry of Finance 2012

2.3.2.4: Employment

A recent publication provides a valuable description of the employment structure in the economy. The 2010 Labour Force Survey (LFS) indicates that at the time the survey was conducted the labour force comprised 262,000 individuals, of which 252,000 were employed and about 9,000 were unemployed. Amongst the employed, 27.9% were urban and the remaining 72.1% were rural workers, and 68.2% of total employed were males. These data suggest that the official unemployment rate in Timor-Leste was below 4%. However, according to the LFS a very significant portion of the population (58.3% of those over the age of 15) were found to be inactive, that is they were neither employed nor unemployed.

These figures indicate that Timor-Leste's population remains very strongly orientated towards agricultural work and the weight of female labour remains extremely low. Moreover, the high rate of inactivity in the population, which mostly reflects the high number of students in the country, suggests that the labour force is likely to increase significantly in future years. This means that a high number of jobs will have to be created in order to avoid an increase in the unemployment rate.

2.3.3: Short to Medium-Term Prospects (2012-2017)

Table 2.3.3.1: Economic Targets and Forecasts 2012-2017

	2012	2013	2014	2015	2016	2017
Real Economic Growth, Non-Oil Sector (%)	10.6%	10.4%	10.2%	11.5%	12.1%	12.8%
Inflation (rolling year, %)	11.7%	7.6%	7.7%	7.7%	7.7%	7.7%
Domestic Revenues ($ millions)	134.1	146.3	163.1	181.7	200.3	218.7

Sources: National Directorate of Economic Policy and Statistics Directorate, Ministry of Finance 2012

Strong, double-digit economic growth is targeted for the medium run (Table 2.3.3.1). These rates of growth reflect the effort of the Government to invest in capital formation; the backbone of medium to long-term economic activity in the country. This involves needed investments in physical capital, in particular via the infrastructure fund, but also in human capital, since a healthy and well educated population is paramount for the long term development of Timor-Leste.

Most of the projects financed through the infrastructure fund are multi-year projects. The bulk effect of these investments on the economy will thus only appear once the projects have been completed and economic agents will be able to make use of these investments.

The effects of the Government's human capital investment initiatives, reflected for instance in a strong HCDF budget and in increases in salaries and wages for health professionals and for professionals in higher education benefitting from the new career regime, are also likely to be mirrored in economic growth only in the medium to longer term.

In parallel, the Government aims at developing key non-petroleum economic sectors, such as tourism and agriculture, which will both benefit from the above-mentioned investments but also from specific ongoing additional projects, notably from particular projects of the PDD1 and PDD2, and the newly established PDID.

These are the main and driving factors behind the above 12% targeted rates of real economic growth from 2016 onwards.

Very high rates of real economic growth in the second half of this decade also reflect the Government's efforts and determination to reduce inflation in the medium term to rates below 8%. These rates of inflation are recognised as being above the 4-6% target range set in the SDP, but are considered realistic given the context of strong economic activity. Rates of inflation within the 4-6% target range are to be attained and maintained in the second decade of the SDP.

Domestic Revenue projections are discussed in section 2.5.2.

2.4: Expenditure and Development Partners' Commitments

2.4.1 Expenditures by Fund

The next table shows expenditure by fund in millions of US$. CFTL, the Infrastructure Fund and HCDF account for 60.7%, 36.7% and 2.6% of total Government expenditure respectively in 2013. Expenditure in the Infrastructure Fund has fallen in 2013 as the Government aims to maintain fiscal sustainability and ensure existing projects are implemented effectively. CFTL fund expenditure has increased due to higher spending on the social sectors and the need to maintain and run the recently constructed electricity generation infrastructure.

Table 2.4.1.1 Expenditure by Fund, $ millions

	2011 actual	2012 budget *	2013 budget**	2014 budget	2015 budget	2016 budget	2017 budget
Combined Sources Budget	**1,379.8**	**2,028.3**	**1,850.9**	**2,088.5**	**2,078.4**	**2,015.4**	**2,050.9**
Government Expenditures by Fund	*1,095.9*	*1,806.5*	*1,647.5*	*1,949.0*	*2,045.8*	*2,012.3*	*2,050.9*
CFTL	604.7	893.9	1,000.7	1,040.7	1,082.4	1,125.6	1,170.7
HCDF	16.8	37.5	42.4	40.0	45.0	45.0	49.0
Infrastructure Fund	474.4	875.1	604.4	868.3	918.4	841.7	831.2
Development Partner Commitments	*283.9*	*221.8*	*203.4*	*139.5*	*32.6*	*3.1*	*0.0*

* Final 2012 Budget after rectification and rollover

** After rollover

Sources: National Directorate of Budget and Development Partnership Management Unit, Ministry of Finance, 2012

2.4.2 CFET / CFTL Expenditures

The CFTL fund is the core fund of the Government of Timor-Leste. Ministries' budgets are included in this fund and expenditures are made against all five appropriation categories. The next table shows expenditure by appropriation category in the CFTL fund. The main points to note with regards to this table are that Salaries and Wages and Goods and Services have significantly increased by 15.5% and 15.0% respectively between 2012 and 2013, while Transfers have risen more modestly, by 2.2%.

Table 2.4.2.1: CFTL Expenditure by Appropriation Category, $ millions

	2011 budget	2012 budget*	2013 budget**	2014 budget	2015 budget	2016 budget	2017 budget
Total CFTL Expenditure	**604.7**	**893.9**	**1,000.7**	**1,040.7**	**1,082.4**	**1,125.6**	**1,170.7**
Recurrent	*491.0*	*719.9*	*798.6*	*830.5*	*863.8*	*898.3*	*934.2*
Salary and Wages	111.6	139.0	160.5	167.0	173.6	180.6	187.8
Goods and Services	236.7	347.1	399.1	415.0	431.6	448.9	466.9
Public Transfers	142.6	233.7	239.0	248.5	258.5	268.8	279.6
Capital	*113.8*	*174.0*	*202.1*	*210.2*	*218.6*	*227.3*	*236.4*
Minor Capital	27.2	49.2	49.6	51.6	53.6	55.8	58.0
Capital and Development	86.6	124.8	152.5	158.6	164.9	171.5	178.4

* Final 2012 Budget after rectification and rollover
** After rollover
Source: National Directorate of Budget, Ministry of Finance, 2012

The next five sections discuss new measures and expenditures for Salaries and Wages, Goods and Services, Public Transfers, Minor Capital and Capital and Development in detail.

2.4.2.1: Salaries and Wages

Increased Salaries and Wages expenditure, to $160.5 million, is in line with the Government's policy of creating an effective civil service and improving the qualifications, professionalism and services provided by staff in key sectors such as security, higher education and health. The main policies which have increased expenditure on Salaries and Wages in 2013, compared to 2012, include:

- Increasing the Salaries and Wages budget for the Ministry of Health to $22.1 million, mainly due to the new career regime for health professionals. This regime will increase the pay of health professionals with appropriate qualifications, motivating them to work in a conscientious, efficient and effective manner. In addition, the Government will be able to employ and adequately compensate recently qualified health professionals returning from Cuba. Better qualified and more motivated staff should improve the quality of healthcare in Timor-Leste over the long term.

- An increase in UNTL's budget for Salaries and Wages to $7.6 million due to the new career regime for professionals in higher education. This regime will lead to more competitive and fairer salaries for employees in the higher education sector. It should also motivate staff to improve their qualifications and allow the recruitment of more qualified staff. In the long term this regime should also contribute to better quality higher education, a goal which is emphasised in the SDP and Programme of the Fifth Constitutional Government of Timor-Leste.

- An increase in PNTL's salaries and wages budget to $13.6 million. This increase is associated with the employment of more policemen and policewomen to further improve security.
- An increase in FFDTL's Salaries and Wages budget to $7.9 million; this increase is associated with the recruitment of new soldiers to increase the capability of the defence forces.
- An increase in allowances to $9.1 million in the Ministry of Foreign Affairs associated with the establishment of embassies in the United Kingdom of Great Britain and Northern Ireland and New Zealand, and consulates in Darwin and Atambua.

2.4.2.2: Goods and Services

The budget for this category is $399.1 million. The main new measures in this area include:

- $100.8 million to pay for fuel for generators in EDTL. The Government believes that this budget is necessary to pay for the increase in fuel required as EDTL generates more electricity. The increase in generation capacity is due to the completion of the Hera power plant, and the expected completion of the Betano power plant in February 2013.
- The Goods and Services budget of the Ministry of Public Works has been increased by $10.0 million to pay for the operation and maintenance of the Hera power plant. This budget should help ensure that Hera continues to run efficiently and effectively in the long term.
- A budget to cover the new regime for payment of educators who previously worked on a voluntary basis at a cost of approximately $8 million.
- $7.0 million for the purchase of medicines and drugs in the Ministry of Health. The Government considers that this budget will contribute to better healthcare and outcomes in Timor-Leste.
- $3.0 million in Agriculture for the purchase of seeds. This budget should lead to an increase in the volume and value of production in the agriculture sector in future years, contributing to food security and reducing under-nutrition.

- $1.0 million in the Ministry of the State and the President of the Council of Ministers for the Special Economic Zone for Community markets.

2.4.2.3: Public Transfers

The total budget for public transfers in 2013 is $239.0 million. The main measures in this area include:

- $84.8 million in the National Directorate for Veterans and Liberation Issues in the Ministry of Social Solidarity to pay personal benefits for war veterans.
- $38.3 million to be used to pay benefits of $30 a month to those over 60 years of age and those who have a proven disability which prevents them from working.
- $16.0 million in the Prime Minister's office principally to support international and local NGOs and religious organisations. These bodies make an important contribution to Timor-Leste's culture, spiritual well-being and development.
- $10.5 million for the cash for work programme in SEFOPE. This programme contributes to the reduction of unemployment.
- $8.0 million in the Ministry of State Administration to pay for the new PNDS programme to assist villages. This programme should boost local development.
- $5.0 for the National Electoral Commission to support political parties.
- $3.0 million for land compensation and $5.0 million for the "Ita nia rai/your land" programme in the Ministry of Justice.
- $2.0 in the Ministry of Tourism, Commerce and Industry for the promotion of the private sector and co-operatives.

2.4.2.4: Minor Capital

$49.6 million has been allocated for minor capital in 2013. This represents a minor increase of 0.8% compared to 2012. This is in line with the Government's policy of carefully controlling growth in expenditure for this appropriation category. New measures affecting minor capital include:

- $5.0 million for the purchase of medical equipment in the Ministry of Health. This budget includes money to purchase operation theatre lights and tables, ECGs (electronic heart monitoring machines), anaesthetic machines, a defibrillator and other medical equipment. This spending should improve the ability of the health service to diagnose and treat diseases, especially non-communicable conditions.

- $5.0 million for purchasing equipment for the electricity metering system in the Ministry of Public Works.

- $3.0 million for the purchase of water and sanitation equipment in the Ministry of Public Works.

- $1.3 million for the purchase of furniture in PNTL and FDTL. This budget is necessary to furnish 300 houses that are used as living quarters for soldiers and the police.

- $1.2 million for the purchase of vehicles and equipment to improve safety and efficiency at airports. This expenditure includes the purchase of a fire engine for the airport.

2.4.2.5: Capital and Development

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

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

	2011 budget	2012 budget*	2013 budget**	2014 budget	2015 budget	2016 budget	2017 budget
PDD1 Sub-district, Suco and Aldeia (re-appropriation)	15.8	34.4	9.4	*N/A*	*N/A*	*N/A*	*N/A*
PDD2 District (re-appropriation)	26.6	30.1	6.3	*N/A*	*N/A*	*N/A*	*N/A*
PDID Program (from 2013 on)	*N/A*	*N/A*	71.3	90.5	94.1	97.9	101.8
Ministries / Agencies	44.1	60.3	65.5	68.1	70.8	73.6	76.6
Total Capital and Development	**86.6**	**124.8**	**152.5**	**158.6**	**164.9**	**171.5**	**178.4**

* Final 2012 Budget after rectification and rollover
** After rollover
Source: National Directorate of Budget, Ministry of Finance, 2012

The Government is committed to a fair and transparent distribution of PDID, PDD1 and PDD2 projects in districts throughout Timor-Leste. In this regard, meetings are organised with Suco chiefs, citizens and community leaders to identify the demand for different projects. These projects are then collated and reviewed by the Ministry of State Administration to ensure that spending on these programme is in line with fiscal sustainability. The Ministry of State Administration also determines the distribution of the PDID, PDD1 and PDD2 budget between different districts using a formula that partly depends on population per district. The Budget Review Committee makes the final decision regarding the inclusion of projects in the State Budget proposed to Parliament. The Government is committed to transparently and clearly showing expenditure in different districts. Budget Book 3 shows total spending and spending per capita for PDID and ongoing PDD1 and PDD2 projects in each district.

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

2.4.3: Infrastructure Fund

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

Table 2.4.3.1 shows the distribution of the Infrastructure Fund budget by programme. Column B shows the 2012 final budget, after rollover and rectification. The Government's current forecast of actual end of year 2012 expenditure is then shown in column C. The rollover from 2012 to 2013 is displayed in column D. The rollover is calculated based as the final budget minus forecasted end of year expenditure. The additional amount being appropriated in 2013 is then shown in column E. The 2013 final budget for each programme is shown in column F and is equal to the rollover from 2012 to 2013 (column D) plus the new appropriation (column E).

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

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

Table 2.4.3.1 also shows the distribution of Infrastructure Fund expenditure across different programmes. The largest three programmes in terms of budgeted expenditure are Tasi Mane, Electricity and Roads which account for 23.1%, 20.5% and 14.6% of total expenditure respectively. This distribution of expenditure is in line with the Government’s policies with the SDP and programme of Government strongly emphasising the importance of these sectors to the development of Timor-Leste.

2.4.3.1 Infrastructure Fund Expenditures by Programme, $ millions

A. Infrastructure Project	B. 2012 Budget after Virements and Rollover	C. 2012 F'casted Actual	D. Rollover 2012 to 2013 (=B-C)	E. 2013 Additional App'tions	F. Final 2013 Budget (=D+E)	G. 2014 Budget	H. 2015 Budget	I. 2016 Budget	J.2017 Budget
Agriculture and Fisheries	9.2	3.5	5.8	2.2	8.0	26.9	37.0	20.7	10.0
Water and Sanitation	13.5	4.9	8.6	1.5	10.1	13.2	27.0	35.0	37.0
Urban and Rural Development	7.1	0.0	7.1	-0.5	6.6	5.0	1.0	0.0	0.0
Electricity	301.8	291.8	10.0	113.6	123.7	91.5	89.0	49.0	39.0
Roads	114.4	45.9	68.5	19.6	88.1	166.8	115.2	85.6	45.9
Bridges	31.1	17.3	13.8	4.5	18.3	13.0	7.2	2.0	2.0
Airports	9.5	0.0	9.5	-1.0	8.5	26.0	24.0	20.0	20.0
Ports	10.7	0.7	10.0	1.0	11.0	21.8	29.0	35.0	50.0
Information Technology	12.0	6.2	5.8	4.7	10.5	7.2	5.5	0.0	0.0
Public Buildings	49.9	13.0	36.9	3.8	40.7	97.9	65.6	17.3	0.0
Education	11.3	1.4	9.9	-0.7	9.1	18.6	22.0	20.0	0.0
Millennium Development Goals	117.5	14.0	103.5	-57.3	46.3	81.5	65.0	65.0	61.1
Health	6.4	4.1	2.3	-0.3	2.0	3.4	3.0	0.0	0.0
Security and Defence	12.6	4.8	7.8	9.8	17.6	6.0	1.5	0.0	0.0
Social Solidarity	1.9	1.6	0.4	1.3	1.7	1.8	1.0	1.0	1.0
Tasi Mane Project	123.0	21.6	101.5	38.0	139.4	184.0	269.4	330.5	400.0
Preparation, Design and Supervision of New Projects	0.0	0.0	0.0	19.4	19.4	33.2	35.2	38.9	42.3
Loans Program	43.1	0.0	43.1	0.5	43.6	70.6	120.9	121.7	123.0
Total Infrastructure (by Program)	**875.1**	**430.8**	**444.4**	**160.0**	**604.4**	**868.3**	**918.4**	**841.7**	**831.2**

Source: National Directorate of Budget, Ministry of Finance, 2012

2.4.4: Human Capital Development Fund

Table 2.4.4.1 shows the Human Capital Development fund budget by programme. The rollover for each programme is clearly shown. The largest programme in the HCDF is Scholarships. This programme should significantly contribute to the development of human capital in Timor-Leste.

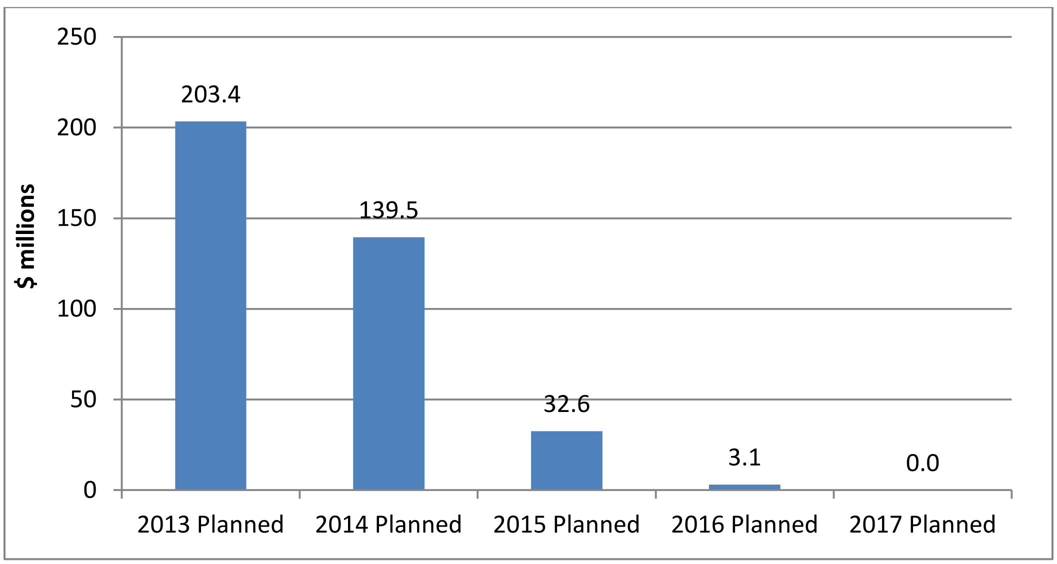
Table 2.4.4.1 Human Capital Development Fund by Program, $ millions

	Rollover 2012 to 2013	2013 Additional App'tions	Final 2013 Budget	2014 Budget	2015 Budget	2016 Budget	2017 Budget
Vocational Training	0.6	4.3	4.8	0.0	0.0	0.0	0.0
Technical Training	0.0	3.1	3.1	0.0	0.0	0.0	0.0
Scholarships	6.4	16.9	23.3	11.9	11.2	9.5	9.5
Other Training	1.6	9.7	11.2	2.1	12.0	11.0	12.0
New allocations (HCDF)	0.0	0.0	0.0	26.1	21.8	24.5	27.5
Total	**8.5**	**33.9**	**42.4**	**40.0**	**45.0**	**45.0**	**49.0**

Source: National Directorate of Budget, Ministry of Finance, 2012

2.4.5 Development Partners

Table 2.4.5.1: Development Partners' Commitments 2013-2017, $ millions



Source: Development Partnership Management Unit, Ministry of Finance, 2012

Development partners will provide a total of $203.4 million in grants to Timor-Leste in 2013. Book 5 outlines and discusses the details of these commitments. It should be noted that concessional loans are not included in these numbers.

2.4.6 Supporting Timor-Leste's Culture

The Government is committed to honouring and supporting the unique culture of Timor-Leste and the dignity of its people. For this reason the 2013 State Budget includes funding to support cultural and religious activities. Specific expenditures in this area include, but are not limited to:

- $16.0 million in the Prime Minister's office to support international and local NGOs and religious organisations. These bodies make an important contribution to Timor-Leste's culture, spiritual well-being and development.
- Expenditures to support museums and cultural events in the Ministry of Tourism's budget.

2.5: Revenues

2.5.1: Overview of Revenue Projections

Table 2.5.1.1 shows total projected revenues for Timor-Leste up to 2017. The gradual trend of petroleum revenues declining is in general set to continue, with the exception of 2015. Domestic revenues, while still growing robustly, continue to make up a small proportion of overall revenues and thus do not completely offset the decline from petroleum. This leads to a picture of falling total revenues, which underlines the importance of focusing on domestic revenue streams going forward.

Table 2.5.1.1 Total Revenue, 2011 – 2017, $ millions

	2011	2012	2013	2014	2015	2016	2017
	Actual	Estimate	Projection				
Total Revenues	**3,348.6**	**2,887.5**	**2,455.4**	**2,135.0**	**2,358.5**	**2,345.0**	**2,277.2**
Domestic Revenues	108.5	134.1	146.3	163.1	181.7	200.3	218.7
Petroleum Revenues	3,240.1	2,753.4	2,309.1	1,971.9	2,176.7	2,144.7	2,058.5

Source: National Directorate of Economic Policy and Petroleum Fund Administration Unit, Ministry of Finance, 2012

2.5.2: Domestic Revenues

2.5.2.1: Overview

Table 2.5.2.1.1: Domestic Revenue 2011 – 2017, $ millions

	2011	2012	2013	2014	2015	2016	2017
	Actual	Estimate	Projection				
Total Domestic Revenue	**108.5**	**134.1**	**146.3**	**163.1**	**181.7**	**200.3**	**218.7**
Direct Taxes	27.9	39.2	41.8	48.3	55.0	61.8	68.9
Indirect Tax	50.7	57.4	64.0	70.3	78.4	86.7	95.2
Other Tax Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fees and Charges	11.6	12.7	14.5	15.0	15.6	16.3	16.9
Social Game Receipt	0.5	0.2	0.3	0.3	0.3	0.3	0.3
Rice Sales	1.0	5.0	2.5	2.6	2.7	2.8	2.9
Sales of Local Produce	0.0	0.2	0.3	0.4	0.4	0.4	0.4
Interest	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Auto Agencies	16.8	19.3	22.8	26.1	29.2	31.8	33.9

Source: National Directorate of Economic Policy, Ministry of Finance, 2012

Domestic Revenues are comprised primarily of taxes, fees and charges, other non-tax revenue streams (including the rice subsidy program) and the autonomous agencies. Table 2.5.2.1.1 shows the projected growth path for each of these categories, which are generally on the increase. Domestic revenues are set to increase by 9.2% in 2013 from the 2012 level.

2.5.2.2: Taxes

Table 2.5.2.2.1 shows revenue projections by category and tax type. Having sharply increased in 2012 to an estimated $39.2 million, growth in direct taxes is projected to moderate its growth in 2013 to $41.8 million before picking up again in outgoing years. These changes are largely due to the increased Government investment in the economy through capital expenditures. Building and construction contracts are subject to withholding tax and most of the growth in direct tax is due to this. However, with the budget for infrastructure decreasing in 2013, it is forecast that withholding tax will not grow by as much in that year, before resuming stronger growth in the following years. Income taxes are forecasted to continue increasing at a moderate rate, while corporate tax continues to grow faster as more private sector businesses open.

The projection for indirect taxes for 2013 is $64.0 million, continuing the robust growth experienced in 2012 in outgoing years. This largely reflects the fact that, as a small developing island nation, Timor-Leste is very dependent on imports for domestic consumption and investment. Excise Tax and Import Duties are projected to make up over two-thirds of Indirect Taxes in 2013, as well as much of the growth going forward. Changes to tax policy, such as the introduction of a VAT would alter these projections in future years.

Table 2.5.2.2.1: Total Tax Revenue 2011 – 2017, $ millions

	2011	2012	2013	2014	2015	2016	2017
	Actual	Estimate	Projections				
Total Tax	**78.6**	**96.6**	**105.8**	**118.6**	**133.4**	**148.6**	**164.1**
Direct Taxes	**27.9**	**39.2**	**41.8**	**48.3**	**55.0**	**61.8**	**68.9**
Income Tax	8.1	8.4	8.9	9.9	10.9	12.1	13.4
Individual Income	*0.6*	*1.0*	*1.1*	*1.2*	*1.3*	*1.5*	*1.6*
Individual Inc Other	*7.4*	*7.3*	*7.8*	*8.7*	*9.6*	*10.6*	*11.8*
Corporate Tax	4.2	6.5	7.6	9.0	10.3	11.6	13.0
Withholding Tax	15.6	24.3	25.3	29.4	33.8	38.2	42.5
Indirect Taxes	**50.7**	**57.4**	**64.0**	**70.3**	**78.4**	**86.7**	**95.2**
Service Tax	4.0	4.5	5.2	6.0	6.9	8.0	9.2
Sales Tax	8.2	15.4	15.9	18.6	21.2	23.9	26.5
Excise Tax	22.0	26.4	31.7	34.5	39.0	43.5	48.1
Import Duties	16.4	11.1	11.2	11.2	11.3	11.3	11.4
Other Tax Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: National Directorate of Economic Policy, Ministry of Finance, 2012

2.5.2.3: Fees and Charges

Table 2.5.2.3.1: Fees and Charges Projections 2011 – 2017, $ millions

	2011	2012	2013	2014	2015	2016	2017
	Actual	Estimate	Projection				
Total Fees and Charges	**11.6**	**12.7**	**14.5**	**15.0**	**15.6**	**16.3**	**16.9**
Business Registration Fees	0.7	1.4	2.2	2.3	2.4	2.5	2.6
Postage Fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Property Rentals	2.8	2.9	2.9	3.1	3.2	3.3	3.4
Water Fees	0.1	0.0	0.0	0.0	0.0	0.0	0.0
National University Fees	0.6	0.7	0.7	0.7	0.8	0.8	0.8
Vehicle Registration Fees	1.2	0.7	0.7	0.7	0.7	0.8	0.8
Vehicle Inspection Fees	0.0	0.3	0.3	0.3	0.3	0.3	0.3
Vehicle Inspection Imported	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Drivers Licence Fees	0.0	0.1	0.1	0.2	0.2	0.2	0.2
Franchising Public Transport Fees	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Transport Penalties	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Other Transport Fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ID and Passport	0.6	0.6	0.6	0.7	0.7	0.7	0.7
Visa Fees	1.2	1.0	1.0	1.0	1.1	1.1	1.1
Hospital and Medical Fees	0.1	0.3	0.3	0.3	0.3	0.3	0.3
Other Fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Court Fees	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Dividends, Profits, and Gains	2.5	3.6	4.3	4.5	4.6	4.8	5.0
Fines and Forfeits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mining and Quarrying	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Radio and Television Fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bid Document Receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Auctions	0.1	0.3	0.4	0.5	0.5	0.5	0.5
Embassy Fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Illegal Logging Fines	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Rental Government Property	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Investment Registration Fee	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Non-Tax Revenue	1.4	0.3	0.2	0.2	0.2	0.2	0.2

Source: National Directorate of Economic Policy, Ministry of Finance, 2012

Table 2.5.2.3.1 contains the projected income from User Fees and Charges, which are expected to increase from $12.7 million in 2012 to reach $14.5 million in 2013. Fees and Charges are the most changeable part of the revenue system, with several changes to its categories each year – such as the breakdown of fees regarding vehicles into several categories in 2012, or new categories such as fines for illegal logging or rental of government properties. Therefore this section – and in particular its constituent parts – are subject to change in outgoing years based on new revenue streams or government policies.

2.5.2.4: Other Revenue Streams

The other major revenue streams are Social Games Receipts, Rice Sales, Sale of Local Produce and Interest rates. Of these, Rice Sales are by far the largest and most variable, with future projections made difficult due to evolving Government policy, uncertainty regarding totals to be imported, totals to be sold at a subsidised level (as opposed to used in the school lunch programme) and future international rice prices. These projections are based on the Ministry of Commerce and Industry's forecast purchases in 2013 and past prices of rice. Gradual increases forecast in outgoing years, though policy changes or fluctuations in rice and other food prices could alter these significantly.

The other revenue streams here have a much smaller impact on overall revenues, with Interest and Social Games revenue projected to remain low but steady in coming years. However, in terms of the Sales of Local produce, the Secretary of State of Food Security projects slightly faster increases in coming years, though this is again to some extent dependent on unknown variables such as international food prices.

2.5.2.5: Autonomous Agencies

Table 2.5.2.5.1: Autonomous Agencies 2011 – 2017, $ millions

	2011	2012	2013	2014	2015	2016	2017
	Actual	Estimate	Projection				
Total Autonomous Agencies	**16.8**	**19.3**	**22.8**	**26.1**	**29.2**	**31.8**	**33.9**
Equipment Management	0.1	0.1	0.0	0.3	0.3	0.3	0.3
Aviation	1.3	1.3	1.4	1.5	1.5	1.6	1.6
Port	2.5	2.7	3.3	3.4	3.5	3.7	3.8
EDTL	12.4	14.9	17.9	20.9	23.7	26.2	28.0
SAMES	0.5	0.2	0.3	0.1	0.1	0.1	0.1

Source: National Directorate of Economic Policy, Ministry of Finance, 2012

Revenues from Autonomous Agencies (Equipment Management, Aviation, Port, EDTL and SAMES) are shown in Table 2.5.2.5.1, and are set to continue their steady growth path in coming years. Radical changes to infrastructure may change these revenue paths, as has already been seen in the case of EDTL's receipts, which have increased significantly since the opening of the Hera power plant in 2011.

Indeed EDTL is by far the most significant contributor to this category, and is expected to see its revenues expand from $14.9 million in 2012 to $17.9 million in 2013. This is due to the increasing demand for electricity by businesses and domestic consumers, the continued efforts to provide country-wide access to the grid and improvements in charging mechanisms.

Growth in Aviation revenue is projected to be steady, reaching $1.4 million in 2013, though this could change depending on improvements to infrastructure or increased tourism.

Revenues from the port are projected at $3.3 million in 2013, continuing a path of steady significant growth due to dependence on imports and large construction projects.

2.5.3: Petroleum Revenues and the Petroleum Fund

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

2.5.3.1 Inflows of Petroleum Revenues

The factors driving the inflow of petroleum revenues are prices, production and costs. Compared with the 2012 State Budget, the oil price in this material is assumed somewhat higher over the forecasting period, while there are only minor changes to production and cost. Petroleum revenues from Bayu-Undan and Kitan peaked in 2011 and are forecasted to decline to $2,309.1 million in 2013 (excluding interest), before temporarily levelling off until 2017, as in Tables 2.5.3.1.1 and 2.5.3.1.2.

Table 2.5.3.1.1 Estimated Petroleum Revenues 2011-2017, $ millions

	2011 Actual*	2012 Estimate**	2013 Budget	2014 Projection	2015 Projection	2016 Projection	2017 Projection
Total Petroleum Revenue	**3,461.4**	**2,961.3**	**2,797.9**	**2,614.6**	**2,891.6**	**2,947.8**	**2,960.1**
Petroleum Fund Interest received	221.2	207.8	488.8	642.7	714.8	803.1	901.6
Total Petroleum Revenue Excluding Interest	**3,240.1**	**2,753.4**	**2,309.1**	**1,971.9**	**2,176.7**	**2,144.7**	**2,058.5**
BU*** FTP/Royalties	202.6	170.5	154.4	147.5	153.9	147.4	141.3
BU Profit oil	1,692.6	1,388.3	1,137.8	969.6	1,138.2	1,166.3	1,112.9
BU Income Tax	574.5	410.3	395.6	418.9	405.9	374.6	366.9
BU Additional Profit Tax	569.4	450.8	395.6	326.6	440.3	423.9	409.9
BU Value Added Tax	15.6	13.1	13.4	12.9	9.4	9.9	10.2
BU Wages Tax	14.9	10.0	8.5	8.7	8.8	9.0	9.2
BU Pipeline Payments	8.0	8.2	8.2	8.2	8.2	8.2	8.2
BU Other Payments	100.2	50.8	31.7	9.6	0.0	0.0	0.0
BU Withholding Tax	17.5	0.0	0.0	0.0	0.0	0.0	0.0
Kitan	44.9	251.5	164.0	70.0	12.0	5.4	0.0

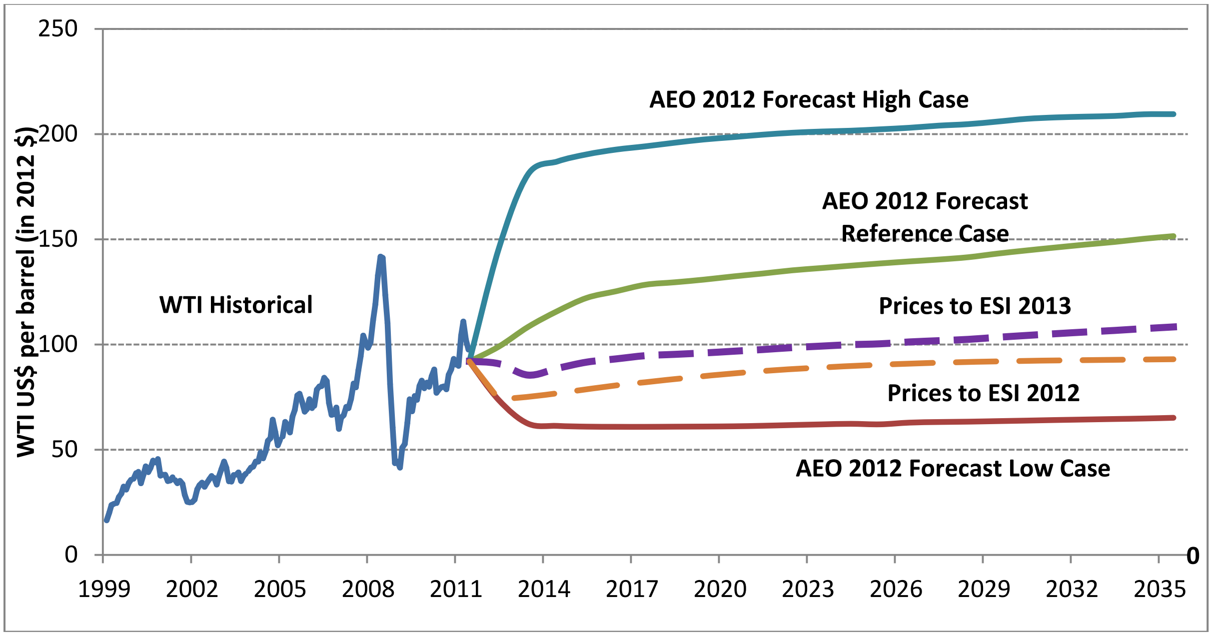
* Actual Cash flow for 2011
** Estimated 2012 as of July 2012. From 2012 onwards BU Withholding Tax is included in BU Value Added Tax.
*** BU: Bayu Undan
Source: Petroleum Fund Administration Unit, Ministry of Finance, 2012

Petroleum prices

The Petroleum Revenue forecasts are based on an average oil price (West Texas Intermediate - WTI) in 2012 of $91 per barrel, compared with $74 per barrel in the Budget 2012.[15] The average oil price is forecasted at $87 and $91 per barrel for 2013 and 2014, respectively, higher than previously expected. The average oil price over the expected remaining life of Bayu-Undan (and Kitan) is forecasted about 14% higher than in the Budget 2012. The oil price forecast is still prudent, as required by law, being lower than the most likely case of EIA[16] and WTI futures[17], and significantly lower than EIA's high case, as in Figure 2.5.3.1.1.

[15] The prices on Bayu-Undan and Kitan liquids products (condensate and LPG) are estimated based on historical relationships with the benchmark WTI. Liquefied Natural Gas (LNG) prices are forecasted using the provisional price formula negotiated between sellers and buyers. The price formula is renegotiated every three years.
[16] Energy Information Administration, www.eia.gov
[17] WTI Futures reflects the expectations of the parties (seller and buyer) in the oil market regarding the future oil price and quantity to be delivered.

Figure 2.5.3.1.1 Historical Changes and Future Projections in the WTI Oil Price ($ per barrel)



Source: Petroleum Fund Administration Unit, Ministry of Finance, 2012

Petroleum Production

The production forecast of liquids (condensate and LPG) for Bayu-Undan is similar to the one in the 2012 Budget. The total petroleum production from Bayu-Undan (also including LNG) is estimated to have peaked in 2011 and is now set to ebb off before ceasing in 2024, as in Table 2.5.3.1.2.

Total production was 62 million barrels of oil equivalents in 2011, including 3 million barrels of oil equivalent from Kitan. Following a temporary increase in production at Kitan, total production is projected to be 65 million barrels of oil equivalents in 2012 before gradually starting to decline.

The Field Development Plan for the Kitan field was approved in 2010 and the production commenced in the Q4 of 2011. 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 of oil respectively over the lifetime of the project. The total revenue stream based on the Low Production Case is estimated at $550.0 million, or some 5.0% of Bayu Undan.

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

Timor-Leste Petroleum sector				
	Average WTI oil price, $/Barrel	Production , million barrels oil equivalent	Total Discounted Petroleum Revenues, $ millions	Total Undiscounted Petroleum Revenues, $ millions
Total	**0.0**	**932.8**	**15,451.5**	**33,997.8**
Total from 1 January 2013	**0.0**	**462.5**	**15,451.5**	**19,557.4**
to 2002	0.0	0.0	0.0	0.0
2003	0.0	0.0	0.0	10.2
2004	41.5	16.9	0.0	166.1
2005	56.6	29.0	0.0	318.7
2006	66.1	57.1	0.0	620.6
2007	72.3	57.7	0.0	1,307.4
2008	99.7	64.2	0.0	2,287.1
2009	62.0	61.8	0.0	1,640.6
2010	79.5	57.3	0.0	2,085.3
2011	94.9	61.7	0.0	3,251.0
2012	90.8	64.7	0.0	2,753.4
2013	86.6	60.4	2,260.4	2,309.1
2014	91.1	53.0	1,840.0	1,971.9
2015	95.6	52.5	1,931.8	2,176.7
2016	98.8	48.7	1,807.0	2,144.7
2017	102.3	45.2	1,643.3	2,058.5
2018	105.0	38.2	1,261.1	1,668.4
2019	107.8	39.5	1,263.0	1,764.7
2020	110.9	36.7	1,140.5	1,683.7
2021	114.0	35.3	1,019.5	1,590.0
2022	117.4	26.5	661.6	1,090.1
2023	120.5	20.8	507.7	883.6
2024	123.8	5.9	84.3	154.9
2025	126.7	0.0	31.5	61.1

Source: Petroleum Fund Administration Unit, Ministry of Finance, 2012

Costs

The estimated costs for the Bayu-Undan project are forecasted slightly higher than in the Budget 2012, which again was forecasted significantly higher than in the 2011

Budget. As discussed in last year's budget, the change in the cost projections between 2011 Budget and 2012 Budget derives primarily from the strengthened AUS$, in which a significant proportion of costs are incurred, and corrosion and other operational issues that require remedial action over the next few years.

2.5.3.2 Petroleum Wealth and ESI calculation

Table 2.5.3.2.1: Key assumptions behind ESI

Asset recognition	Forecast petroleum revenues are included only for projects with approved development plans. This includes Bayu-Undan and Kitan.
Petroleum Reserves and Production Forecasts	Production estimates are provided by project operators. Low case production is used, consistent with a 90.0% probability that actual will exceed the forecast.
Oil price forecast	ESI for Budget 2013 is prepared using the average of Energy Information Agency (EIA) low case and reference case for light sweet crude oil (WTI[18]).
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. Liquefied Natural Gas (LNG) prices are forecast using the provisional price formula negotiated between the Darwin LNG (DLNG) facility and Japanese LNG buyers. The price formula is renegotiated every three years.
Production costs	Central estimate of future capital and operating costs as provided by project operators.
Discount rate	Under Schedule 1 of the Petroleum Fund Law, the interest rate used to discount future petroleum revenue is the expected rate of return on the portfolio of financial assets held in the Fund. The Fund's investment guidelines have recently been changed to 60.0% bonds and 40.0% equities.

Source: Petroleum Fund Administration Unit, Ministry of Finance, 2012

According to the Petroleum Fund Law, the Estimated Sustainable Income (ESI) is the maximum amount that can be appropriated from the Petroleum Fund in a fiscal year and leave sufficient resources in the Petroleum Fund for an amount of the equal real value to be appropriated in all later years. The ESI is set to be 3.0% of the Petroleum

[18] The EIA "Low Sulphur Light Oil" is stated in EIA documentation to be the same as WTI.

Wealth. However, the Government could withdraw an amount from the Petroleum Fund in excess of ESI given a justification that it is in the long term interest of Timor-Leste is provided to and approved by the National Parliament.

Petroleum Wealth, which comprises the balance of the Fund and the Net Present Value of future petroleum revenue, is estimated to be $26,231.7 million as of 1 January 2013. Accordingly, the ESI is estimated at $787.0 million for 2013. This is an increase of $142.8 million compared with the 2013 ESI as estimated in last year's budget. The key assumptions behind the calculations are listed in Table 2.5.3.2.1.

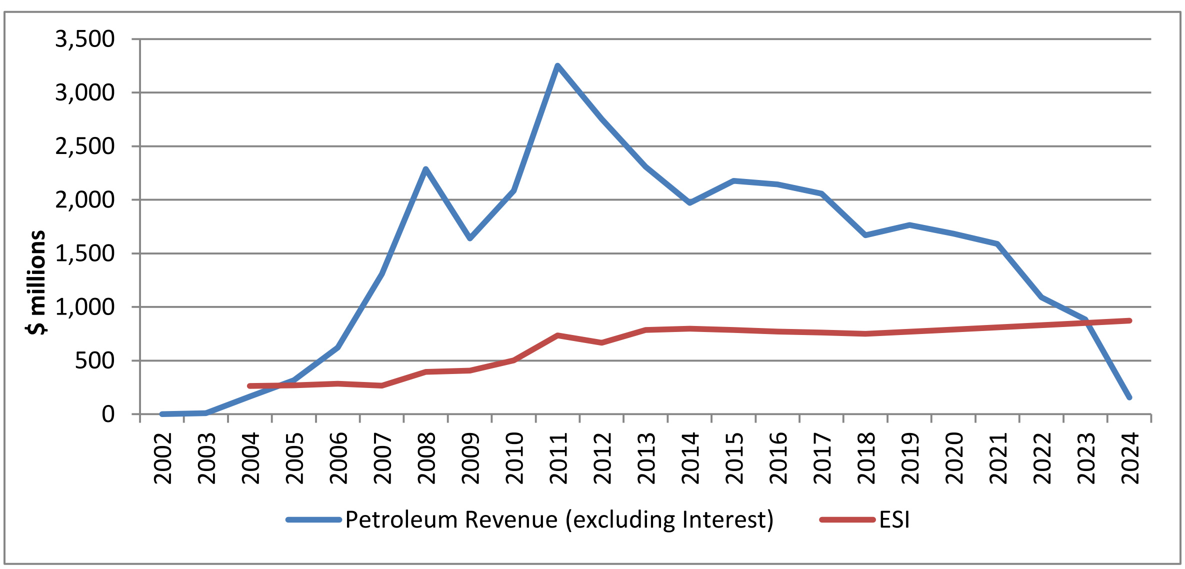
Table 2.5.3.2.2 Petroleum Wealth and the Estimated Sustainable Income (ESI), $ millions

	2012	2013	2014	2015	2016	2017
	Budget	Projections				
Opening PF Balance	8,678.9	10,776.7	12,787.6	13,687.0	14,835.5	16,092.9
Net Present Value of Future Revenues	13,496.1	15,455.0	13,809.8	12,473.9	10,893.1	9,282.0
Total Petroleum Wealth (PW)	**22,175.0**	**26,231.7**	**26,597.4**	**26,160.9**	**25,728.5**	**25,375.0**
Estimated Sustainable Income (PWx3%)	**665.3**	**787.0**	**797.9**	**784.8**	**771.9**	**761.2**

Source: Petroleum Fund Administration Unit, Ministry of Finance, 2012

Table 2.5.3.2.2 shows the estimated Petroleum Wealth and the ESI from 2012 and onwards, assuming that withdrawals from the Fund in excess of the ESI are the same amount as shown in Table 2.5.3.3.2.

Figure 2.5.3.2.1 Timor-Leste Petroleum Revenues and Estimated Sustainable Income 2002-2025, $ millions



Source: Petroleum Fund Administration Unit, Ministry of Finance, 2012

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

Changes in the ESI from 2012 to 2013

Figure 2.5.3.2.2 shows the key incremental changes in 2013 ESI since the Budget 2012. Main driving factors include oil price, price differentials, petroleum production and costs.

Actual data 2011

The current ESI for 2013 incorporates the actual development in 2011, which increases the 2013 ESI by $28.0 million. The change is mostly due to higher than expected oil prices.

Actual 2012 withdrawals from the Petroleum Fund

The 2013 ESI as estimated in Budget 2012 is based on the assumption that the Government would only withdraw the ESI from the Petroleum Fund in 2012. In 2012, the Parliament approved withdrawing $1,495.0 million from the Fund, which is $829.7 in excess of the ESI. This higher withdrawal in 2012 reduces the 2013 ESI by $24.5 million.

Liquids production

The difference in the production forecasts used in this material and Budget 2012 is small and results in an $11.2 million increase in ESI for 2013.

Oil prices

The current ESI for 2013 assumes an average oil price of $91 per barrel in 2012, based on the actual development for the first half of the year and EIA's forecasts going forward.[19] The Budget 2012 assumed an oil price of $74 per barrel for 2012. Moreover, the EIA's oil price forecast over the projected life of Bayu-Undan and Kitan are 14% higher than projected at the same time last year. These changes increase 2013 ESI by $98.4 million.

Liquids price differentials (condensate and LPG)

As in previous years, the price for Bayu-Undan condensate products is forecasted based on the relationship with the WTI benchmark price. The development in this relationship

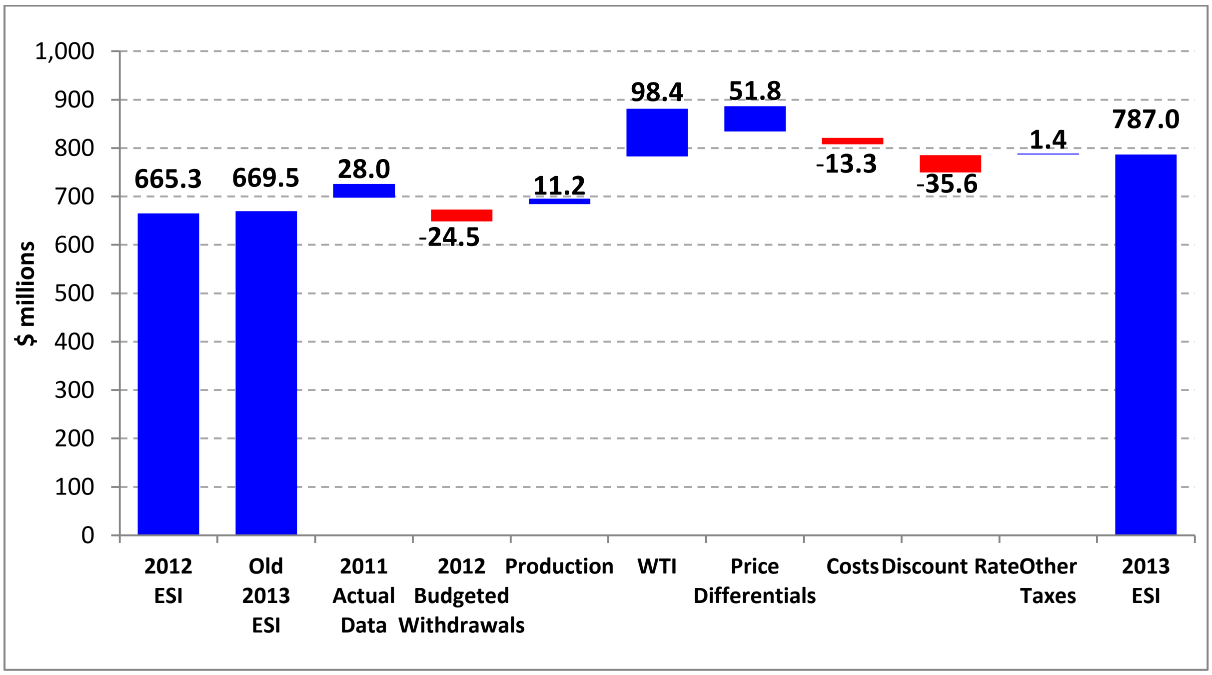
[19] These forecasts are reported by the EIA and also available from Annual Energy Outlook 2012: http://www.eia.doe.gov/oiaf/aeo/index.html.

implies a higher price on the Bayu-Undan products than previously assumed. The relationship between WTI and LPG has changed only slightly. The updated price differentials increase the 2013 ESI by $51.8 million. See the below paragraph on methodology review for further discussion of the price differential.

Cost

Production costs from the two operators (COP and ENI) are forecasted slightly higher in this material than in Budget 2012. The increase in the cost forecasts reduces 2013 ESI by $13.3 million.

Figure 2.5.3.2.2 Changes in the 2013 ESI (from Budget 2012 to Budget 2013), $ millions



Source: Petroleum Fund Administration Unit, Ministry of Finance, 2012

Discount rate

Under Timor-Leste law, the discount rate used in the Net Present Value (NPV) calculation of future petroleum revenues must equal the expected rate of return of the Petroleum Fund portfolio. The expected long-term nominal portfolio return has increased from 3.7% to 5.7% due to higher allocation to equities. By definition, an increase in the NPV discount rate decreases the NPV. The increase in the NPV discount rate results in a decrease in 2013 ESI of $35.6 million.

Other Taxes

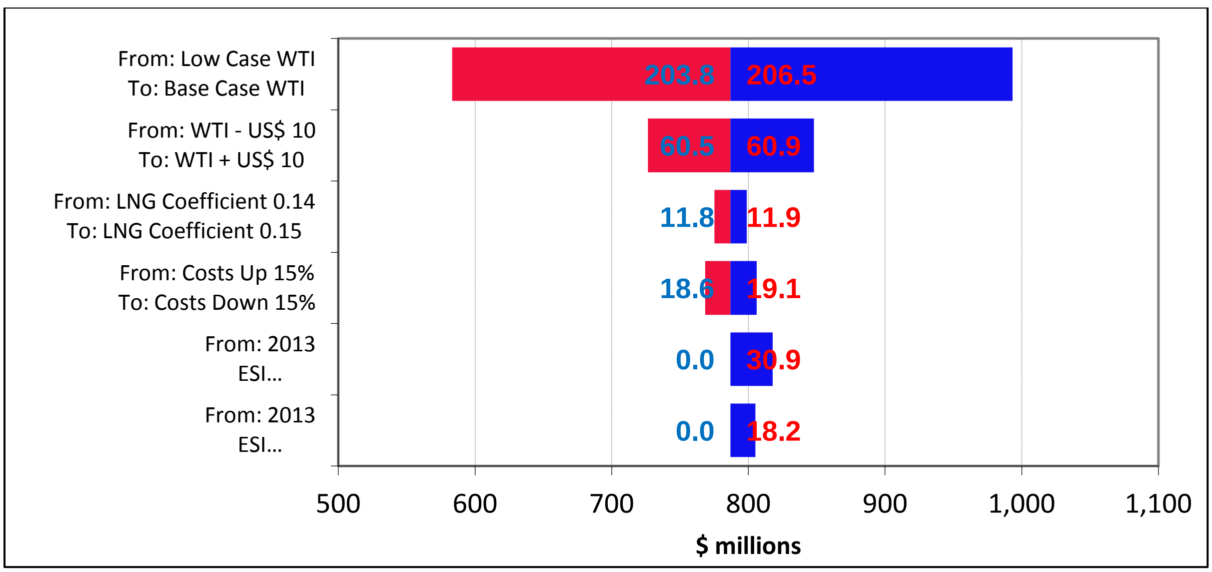
Other taxes include wage taxes, tax collections from subcontractors and exploration drilling. These taxes are forecast for Budget 2013 based on an analysis of recent collections and taking into account exploration work commitments as advised by Autoridade Nacional do Petroleo (ANP). The change in the forecast of other taxes increases 2013 ESI by $1.4 million.

Sensitivity analysis

The Government's objective is to prepare an ESI that is prudent overall, as required by the Petroleum Fund Law. Although the calculations are based on the best information available and advice from experts, each input is inherently subject to significant uncertainty. Figure 2.5.3.2.3 shows how 2013 ESI changes when key assumptions are changed individually.

The sensitivity analysis starts with the 2013 ESI of $787.0 million and shows by how much the ESI would change if a different assumption for each key variable were used. The analysis shows that the oil price has by far the biggest impact on the ESI.

Figure 2.5.3.2.3 Sensitivity Analysis – Estimated Sustainable Income, $ millions



Source: Petroleum Fund Administration Unit, Ministry of Finance, 2012

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 IMF. No material changes in methodology have been implemented since then. Minor adjustments include:

Production forecast methodology for Liquefied Natural Gas (LNG) has been changed back to the previous methodology. The ConocoPhillips (COP) low case LNG forecast has usually mirrored the base case for most of the project life. In 2011, however, COP low case LNG forecast was limited to the Annual Contract Quantity (ACQ) with the buyers. COP confirmed they would always choose to produce the maximum possible LNG amount, that there was limited risk of the production capacity of the LNG plant being below that reflected in the base/P50 case and that there was sufficient gas to produce the base case volume until at least 2022. The Ministry of Finance therefore took the view in 2011 that a prudent LNG forecast is one consistent with a P50 case, but with a cut-off in 2022 consistent with the low case liquids forecasts. In 2012, the COP LNG forecast again follows the methodology used in years prior to 2011. The ESI methodology has therefore been changed accordingly, using low case production as the prudent forecast.

Discounting principles. Under Schedule 1 of the Petroleum Fund Law, the interest rate used to discount future petroleum revenue is the expected rate of return on the portfolio of financial assets held in the Fund. In previous years, the expected return has been set equal to the 10 years rolling average of the nominal yield on US bonds with various maturities. Further to the new investment strategy of the Petroleum Fund with a higher portion of growth assets, the long-term real return of the portfolio is expected to be 3.6% per year. The nominal return is arrived at by using the official US inflation forecast from the US Congressional Budget Office (CBO, since the assets are denominated in US$).[20]

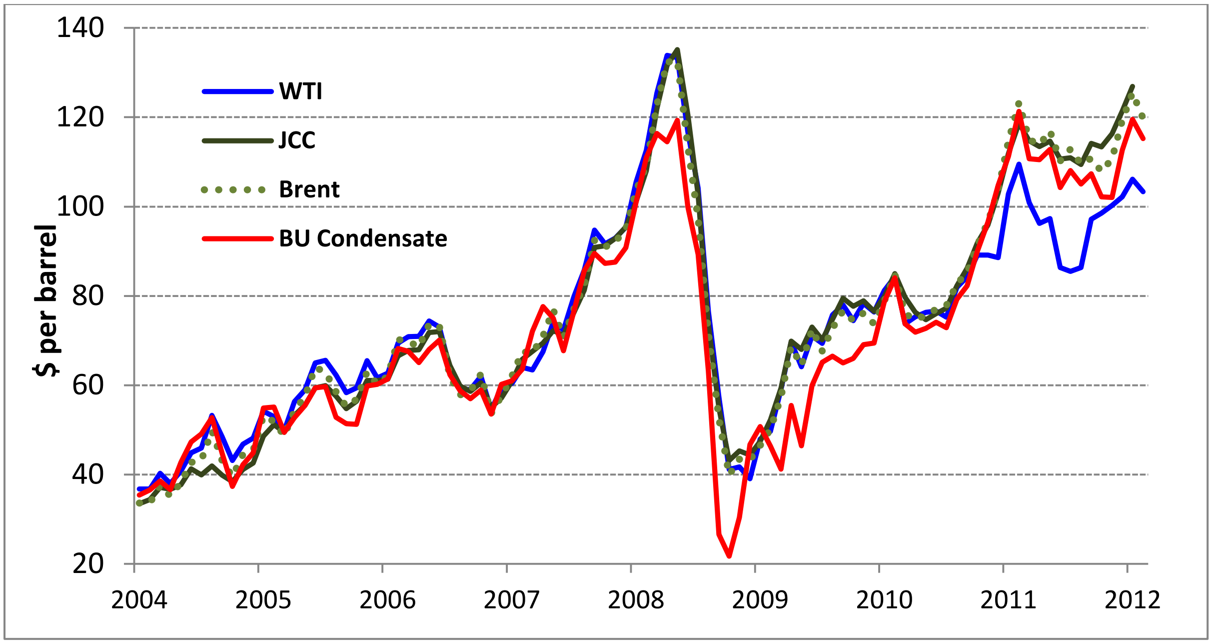
While the inflation forecast varies slightly year by year, the average discount rate is about 5.7% for the forecast period. In Budget 2012, the interest rate used for discounting future revenue was 3.7%.

Methodology to forecast Timor condensate prices has been updated. Over the last two years, the relationship between condensate prices and WTI prices has changed materially, as can be seen in Figure 2.5.3.2.4.

The graph shows Bayu-Undan condensate price and the price of WTI and prices for two other important international oil benchmarks, Brent (which is North Sea oil) and JCC, Japanese Crude Cocktail, which is the average price of the crude being imported into Japan.

[20] *Budget and Economic Outlook: Fiscal Years 2011 to 2021*, http://www.cbo.gov/publication/21999. Nominal ROI equals (1 + real RoI) times (1 + inflation rate).

Figure 2.5.3.2.4 BU Condensate Price vs. World Oil Prices



Source: Petroleum Fund Administration Unit, Ministry of Finance, 2012

Until 2010, the price of Bayu-Undan (BU) condensate was consistently tracking somewhat below the price of WTI. Since 2010 the price of BU condensate has exceeded the price of WTI, and the co-development has been weaker. It is true that BU condensate tracks Brent and JCC fairly well, but low/reference/high case forecasts are not available for these benchmarks. The ESI methodology will therefore continue to be based on WTI, with updated adjustment factors that take into account the new relationship. In this assessment it is assumed that the relationship between WTI and BU condensate will "normalise" over time. In particular, the differential starts with BU condensate exceeding WTI by 4.9% in 2012 and declining to 3.5% by 2020.

2.5.3.3 Managing the Petroleum Fund

The Petroleum Fund Model

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

The petroleum fund mechanism implies that petroleum revenues are transferred in their entirety to the Fund and invested abroad in financial assets. The investment policy of the Fund aims at maximising the risk-adjusted return. The Fund's only outflow is transfers to the central government budget, pursuant to parliamentary approval. The amount that may be transferred to the budget is guided by the Estimated Sustainable Income (ESI), which is defined as 3.0% of the petroleum wealth. Assuming the investments of the Fund as well as the reserves under the sea bed actually earns 3.0% real return; ESI is the level of spending that will maintain the purchasing power of the petroleum wealth.

Governing the Petroleum Fund

Based on the "Santiago principles"[21], the Petroleum Fund governance model is one of high degree of transparency and disclosure of information. This helps build public support for wise management of petroleum revenues and reduces the risk of bad governance. Transparency ensures that information can be used to measure the authorities' performance and also guards against any possible misuse of powers. One of the fundamental elements of the Fund's governance structure is that no one person or institution is responsible for making and implementing investment decisions because each party is formally accountable to another for their role in the decision-making process. This degree of transparency serves to encourage consensus and enable accountability, which means authorities and whoever handles public money can be held responsible for their actions.

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

[21] 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.

Petroleum Fund Investment Policy

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

The investment policy emphasises the principle of diversification. Diversification is the process of exposing an investment portfolio to a number of different asset classes (for example bonds and equity) and individual financial assets, rather than being concentrated in any one of these singularly. 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 mitigate risks and volatility.

The Government appreciates that obtaining financial returns involves taking risks in terms of higher short-term volatility. Being a long-term investor, higher short-term volatility is of less economic significance. The Petroleum Fund law amendments give room for the Fund's portfolio to achieve 3% real return over time (although the return is not guaranteed), which would enable the sustainability of public spending.

As a first step to implement the investment policy, taking the advice from the Investment Advisory Board (IAB), the Minister of Finance instructed the Central Bank to progressively invest up to 20% of the Petroleum Fund in global equities by June 2012. As of September, 5% of the Fund was managed by Schroders and 18% by State Street Global Advisors. The remaining 77% of the Fund was still invested in US Treasuries, of which 20% was managed by BIS and 57% was managed internally by BCTL. Table 2.5.3.3.1 shows the Petroleum Fund portfolio and manager structure as of September 2012.

As a second step, again taking the advice from the IAB, the Minister of Finance instructed the Central Bank to continue invest progressively up to 40% in global equities over the two next years, starting from July 2012.

Currently, the fixed income portfolio of the Petroleum Fund is invested in US Treasury only, while the equity portfolio is invested in more than 1,000 companies in 23 developed countries. The exposure to each of the company is required to be less than 3%.

Table 2.5.3.3.1 Petroleum Fund Portfolio and Managers Structure

Number	Managers and Mandates, as of Sep 2012	Weight	Market Values, $ millions	Return since inception
Total Petroleum Fund Portfolio		**100.0%**	**11.1**	**4.1%**
International Fixed Interest Portfolio (Bonds)		***77.0%***	***8.5***	***3.9%***
1	Banco Central de Timor-Leste -BCTL (1-3 years US Treasury bonds) (3-5 years US Treasury bonds)	16.0% 41.0%	1.8 4.5	0.4% 1.6%
2	Bank for International Settlement - BIS (5-10 years US Treasury bonds)	20.0%	2.2	4.2%
International Equity Portfolio		***23.0%***	***2.5***	***7.7%***
3	Schroders Investment Management - Schroders (MSCI world)	5.0%	0.6	7.9%
4	State Street Global Advisors - SSgA (MSCI world)	18.0%	2.0	9.8%

Source: BCTL - Petroleum Fund Q3 2012 Report

Projected Petroleum Fund Development

The Fund's balance is $11,054.4 million as of September 2012. This is an increase of $1,774.1 million from the start of the year. The Fund balance is expected to be $10,776.7 million by the end of 2012 after deducting the estimated withdrawal of $1,494.9 million in 2012 approved by Parliament.

The current forecast, as shown in Table 2.5.3.3.2, shows the total value of the Fund to be $12,787.6 million by the end of 2013 and $17,343.9 million by the end of 2017.

Table 2.5.3.3.2 Estimated Petroleum Fund Savings 2011-2017, $ millions

	2011 Actual	2012 Estimate	2013 Budget	2014 Projection	2015 Projection	2016 Projection	2017 Projection
Opening PF Balance	**6,904.0**	**9,310.3**	**10,776.7**	**12,787.6**	**13,687.0**	**14,835.5**	**16,092.9**
Petroleum Revenue (excluding PF Interest)	3,240.1	2,753.4	2,309.1	1,971.9	2,176.7	2,144.7	2,058.5
Petroleum Fund Interest, Net*	221.2	207.8	488.8	642.7	714.8	803.1	901.6
Total Withdrawals	1,055.0	1,494.9	787.0	1,715.2	1,743.1	1,690.3	1,709.2
Closing PF Balance	**9,310.3**	**10,776.7**	**12,787.6**	**13,687.0**	**14,835.5**	**16,092.9**	**17,343.9**

Source: Petroleum Fund Administration Unit, Ministry of Finance, 2012

2.6: Financing

2.6.1 Definition of Financing

Table 2.6.1.1 shows financing of the 2013 State Budget. The financing items shown below equal the non-oil deficit (domestic revenue minus total expenditure). The Government is therefore clearly showing that all expenditures will be paid for either through domestic revenue or through financing from the ESI, loans or use of the cash balance.

There are important economic reasons for distinguishing between domestic revenue and financing items. Domestic revenue results from taxes borne by companies and individuals in Timor-Leste. An increase in domestic revenue allows for an increase in Government spending in Timor-Leste but is also likely to decrease spending by companies and individuals. The impact on the total amount of money and demand in the economy is therefore broadly neutral.

In contrast, financing expenditures by withdrawing money from the petroleum fund increases the overall level of demand within the economy. This increase in demand, if not matched by an increase in ability of the economy to produce goods, can lead to higher inflation.

As can be seen in Table 2.6.1.1, three financing items will be used to fund the 2013 budget. These are the ESI, use of the cash balance and loans. The two largest financing items are the ESI and use of the cash balance. Loan financing is small as a proportion of total financing. The Government will not be making any excess withdraws from the Petroleum Fund in 2013. This demonstrates the Government's commitment to fiscal sustainability. In the medium term excess withdraws from the Petroleum Fund will be required to pay for the construction of core infrastructure.

Table 2.6.1.1: Financing 2013 to 2017, $ millions

	2013	2014	2015	2016	2017
Total Financing	**1,501.2**	**1,785.8**	**1,864.0**	**1,812.0**	**1,832.2**
Estimated Sustainable Income (ESI)	787.0	797.9	784.8	771.9	761.2
Excess Withdrawals from PF	0.0	917.3	958.3	918.4	948.0
Use of Cash Balance	670.6	0.0	0.0	0.0	0.0
Borrowing /Loans	43.6	70.6	120.9	121.7	123.0

Sources: National Directorate of Budget, Petroleum Fund Administration Unit and Major Projects Secretariat, Ministry of Finance, 2012

The next three sections explain the ESI, excess withdraws, loans and use of the cash balance in more detail.

2.6.2 ESI and Excess Withdraws

The Estimated Sustainable Income (ESI) is calculated at $787.0 million for 2013, which is an increase of $142.8 million from the 2013 ESI estimate in last year's budget. The main reason for this increase is that oil prices are expected to be higher over the forecasting period.

2.6.3 Loans

The Government's overall policy with regards to loans is to evaluate them with reference to the financing needed for strategic infrastructure development in the country. When financing from the ESI and domestic revenue falls below that needed for development, excess withdraws can impose high opportunity costs to the income from the petroleum fund's investments. Concessionary loans are, therefore, options to be considered. For a loan to represent good value for money, high quality projects need to be identified. These may include roads, bridges, water and sanitation, electricity, ports and airports as such projects normally have large economic and social returns.

The next table shows the two loan agreements the Government has already signed. The money from the JICA loan will be used to finance the construction of the Dili-Manatuto-Baucau road. The construction of this road is a priority and is in line with the Government's policies as described in the SDP. The value of this project including the Government's contribution is $92.6 million. The JICA loan has a fixed interest rate that is less than 1.0% and a grace period of ten years. This loan is highly concessional; with its rate of interest being significantly lower than the likely rate of interest the Government would have to pay if it borrowed money from a private sector financial institution or issued its own gilts/treasury bills. The rate of interest on this loan is also less than the yield forecasted from Petroleum Fund investments; meaning that the opportunity cost of this loan is lower than withdrawing money from the petroleum fund. The only significant financial risk associated with this loan is that it is issued in Japanese Yen. This means that if the US$ significantly depreciates against the Japanese Yen in future years, then the costs of repaying the loan in US$ will increase.

The Government has also signed a loan agreement with the Asian Development Bank. This loan will be used to finance the Dili-Liquica and Tibar–Ermera roads which are estimated to have a high rate of economic and social return. The value of this project, including the Government's counterpart contribution is $53.7 million. This loan has two components, one with a fixed interest rate (the SDR component) and one with a variable rate (OCR component). The SDR component's interest rate is fixed at 1.0% for the 8 year grace period and is then 1.5% for the remainder of the 32 year term of the loan. The OCR component has a five year grace period and a term of 25 years; with an interest rate based on the London Interbank Rate plus a small spread and a commitment charge of 0.15%. The fixed rate component of the loan can be as regarded concessionary and arguably has a lower opportunity cost than withdrawing money from the Petroleum Fund. The variable component of the loan can also be regarded as concessionary because the London Interbank Rate represents the rate of interest that leading banks are prepared to lend to each other at and this rate is probably less than that at which they would be prepared to lend to Timor-Leste. The current London Interbank Rate is also significantly below the yield on petroleum fund investments and therefore the opportunity cost of this loan is currently lower than withdrawing an equivalent amount of money from the Infrastructure Fund. The main risk associated with the variable rate component of this loan is that the London Interbank Rate could increase in the future, leading to an increase in repayments.

Table 2.6.3.1: Information on Signed Loan Agreements

Information on Signed Loan Agreements	Loan 1: JICA	Loan 2: ADB
Date Signed	19-Mar-12	2-May-12
Organisation / Government providing Loan	JICA / Japan	Asian Development Bank
Amount of Loan in Dollars	$68.7 million	$40 million
Total Government Contribution	$23.9 million	$13.7 million
Total Project Value	$92.6 million	$53.7 million
Grace Period Years	10	SDR: 8 and OCR: 5
Maturity/Term	30	SDR: 32 and OCR: 25
Interest Rates Per Year	0.7% for construction works, 0.01% for consulting services and a commitment charge of 0.1%.	SDR: Fixed at 1.0% during grace period and then 1.5% OCR Variable at LIBOR + spread; commitment charge of 0.15%.
Interest Rate Fixed or Variable	Fixed for Term	Fixed and Variable Components
Description of Project / Purpose of Loan	Construction and Supervision of Roads Dili-Manatuto-Baucau (L)	Construction and Supervision of Roads, Dili-Liquica e Tibar Ermera (L)

Sources: National Directorate of Budget and Major Projects Secretariat, Ministry of Finance, 2012

In addition to the two signed loan agreements, the Government is currently in negotiations with the World Bank and the Asian Development Bank regarding further loans. The World Bank loan will be used to finance the construction of the Aileu-Ainaro-

Maubisse road. The Asian Development Bank loan, meanwhile, will be used to finance the construction of the Manatuto-Natarbora road. Both these projects are in line with the goals of the SDP and are expected to have a high rate of economic return.

The Government has calculated the total ceiling required for loan financing in 2013 as being $223.5 million.

The next table shows projected loan financing for all projects shown in Book 6 by year. Book 6 provides a detailed breakdown of loan financing and the Government's counterpart contribution by project.

Table 2.6.3.3: Projected Total Loan Financing 2013-2017, $ millions

	Total	2013	2014	2015	2016	2017
Loans	**479.7**	43.6	70.6	120.9	121.7	123.0

Sources: National Directorate of Budget and Major Projects Secretariat, Ministry of Finance, 2012

2.6.4 Use of the Cash Balance

The Government is currently estimating that actual expenditure in 2012 will be below that budgeted. This combined with strong domestic revenue collections and withdraws from the Petroleum Fund means that there is likely to be a cash balance held in the CFTL, Infrastructure Fund and Human Capital Development Fund accounts at the end of 2012. Holding large amounts of cash in these accounts is not optimal; because the rate of interest from these accounts is lower than the yield (amount earned) on Petroleum Fund Investments. The Government earns more money by holding $500 million in the Petroleum Fund than it does by withdrawing this amount from the petroleum fund and holding it as cash in the CFTL fund. The Government will therefore use some of this cash balance to finance expenditures in 2013. This will allow the Government to make lower withdrawals from the Petroleum Fund and increase the overall rate of return from investments and cash. The amount of cash that will be used is shown in the next table.

Table 2.6.4.1 Use of Cash Balance

	2013	2014	2015	2016	2017
Total	**670.6**	**0.0**	**0.0**	**0.0**	**0.0**
CFTL	260.8	0.0	0.0	0.0	0.0
Infrastructure Fund	401.3	0.0	0.0	0.0	0.0
HCDF	8.5	0.0	0.0	0.0	0.0

Sources: National Directorate of Budget and General Directorate of Treasury, Ministry of Finance, 2012

2.6.5 Public Private Partnerships

The Government completed a Public-Private Partnership (PPP) policy and legal framework in 2012. PPPs normally involve a contract between a public sector authority and a private party, in which the private party provides a public service or project and assumes substantial financial, technical and operational risk in the project. Public-Private Partnerships in Timor-Leste will only be considered for projects that contribute to the Government's development objectives, have high rates of economic return and are likely to attract and benefit from private sector expertise. The potential advantage of PPP agreements is that by linking the rate of return received by the private sector contractor to the quality of services provided they lead to the provision of high quality services and value for money.

There are currently two Public Private Partnership projects which are ongoing in Timor-Leste. These are the project to expand the Presidente Nicolau Lobato International Airport and the construction of Tibar Port.

The Presidente Nicolau Lobato International Airport will, with private sector participation, be expanded to meet international standards of air travel and increase the efficiency of airport operations. The three major components of the project are the rehabilitation and upgrading of the runway; the rehabilitation and upgrading of the passenger terminal and the operation and maintenance of the airport facilities after and during project implementation. The Government currently estimates that the project will cost in the region of $27 million.

Tibar Bay port will be developed with private sector participation to meet international efficiency standards for container and other cargo operations. The major project components are the preparation of the port site conditions, the installation of port facilities and the operation and maintenance of the port facilities during and after the project's implementation. The total cost of the project is currently estimated to be in the region of $442 million.

No major construction has yet started on either of these projects. The Government has, however, recently signed Financial Advisory Services Agreement with the International Finance Corporation (IFC) for both projects. Under these agreements the IFC will assist the Government cost the project and structure the Public Private Partnership agreement so that it attracts interests from the private sector, achieves the projects' goals and represents value for money for Timor-Leste citizens.

Part 3: 2013 General State Budget Law

PARLAMENTO
NACIONAL
República Democrática de Timor-Leste

TEXT APPROVED BY FINAL OVERALL VOTE

DECREE No. 3/III

2013 State General Budget

The 2013 State General Budget covers all revenues and expenditure of the State of Timor-Leste.

Attachment I to the 2013 State General Budget Law, henceforth called SGB, sets the total estimated SGB revenue from January to December 2013 derived from petroleum and non-petroleum sources, tax revenues, non-tax revenues and loans. The total estimated revenue from all sources is US$2,987.8 million.

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

1. $160.531 million for Salaries & Wages;
2. $441.530 million for Goods & Services;
3. $238.985 million for Public Transfers;
4. $49.595 million for Minor Capital;
5. $756.877 million for Capital Development.

Excluding autonomous funds and services, special funds and loans, the total budget appropriation for the SGB is $877.547 million.

The State Treasury account includes all revenues and expenses from 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 Autonomous Medical Stores (SAMES). Revenues from those categories are included under the item for own revenues from autonomous funds and services in Attachment I. Attachment III contains the budget for proposed expenses.

The total estimated expenditure for self-funded autonomous funds and services in 2013 is $123.147 million, including $100.302 million transferred from the SGB in order to subsidize expenditure exceeding the estimated own revenues.

The total budget appropriation for the Infrastructure Fund is $604.377 million including loans and $560.789 million excluding loans. The carryover from 2012, in accordance with the law, is $444.351 million.

The total budget appropriation for the Human Capital Development Fund is $42.448 million, including $8.549 million as carryover from 2012, in accordance with the law.

Total estimated SGB expenditure is $1,647.519 million.

The maximum threshold approved for public debt in 2013 is $43.6 million.

Estimated non-petroleum revenue is $146.3 million.

Thus the tax deficit is $1,501.219 million, being funded by $787 million from the Petroleum Fund, $43.6 million from the use of public credit, $409,8 million from the Special Fund balance ($401.3 million from the Infrastructure Fund and $8.5 million from the Human Capital Development Fund) and $260.8 million from the Treasury Account balance.

Under section 95.3 (d) and section 145.1 of the Constitution of the Republic, 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:

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

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

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

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

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

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

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

d) "Body / Bodies" is the generic term adopted in the 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, Ministries and Secretariats of State), Courts and Office of the Prosecutor General of the Republic, as well as other institutions featured in Attachment II;

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

Article 2
Approval

The present Law approves the State General Budget for the period from 1 January to 31 December 2013, which covers:

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

b) Total expenses per groupings, including the amounts to be transferred from the State General Budget for autonomous funds and services in 2013, featured in Attachment II to the present diploma, which is an integral part of it;

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

d) Total expenses corresponding to the appropriation for the Infrastructure Fund in 2013, including carryover balance and expenses funded through public debt, featured in Attachment IV to the present diploma, which is an integral part of it;

e) Total expenses corresponding to the appropriation for the Human Capital Development Fund in 2013, including carryover balance, featured in Attachment V to the present diploma, which is an integral part of it.

Chapter II
Revenues

Article 3
Taxes and Fees

In 2013 the Government is authorized to collect taxes and other fees set by law.

Chapter III
Authorization to make transfers from the Petroleum Fund and to use the balance of the Treasury Account

Article 4
Authorized limit for withdrawing from the Petroleum Fund and for using the balance of the Treasury Account

1. Under article 7 of Law no. 9/2005, of 3 August, ex vi the wording given to it by Law no. 12/2011, of 28 September, the Petroleum Fund Law, the transfer amount from the Petroleum Fund in 2013 may not exceed $787 million and may only take place after complying with the provisions of article 8 of the above law.
2. After achieving a budget execution of US$ 1,387.7 million, the Government will make partial or full use of the balance in the Treasury Account, informing Parliament in advance.

Chapter IV
Public Indebtness

Article 5
Maximum Threshold of Authorized Debt

1. In order to meet the funding needs related with the construction of strategic infrastructures for the development of the Country, the Government is authorized, under article 20 of Law no. 13/2009, of 21 October, on Budget and Financial Management, and article 3 of Law no. 13/2011, of 28 September, on the Public Debt Regime, to make use of external concessional loans up to a maximum amount of $223.5 million, with a maximum time frame of 40 years.
2. Subject to the provisions in the previous paragraph, funding from loans in 2013 may not exceed $43.6 million.

Chapter V
Budget Execution

Article 6
Payment of taxes on imports

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

Article 7
Appropriations for the Whole of Government

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

a) Counterpart Fund;

b) External Audit;

c) Contingency Reserve;

d) International Organization Membership Fees;

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

f) Construction of Integrated Border Posts;

g) Contribution Fund for Social Institutions;

h) Provision for the g7+;

i) Provision for Regulating Telecommunications;

j) Business Registration and Verification Service;

k) Provision for the Impact of Special Regimes;

l) Large Project Secretariat;

m) Provision for Legal Services;

n) Timor-Leste Cooperation Agency.

Chapter VI
Autonomous funds and services and special funds

Article 8
Own Revenues

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

Chapter VII
Final Provisions

Article 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 responsible for the area of Finance.
2. This funding must be managed in accordance with the directives issued by the Ministry of Finance and with the donor requirements.

Article 10
Accountability

1. Signing contracts without budget provision entails political, financial, civil and criminal accountability, in accordance with article 46 of Law no. 13/2009, of 21 October, on Budget and Financial Management.

2. For purposes of activating the financial accountability described in the previous paragraph, the holder of a political office is considered to have made an undue payment, subjected to being ordered to replace the corresponding amount, under article 44 and following of Law no. 9/2011, of 17 August, approving the Organic Structure of the Chamber of Accounts under the ´High Administrative, Tax and Audit Court.

Article 11
Entry into force

The present law enters into force on the day after its publication and will have effect starting on 1 January 2013.

Approved on February 2013.

The Speaker of Parliament,

Vicente da Silva Guterres

Promulgated on

Publish it.

The President of the Republic,

Taur Matan Ruak

Attachment I

Estimated revenues to be collected, loans and balances of special funds in the 2013 State General Budget (US$ million)

Table I – Estimated revenues and loans

1	**Total Revenues**	**2,987.8**
1.1	**Petroleum Revenues**	2,797.9
1.1.1	Taxes on petroleum profits	1,137.8
1.1.2	Taxes on the Timor Sea (including Kitan)	318.4
1.1.3	Income Tax	395.6
1.1.4	Additional Profit Tax	395.6
1.1.5	Other Taxes and Petroleum Fees	61.7
1.1.6	Petroleum Fund Interests	488.8
1.2	**Non-Petroleum Revenues**	**146.3**
1.2.1	Direct Taxes	41.8
1.2.2	Indirect Taxes	64.0
1.2.3	Other Revenues and Fees	14.5
1.2.4	Lottery Revenues	0.3
1.2.5	Selling of Rice	2.5
1.2.6	Selling of Local Products	0.3
1.2.7	Interests from the Treasury Account	0.1
1.3	**Donations**	0.0
1.4	**Own Revenues from Autonomous Funds and Services**	**22.8**
1.5	**Loans**	**43.6**

Table II – Funding and revenues

Non-Petroleum Revenues	146.3
Transfers from the Petroleum Fund	787.0
Loans	43.6
Use of the Balance of the Treasury Account	260.8
Balance of the Infrastructure Fund	401.3
Balance of the Human Capital Development Fund	8.5
Total	**1,647.5**

Attachment II
Budget Appropriations for 2013 (US$'000)

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
Including Autonomous Funds and Services, Special Funds and Loans	**160,531**	**441,530**	**238,985**	**49,595**	**756,877**	**1,647,519**
Excluding Autonomous Funds and Services, Special Funds and Loans	**156,314**	**280,313**	**238,985**	**49,434**	**152,500**	**877,547**
Including Autonomous Funds and Services	**160,531**	**399,082**	**238,985**	**49,595**	**152,500**	**1,000,694**
Total Autonomous Funds and Services	**4,217**	**118,769**	**-**	**161**	**-**	**123,147**
Total Special Funds	**-**	**42,448**	**-**	**-**	**604,377**	**646,825**
Special Funds (Excluding Loans) New Appropriation	**-**	**33,899**	**-**	**-**	**159,526**	**193,425**
Special Funds (Excluding Loans) Carryover from 2012	**-**	**8,549**	**-**	**-**	**401,263**	**409,812**
Loans New Appropriation	**-**	**-**	**-**	**-**	**500**	**500**
Loans Carryover from 2012	**-**	**-**	**-**	**-**	**43,088**	**43,088**
Presidency of the Republic	**581**	**4,579**	**131**	**773**	**810**	**6,874**
Civilian House	60	2,402	131	-	-	2,593
Directorate-General	521	1,275	-	679	810	3,285
Military House	-	528	-	-	-	528
Post-CAVR Technical Secretariat	-	374	-	94	-	468
Task Force for Reform and Development	-	-	-	-	-	-
National Parliament	**4,273**	**7,665**	**436**	**2,720**	**100**	**15,194**
National Parliament	3,283	838	-	1,400	-	5,521
Office of the Speaker of Parliament	72	571	-	-	-	643
Parliamentary Benches	-	-	436	-	-	436
Secretariat of the National Parliament	918	3,907	-	1,231	100	6,156
Commission A	-	282	-	-	-	282
Commission B	-	141	-	-	-	141
Commission C	-	202	-	-	-	202
Commission D	-	274	-	-	-	274
Commission E	-	315	-	-	-	315

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
Commission F	-	266	-	-	-	266
Commission G	-	107	-	-	-	107
SNI Verification Council	-	302	-	10	-	312
Petroleum Fund Consultative Council	-	367	-	79	-	446
Women’s Parliamentary Group of Timor-Leste	-	94	-	-	-	94
Prime Minister	**842**	**10,123**	**15,950**	**959**	**77,622**	**105,496**
Office of the Prime Minister	92	-	-	-	-	92
Secretariat of the Prime Minister	18	1,435	-	150	-	1,603
Inspectorate-General (IG) Office	330	508	-	-	-	838
Directorate-General	18	4	-	-	-	22
National Directorate of Administration and Finance	91	814	-	142	-	1,047
National Directorate of Human Resources	68	38	-	-	-	106
Civil Society Advisory	28	47	15,950	-	-	16,025
Official Residence of the Prime Minister	-	109	-	-	-	109
National Development Agency (ADN)	-	2,146	-	312	6,280	8,738
Integrated District Development Planning (PDID)	-	-	-	-	71,342	71,342
National Procurement Commission (CNA)	-	3,630	-	5	-	3,635
National Intelligence Service (SNI)	197	1,392	-	350	-	1,939
Vice Prime Minister, Coordinator of Social Affairs	**175**	**897**	**-**	**65**	**-**	**1,137**
Office of the Vice Prime Minister	175	897	-	65	-	1,137
Minister of State and of the Presidency of the Council of Ministers	**380**	**3,873**	**-**	**65**	**-**	**4,318**
Office of the Minister	79	1,149	-	65	-	1,293
National Directorate of Administration and Support to the Council of Ministers	214	1,132	-	-	-	1,346
National Directorate of Translation Services	56	104	-	-	-	160
Legal Support Unit	31	488	-	-	-	519
Project for a Special Area of Social Market Economy	-	1,000	-	-	-	1,000
Secretary of State for the Council of Ministers	**159**	**510**	**-**	**645**	**-**	**1,314**
Office of the Secretary of State	64	294	-	-	-	358

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
National Printing House	95	216	-	645	-	956
Secretary of State for Parliamentary Affairs	**89**	**97**	**-**	**65**	**-**	**251**
Office of the Secretary of State	89	97	-	65	-	251
Secretary of State for the Media	**165**	**1,134**	**-**	**294**	**-**	**1,593**
Office of the Secretary of State	64	153	-	65	-	282
Directorate of Information Socialization	62	673	-	-	-	735
Community Radio Centre	39	308	-	229	-	576
Secretary of State for Institutional Strengthening	**125**	**487**	**-**	**85**	**-**	**697**
Office of the Secretary of State	125	487	-	85	-	697
Secretary of State for Supporting and Promoting the Private Sector	**520**	**2,251**	**1,200**	**322**	**-**	**4,293**
Office of the Secretary of State	68	1,691	1,200	212	-	3,171
Institute for Supporting Business Development	437	309	-	61	-	807
Specialized Investment Agency	15	251	-	49	-	315
Secretary of State for the Promotion of Equality	**277**	**1,357**	**500**	**33**	**-**	**2,167**
Office of the Secretary of State	65	221	-	-	-	286
Directorate-General	51	177	-	-	-	228
National Directorate of Administration, Logistics and Finance	69	411	-	33	-	513
National Directorate of Gender Policy and Development	92	548	500	-	-	1,140
Secretary of State for Youth and Sports	**441**	**1,537**	**2,737**	**100**	**-**	**4,815**
Office of the Secretary of State	65	773	-	-	-	838
Directorate-General	10	25	-	-	-	35
National Directorate of Administration and Finance	193	619	137	100	-	1,049
National Directorate of Youth	78	10	423	-	-	511
National Directorate of Physical Education and Sports	26	10	1,778	-	-	1,814
National Directorate of Development Policy	38	21	399	-	-	458
National Directorate of Communication	31	79	-	-	-	110
Secretary of State for Professional Training and Employment Policy	**1,295**	**983**	**10,623**	**52**	**-**	**12,953**
Office of the Secretary of State	65	73	-	-	-	138
Inspectorate-General of Labour	95	44	-	-	-	139

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
Directorate-General	126	38	-	-	-	164
National Directorate of Administration and Finance	288	484	100	14	-	886
National Directorate of Procurement	21	12	-	21	-	54
National Directorate of Labour Condition	39	8	-	4	-	51
National Directorate for Preventing Occupational Risks	28	8	-	4	-	40
National Directorate of Employment and Protection against Unemployment	28	8	-	4	-	40
National Directorate of Security and Social Protection	28	8	-	4	-	40
National Directorate of Professional Training	113	21	-	-	-	134
National Directorate of Employment	101	74	10,500	-	-	10,675
National Directorate of Labour Relations	82	44	23	1	-	150
Secretariat of Support to the National Labour Council	41	22	-	-	-	63
Legal Advisory Office	34	7	-	-	-	41
National Institute of Labour Development	9	9	-	-	-	18
Employment and Professional Training Fund Office	6	13	-	-	-	19
Attaché in South Korea	182	64	-	-	-	246
SENAI Training Centre	9	46	-	-	-	55
Ministry of Foreign Affairs and Cooperation	**10,735**	**13,576**	**500**	**1,042**	**1,550**	**27,403**
Office of the Minister	30	363	-	-	-	393
Office of the Vice Minister	26	273	-	-	-	299
Office of the Secretary of State for ASEAN Affairs	23	296	-	-	-	319
Secretariat-General	10,656	5,933	500	392	-	17,481
US Dollar Devaluation	-	600	-	30	-	630
Celebration of National Holidays	-	150	-	-	-	150
Permanent Mission in New York	-	383	-	3	-	386
Embassy in Lisbon	-	159	-	-	-	159
Embassy in Jakarta	-	174	-	45	-	219
Consulate in Denpasar	-	116	-	45	1,550	1,711
Consulate in Kupang	-	32	-	-	-	32
Land Border Demarcation	-	1,040	-	238	-	1,278

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
Embassy in Washington	-	308	-	45	-	353
Embassy in Canberra	-	266	-	27	-	293
Consulate in Sidney	-	57	-	2	-	59
Consulate in Darwin	-	200	-	83	-	283
Embassy in Kuala Lumpur	-	118	-	51	-	169
Embassy in Brussels	-	212	-	-	-	212
Consulate in Manchester	-	75	-	-	-	75
Embassy in Bangkok	-	131	-	3	-	134
Embassy in Tokyo	-	319	-	57	-	376
Embassy in Beijing	-	232	-	-	-	232
Embassy in Maputo	-	143	-	7	-	150
Embassy in Havana	-	161	-	3	-	164
Embassy in Manila	-	68	-	1	-	69
Embassy in Geneva	-	213	-	2	-	215
Embassy in the Vatican	-	112	-	-	-	112
Embassy in Brasilia	-	194	-	2	-	196
Embassy in Seoul	-	271	-	-	-	271
Embassy in CPLP/UNESCO	-	186	-	-	-	186
Embassy in Pretoria	-	132	-	5	-	137
Embassy in Luanda	-	227	-	1	-	228
Embassy in Singapore	-	364	-	-	-	364
Embassy in Vietnam	-	68	-	-	-	68
Ministry of Defence and Security	**25,870**	**34,947**	**200**	**6,358**	**825**	**68,199**
Ministry of Defence and Security	**72**	**2,059**	**200**	**1,335**	**-**	**3,666**
Office of the Minister	72	2,059	200	1,335	-	3,666
Secretary of State for Defence	**792**	**2,090**	**-**	**-**	**165**	**3,047**
Office of the Secretary of State	390	671	-	-	-	1,061
Directorate-General	51	6	-	-	-	57
Inspectorate and Audit Office	20	4	-	-	-	24

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
National Directorate of Administration and Finance	73	99	-	-	-	172
National Directorate of Planning and International Exchange	51	15	-	-	-	66
National Directorate of Procurement	29	19	-	-	-	48
National Directorate of Legacy	33	231	-	-	165	429
National Defence Institute	145	1,045	-	-	-	1,190
FALINTIL – Defence Forces of Timor-Leste	**7,949**	**14,907**	**-**	**3,304**	**-**	**26,160**
FALINTIL – Defence Forces of Timor-Leste	-	12,283	-	2,787	-	15,070
F-FDTL Headquarters	7,949	2,624	-	517	-	11,090
Secretary of State for Security	**3,467**	**4,031**	**-**	**521**	**660**	**8,679**
Office of the Secretary of State	65	70	-	-	-	135
Directorate-General	39	56	-	34	-	129
Inspectorate and Audit Office	44	22	-	1	-	67
National Directorate of Administration	105	695	-	53	660	1,513
National Directorate of Finance	57	31	-	13	-	101
National Directorate of Civil Protection	1,063	704	-	201	-	1,968
National Directorate of Public Building Safety	1,806	1,582	-	88	-	3,476
National Directorate of Community Conflict Prevention	105	101	-	5	-	211
National Directorate of Procurement	79	44	-	21	-	144
Civil Migration Services	102	726	-	105	-	933
National Police of Timor-Leste	**13,590**	**11,860**	**-**	**1,198**	**-**	**26,648**
National Directorate of Administration and Finance	13,590	3,746	-	463	-	17,799
Special Police Unit	-	1,531	-	546	-	2,077
Border Patrol Unit	-	801	-	120	-	921
Maritime Unit	-	1,186	-	12	-	1,198
National Operational Command	-	908	-	54	-	962
Police Training Centre	-	1,654	-	4	-	1,658
Region I	-	920	-	-	-	920
Region II	-	526	-	-	-	526

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
Region III	-	473	-	-	-	473
Region of Oecussi	-	114	-	-	-	114
Ministry of Finance	**4,062**	**16,070**	**5,000**	**117**	**234**	**25,483**
Offices of the Minister and Vice Minister	201	-	-	-	-	201
Directorate-General of Corporative Services	1,544	16,070	5,000	117	234	22,965
Directorate-General of State Finance	527	-	-	-	-	527
Directorate-General of Treasury	293	-	-	-	-	293
Directorate-General of Taxes	342	-	-	-	-	342
Directorate-General of Customs	702	-	-	-	-	702
Directorate-General of Statistics	273	-	-	-	-	273
Ministry Organic Units	180	-	-	-	-	180
Whole of Government Appropriations	**60**	**48,752**	**3,200**	**4,450**	**3,140**	**59,602**
Counterpart Fund	-	2,000	-	-	-	2,000
External Audit	-	2,000	-	-	-	2,000
Contingency Reserve	-	19,332	-	-	-	19,332
Membership Fees in International Institutions	-	1,885	-	-	-	1,885
Pensions for Former Holders of Sovereignty Bodies	-	-	3,000	-	-	3,000
Construction of Integrated Border Posts	-	-	-	4,000	2,740	6,740
Contribution Fund for Social Institutions	-	-	200	-	-	200
Provision for the g7+	-	1,500	-	-	-	1,500
Provision for Telecommunications Regulation	-	1,500	-	-	-	1,500
Business Registration and Verification Service	60	177	-	450	400	1,087
Provision for the Impact of Special Regimes	-	8,000	-	-	-	8,000
Large Project Secretariat	-	1,558	-	-	-	1,558
Provision for Legal Services	-	10,000	-	-	-	10,000
Timor-Leste Cooperation Agency	-	800	-	-	-	800
Ministry of Justice	**2,979**	**5,112**	**8,000**	**832**	**864**	**17,787**
Office of the Minister	84	56	-	-	-	140
Office of the Vice Minister	69	53	-	-	-	122

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
Office of the Secretary of State for Lands and Properties	36	43	-	-	-	79
Directorate-General	22	14	-	10	-	46
Inspectorate and Audit Office	33	129	-	39	-	201
National Directorate of Administration and Finance	223	892	-	151	-	1,266
National Directorate of Legal Advisory and Legislation	91	59	-	2	-	152
National Directorate of Human Rights and Citizenship	95	39	-	1	-	135
National Directorate of Registry and Notary Services	442	1,276	-	-	-	1,718
National Directorate of Prison Services and Social Reinsertion	705	966	-	82	864	2,617
Legal Training Centre	76	112	-	5	-	193
Public Defence	583	302	-	9	-	894
National Directorate of Lands, Properties and Mapping Services	499	1,069	8,000	529	-	10,097
National Commission on Children Rights	25	103	-	4	-	132
Directorate of Criminal Investigation Police	-	-	-	-	-	-
Ministry of Health including Autonomous Funds and Services	**22,468**	**21,088**	**11,213**	**7,289**	**-**	**62,058**
Ministry of Health excluding Autonomous Funds and Services	**22,060**	**20,764**	**11,213**	**7,175**	**-**	**61,212**
Office of the Minister	79	417	-	-	-	496
Office of the Vice Minister for Ethics and Service Delivery	68	99	-	-	-	167
Office of the Vice Minister for Management, Support and Resources	71	117	-	-	-	188
Office of Inspectorate, Verification and Audit	127	113	-	-	-	240
Directorate-General	234	348	-	-	-	582
National Directorate of Administration, Logistics and Procurement	211	1,010	-	63	-	1,284
National Directorate of Planning and Finance	176	8,792	-	-	-	8,968
National Directorate of Community Health	436	1,442	860	34	-	2,772
National Directorate of Human Resources	90	304	5,783	-	-	6,177
National Directorate of Hospital Services	395	447	120	-	-	962
National Laboratory	250	254	-	-	-	504
National Hospital Guido Valadares	2,884	1,926	4,450	1,535	-	10,795
Reference Hospital of Baucau	950	1,028	-	1,472	-	3,450
Reference Hospital of Maliana	505	502	-	200	-	1,207

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
Reference Hospital of Maubisse	416	522	-	276	-	1,214
Reference Hospital of Oecussi	506	247	-	238	-	991
Reference Hospital of Suai	543	218	-	268	-	1,029
District Health Services of Aileu	822	191	-	142	-	1,155
District Health Services of Ainaro	622	193	-	142	-	957
District Health Services of Baucau	1,526	209	-	204	-	1,939
District Health Services of Bobonaro	1,167	205	-	226	-	1,598
District Health Services of Covalima	1,026	235	-	132	-	1,393
District Health Services of Dili	1,515	307	-	151	-	1,973
District Health Services of Ermera	1,336	197	-	315	-	1,848
District Health Services of Lautém	1,116	193	-	185	-	1,494
District Health Services of Liquiçá	754	176	-	176	-	1,106
District Health Services of Manatuto	1,172	251	-	192	-	1,615
District Health Services of Manufahi	905	203	-	187	-	1,295
Health Science Institute	157	238	-	-	-	395
District Health Services of Oecussi	718	177	-	452	-	1,347
District Health Services of Viqueque	1,283	203	-	585	-	2,071
SAMES (Autonomous Fund and Service)	408	324	-	114	-	846
Ministry of Education	**47,004**	**38,490**	**2,500**	**4,014**	**-**	**92,008**
Office of the Minister	75	174	-	-	-	249
Office of the Vice Minister for Basic Education	65	61	-	-	-	126
Office of the Vice Minister for Secondary Education	60	70	-	-	-	130
Office of the Vice Minister for Higher Education and Sciences	65	49	-	-	-	114
Office of the Inspector-General	91	147	-	-	-	238
Protocol and Media Office	91	67	-	-	-	158
Legal Office	47	-	-	-	-	47
Directorate-General of Corporative Services	114	20	-	-	-	134
Directorate-General of School Administration, Innovation and Curricular Development	48	22	-	-	-	70

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
Directorate-General of Higher Education	49	18	-	-	-	67
National Directorate of Science and Technology Development	62	10	-	-	-	72
National Directorate of Technical Higher Education	67	22	-	-	-	89
National Directorate of School Social Action	63	12,692	-	-	-	12,755
National Directorate of Planning, Statistics and Information Technologies	185	31	-	-	-	216
National Directorate of Procurement	46	13	-	-	-	59
National Directorate of Pre-School Education	698	98	-	-	-	796
National Directorate of Finance and Logistics	250	10,864	-	4,014	-	15,128
National Directorate of Curriculum and School Evaluation	98	3,785	-	-	-	3,883
National Directorate of Basic Education	34,463	3,518	-	-	-	37,981
National Directorate of Recurrent Education	306	2,149	-	-	-	2,455
National Directorate of General Secondary Education	5,880	220	-	-	-	6,100
National Directorate of Technical and Vocational Secondary Education	1,317	738	-	-	-	2,055
National Directorate of University Higher Education	76	649	2,500	-	-	3,225
National Directorate of Human Resources	196	19	-	-	-	215
Regional Directorate of Oecussi	207	44	-	-	-	251
National Institute for the Training of Teachers and Education Professionals (INFORDOPE)	412	2,230	-	-	-	2,642
District Education Services of Dili	390	38	-	-	-	428
District Education Services of Baucau	120	49	-	-	-	169
District Education Services of Aileu	114	47	-	-	-	161
District Education Services of Ainaro	144	40	-	-	-	184
District Education Services of Bobonaro	184	53	-	-	-	237
District Education Services of Ermera	128	60	-	-	-	188
District Education Services of Lautém	153	60	-	-	-	213
District Education Services of Liquiçá	127	44	-	-	-	171
District Education Services of Manatuto	119	47	-	-	-	166
District Education Services of Manufahi	150	51	-	-	-	201
District Education Services of Covalima	205	53	-	-	-	258

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
District Education Services of Viqueque	139	48	-	-	-	187
National Agency for Academic Assessment and Accreditation (ANAAA)	-	190	-	-	-	190
Ministry of State Administration	**5,712**	**8,599**	**13,088**	**1,424**	**9,406**	**38,228**
Office of the Minister	77	45	-	-	-	122
Office of the Secretary of State for Administrative Decentralization	63	84	-	-	-	147
Office of the Secretary of State for Local Development	64	103	-	-	-	167
Office of the Inspector-General	105	60	-	-	-	165
Directorate-General	32	76	-	-	-	108
National Directorate of Administration and Finance	597	3,501	-	1,424	-	5,522
National Archive	91	61	-	-	-	152
Technical Secretariat of Electoral Administration (STAE)	380	265	-	-	-	645
National Directorate of Planning, Evaluation and External Cooperation	116	362	-	-	-	478
National Directorate of Local Administration	352	153	-	-	-	505
National Directorate of Support to Suco Administration	1,508	629	-	-	-	2,137
National Programme for the Development of Sucos (PNDS)	-	-	7,961	-	-	7,961
National Directorate of Local Development	266	337	-	-	-	603
Decentralized Development Package I	-	-	-	-	9,406	9,406
District Administration of Manufahi	91	90	327	-	-	508
District Administration of Viqueque	113	95	467	-	-	675
District Administration of Lautém	100	95	373	-	-	568
District Administration of Manatuto	118	101	287	-	-	506
District Administration of Covalima	143	107	345	-	-	595
District Administration of Ainaro	97	90	270	-	-	457
District Administration of Aileu	87	90	337	-	-	514
District Administration of Ermera	106	95	619	-	-	820
District Administration of Liquiçá	73	84	287	-	-	444
District Administration of Dili	807	867	448	-	-	2,122
District Administration of Bobonaro	117	101	518	-	-	736
District Administration of Baucau	123	101	669	-	-	893

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
District Administration of Oecussi	87	90	179	-	-	356
Municipality Installing Committee	-	918	-	-	-	918
Ministry of Commerce, Industry and Environment	**2,339**	**12,300**	**2,000**	**343**	**-**	**16,982**
Office of the Minister	77	284	-	4	-	365
Office of the Vice Minister	65	198	-	7	-	270
Office of the Secretary of State for Commerce	64	183	-	9	-	256
Office of the Secretary of State for Industry and Cooperatives	63	191	-	10	-	264
Office of the Secretary of State for the Environment	63	198	-	12	-	273
Internal Audit Office	38	49	-	-	-	87
Legal Office	14	112	-	-	-	126
Directorate-General of Corporative Services	382	3,278	-	61	-	3,721
Directorate-General of the Environment	585	443	250	33	-	1,311
Directorate-General of Industry and Cooperatives	345	1,166	1,600	110	-	3,221
Directorate-General of Commerce	480	1,092	150	85	-	1,807
Food and Economic Inspectorate	99	271	-	12	-	382
Food Security Fund	64	4,835	-	-	-	4,899
Ministry of Social Solidarity	**1,834**	**4,093**	**141,208**	**715**	**1,108**	**148,958**
Office of the Minister	79	174	-	-	-	253
Office of the Vice Minister	61	33	-	-	-	94
Office of the Secretary of State for Veteran Affairs	64	354	-	-	-	418
Office of the Secretary of State for Social Security	65	33	-	-	-	98
Inspectorate and Internal Audit	45	39	-	7	-	91
Directorate-General	68	312	-	13	-	393
National Directorate of Administration and Finance	730	1,148	-	302	508	2,688
National Directorate for Veteran Affairs	134	365	92,101	50	600	93,250
National Directorate of Social Assistance	173	868	1,346	312	-	2,699
National Directorate of Social Reinsertion	138	259	6,054	12	-	6,463
National Directorate of Disaster Management	124	381	3,420	15	-	3,940
National Directorate of Social Solidarity	153	127	38,287	4	-	38,571

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
Ministry of Public Works including Autonomous Funds and Services	**6,441**	**120,804**	**6,000**	**11,076**	**46,500**	**190,821**
Ministry of Public Works excluding Autonomous Funds and Services	**3,066**	**5,358**	**6,000**	**11,076**	**46,500**	**72,000**
Office of the Minister	78	65	-	-	-	143
Office of the Secretary of State for Public Works	64	45	-	-	-	109
Office of the Secretary of State for Electricity	63	32	-	-	-	95
Office of the Secretary of State for Water, Sanitation and Urbanism	63	28	-	-	-	91
Directorate-General of Corporative Services	313	2,662	6,000	11,076	46,500	66,551
Directorate-General of Public Works	1,258	784	-	-	-	2,042
Directorate-General of Electricity	16	16	-	-	-	32
Directorate-General of Water, Sanitation and Urbanism	1,211	1,726	-	-	-	2,937
Electricity of Timor-Leste – EDTL (Autonomous Fund and Service)	2,316	112,270	-	-	-	114,586
Public Institute of Equipment Management (Autonomous Fund and Service)	1,059	3,176	-	-	-	4,235
Ministry of Transports and Communications including Autonomous Funds and Services	**1,514**	**7,274**	**-**	**2,951**	**620**	**12,359**
Ministry of Transports and Communications excluding Autonomous Funds and Services	**1,080**	**4,275**	**-**	**2,904**	**620**	**8,879**
Office of the Minister	70	51	-	18	-	139
Office of the Vice Minister	70	49	-	2	-	121
Directorate-General of Corporative Services	178	4,175	-	2,884	620	7,857
Directorate-General of Transports and Communications	690	-	-	-	-	690
Civil Aviation Authority of Timor-Leste	72	-	-	-	-	72
Airport and Air Navigation Administration of Timor-Leste (Autonomous Fund and Service)	298	301	-	38	-	637
Port Authority of Timor-Leste (Autonomous Fund and Service)	136	2,698	-	9	-	2,843
Ministry of Agriculture and Fisheries	**5,886**	**12,396**	**1,000**	**699**	**5,183**	**25,164**
Office of the Minister	78	56	-	2	-	136
Office of the Vice Minister	130	48	-	2	-	180
Office of the Secretary of State for Forests and Nature Preservation	63	36	-	2	-	101
Office of the Secretary of State for Fisheries	63	36	-	2	-	101
Office of the Secretary of State for Livestock	63	35	-	2	-	100

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
Inspectorate and Audit	21	19	-	-	-	40
Office of the Director-General	26	22	-	-	-	48
National Directorate of Administration and Finance	386	714	-	375	-	1,475
Legal Office	21	10	-	1	-	32
Protocol and Media Office	15	9	-	-	-	24
National Directorate of Special Services and Research	222	84	-	-	-	306
National Directorate of Quarantine and Biosecurity	200	104	-	23	-	327
National Directorate of Agricultural Technical Training	468	315	-	81	-	864
National Directorate of Policy and Planning	111	86	-	3	-	200
National Directorate of Agriculture and Horticulture	229	5,987	-	-	-	6,216
National Directorate of Plants, Industry and Agribusiness	140	308	-	1	-	449
National Directorate of Forestry	262	718	35	-	-	1,015
National Directorate of Irrigation and Water Use Management	150	875	-	-	-	1,025
National Directorate of Fisheries and Aquaculture	305	629	-	-	-	934
National Directorate of Livestock and Veterinary Services	288	1,256	-	190	-	1,734
National Directorate of Support to Agriculture Commercial Development	136	293	965	15	-	1,409
Agriculture Services in the District of Aileu	119	55	-	-	-	174
Agriculture Services in the District of Ainaro	155	50	-	-	800	1,005
Agriculture Services in the District of Baucau	272	74	-	-	1,305	1,651
Agriculture Services in the District of Bobonaro	267	72	-	-	-	339
Agriculture Services in the District of Covalima	256	73	-	-	-	329
Agriculture Services in the District of Ermera	166	51	-	-	478	695
Agriculture Services in the District of Liquiçá	150	65	-	-	750	965
Agriculture Services in the District of Lautém	194	62	-	-	-	256
Agriculture Services in the District of Manatuto	207	57	-	-	-	264
Agriculture Services in the District of Manufahi	232	71	-	-	-	303
Agriculture Services in the District of Oecussi	236	57	-	-	900	1,193
Agriculture Services in the District of Viqueque	255	69	-	-	950	1,274
Ministry of Tourism	**944**	**3,379**	**1,500**	**265**	**200**	**6,288**

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
Office of the Minister	72	807	-	8	-	887
Office of the Secretary of State for Arts and Culture	63	141	-	3	-	207
Directorate-General of Tourism	317	2,431	1,500	254	200	4,702
Directorate-General of Culture	53	-	-	-	-	53
Inspectorate-General of Lotteries	82	-	-	-	-	82
National Directorate of Museums and Libraries	95	-	-	-	-	95
National Directorate of Cultural Legacy	68	-	-	-	-	68
National Directorate of Arts, Culture and Creative Industries	70	-	-	-	-	70
National Directorate of Tourism Marketing	46	-	-	-	-	46
National Directorate of Tourism Planning and Development	30	-	-	-	-	30
National Directorate of Tourism Enterprises, Activities and Products	48	-	-	-	-	48
Ministry of Oil and Mineral Resources	**253**	**1,940**	**7,000**	**108**	**-**	**9,301**
Office of the Minister	57	611	-	-	-	668
National Directorate of Administration and Finance	131	830	7,000	108	-	8,069
National Directorate of Minerals	65	499	-	-	-	564
Courts	**1,014**	**2,191**	**-**	**212**	**2,320**	**5,737**
Superior Council of the Judiciary	31	8	-	-	-	39
Court of Appeal	642	1,975	-	135	100	2,852
District Courts	341	208	-	77	2,220	2,846
Office of the Prosecutor-General of the Republic	**1,508**	**1,707**	**-**	**179**	**1,372**	**4,766**
Office of the Prosecutor-General of the Republic	1,224	1,601	-	179	1,372	4,376
District Prosecution of Baucau	118	40	-	-	-	158
District Prosecution of Suai	84	37	-	-	-	121
District Prosecution of Oecussi	82	29	-	-	-	111
Office of the Provedor for Human Rights and Justice	**520**	**994**	**-**	**20**	**646**	**2,180**
Office of the Provedor for Human Rights and Justice	520	994	-	20	646	2,180
Public Radio and Television Broadcasting Service of Timor-Leste	**734**	**1,574**	**-**	**891**	**-**	**3,199**
Directorate of Information	245	132	-	14	-	391
Directorate of Administration and Finance	142	1,149	-	421	-	1,712

	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development	Total Expenses
Directorate of Programming	153	205	-	50	-	408
Directorate of Technical Support	195	88	-	406	-	689
National Elections Commission	**542**	**695**	**5,000**	**44**	**-**	**6,281**
National Elections Commission	542	695	5,000	44	-	6,281
Anti-Corruption Commission	**387**	**1,318**	**-**	**50**	**-**	**1,755**
Anti-Corruption Commission	387	1,318	-	50	-	1,755
Civil Service Commission	**846**	**3,125**	**-**	**158**	**-**	**4,129**
Civil Service Commission	576	3,003	-	158	-	3,737
National Institute of Public Administration	270	122	-	-	-	392
National University of Timor-Leste	**7,558**	**3,166**	**-**	**180**	**-**	**10,904**
National University of Timor-Leste	7,558	3,166	-	180	-	10,904

Attachment III

Autonomous Funds and Services partly funded from own revenues within the 2013 State General Budget (US$'000)

	Expenses	Own Revenues	SGB Funding
ANATL			
Salaries & Wages	298		
Goods & Services	301		
Minor Capital	38		
Capital Development	0		
Transfers	0		
Total	**637**	**1,404**	**-767**
APORTIL (Inc. Berlim-Nakroma)			
Salaries & Wages	136		
Goods & Services	2,698		
Minor Capital	9		
Capital Development	0		
Transfers	0		
Total	**2,843**	**3,277**	**-434**
EDTL			
Salaries & Wages	2,316		
Goods & Services	112,270		
Minor Capital	0		
Capital Development	0		
Transfers	0		
Total	**114,586**	**17,868**	**96,718**
IGE			
Salaries & Wages	1,059		
Goods & Services	3,176		
Minor Capital	0		
Capital Development	0		
Transfers	0		
Total	**4,235**	**0**	**4,235**
SAMES			
Salaries & Wages	408		
Goods & Services	324		
Minor Capital	114		
Capital Development	0		
Transfers	0		
Total	**846**	**296**	**550**
Total Autonomous Funds and Services	**123,147**	**22,845**	**100,302**

Attachment IV – Budget Appropriations for 2013 (US$'000)
Infrastructure Fund

Programmes / Sub-programmes	Expenses funded by carry-over from 2012	Salaries & Wages	Goods & Services	Transfers	Minor Capital	Capital Development (to add or subtract in 2013)	Total Expenses
Total Including Loans	**444,351**	-	-	-	-	**160,026**	**604,377**
Total Excluding Loans	**401,263**	-	-	-	-	**159,526**	**560,789**
Total Loans	**43,088**	-	-	-	-	**500**	**43,588**
Programmes Excluding Loans							
Agriculture	**5,754**	-	-	-	-	**2,199**	**7,953**
Irrigation	5,754	-	-	-	-	2,199	7,953
Water and Sanitation	**8,598**	-	-	-	-	**1,500**	**10,098**
Master Plan	8,598	-	-	-	-	1,500	10,098
Urban and Rural Development	**7,076**	-	-	-	-	**-500**	**6,576**
Urban and Rural Development	7,076	-	-	-	-	-500	6,576
Power	**10,038**	-	-	-	-	**113,629**	**123,667**
Power	10,038	-	-	-	-	113,629	123,667
Roads	**68,504**	-	-	-	-	**19,581**	**88,085**
Roads	68,504	-	-	-	-	19,581	88,085
Bridges	**13,837**	-	-	-	-	**4,452**	**18,289**
Bridges	13,837	-	-	-	-	4,452	18,289
Airports	**9,467**	-	-	-	-	**-1,000**	**8,467**
Airports	9,467	-	-	-	-	-1,000	8,467
Ports	**10,000**	-	-	-	-	**975**	**10,975**
Ports	10,000	-	-	-	-	975	10,975
IT Equipment	**5,791**	-	-	-	-	**4,700**	**10,491**
IT Equipment	5,791	-	-	-	-	4,700	10,491
Public Buildings	**36,881**	-	-	-	-	**3,787**	**40,668**
Public Buildings	36,881	-	-	-	-	3,787	40,668

Education	**9,882**	**-**	**-**	**-**	**-**	**-747**	**9,135**
Schools	3,937	-	-	-	-	620	4,557
Universities	5,945	-	-	-	-	-1,368	4,577
MDG	**103,517**	**-**	**-**	**-**	**-**	**-57,254**	**46,263**
Water and Sanitation	24,504	-	-	-	-	-17,574	6,930
Housing	79,013	-	-	-	-	-39,680	39,333
Health	**2,324**	**-**	**-**	**-**	**-**	**-283**	**2,041**
Hospitals / Health Posts	2,324	-	-	-	-	-283	2,041
Security and Defence	**7,780**	**-**	**-**	**-**	**-**	**9,819**	**17,599**
Security and Defence	7,780	-	-	-	-	9,819	17,599
Social Solidarity	**363**	**-**	**-**	**-**	**-**	**1,300**	**1,663**
Monuments	363	-	-	-	-	1,300	1,663
Tasi Mane	**101,452**	**-**	**-**	**-**	**-**	**37,950**	**139,402**
Airports	6,620	-	-	-	-	11,000	17,620
Roads and Bridges	25,565	-	-	-	-	8,475	34,040
Oil and Gas	69,267	-	-	-	-	18,475	87,742
Drafting of Designs and Supervision – New Projects	**-**	**-**	**-**	**-**	**-**	**19,418**	**19,418**
Drafting of Designs and Supervision – New Projects	-	-	-	-	-	19,418	19,418
Loan Programmes							
Water and Sanitation	**20,000**	**-**	**-**	**-**	**-**	**-**	**20,000**
Sewerage system	20,000	-	-	-	-	-	20,000
Roads	**23,088**	**-**	**-**	**-**	**-**	**500**	**23,588**
Roads	23,088	-	-	-	-	500	23,588

Attachment V – Budget Appropriations for 2013 ($'000)
Human Capital Development Fund

Programmes	Expenses funded by carry-over from 2012	Salaries & Wages	Goods & Services (to add or subtract in 2013)	Transfers	Minor Capital	Capital Development	Total Expenses
Total	**8,549**		**33,899**	-	-	-	**42,448**
Professional Training	**593**	-	**4,250**	-	-	-	**4,843**
Technical Training	-	-	**3,100**	-	-	-	**3,100**
Scholarships	**6,398**	-	**16,862**	-	-	-	**23,260**
Other Types of Training	**1,558**	-	**9,687**	-	-	-	**11,245**

Part 4: Supporting Documents

4.1: Petroleum Fund Law Article 8

4.1.1: Requirement for Transfers from the Petroleum Fund

República Democrática de Timor-Leste
Ministério das Finanças
Gabinete da Ministra

"Adeus Conflito, Bemvindo Desenvolvimento"

Ofício n.º: 256 i /GMF/V/2012

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: 2013	**Amount (USD)** $787.0 million
Estimated Sustainable Income For preceding Financial Year: 2012	**Amount (USD)** $665.3 million

A review of the methodology which the ESI-calculations are based on is included in the Budget 2013.

According to Art. 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

Emília Pires
Minister of Finance

4.1.2: Independent Reassurance Report to the Ministry of Finance

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Deloitte.

INDEPENDENT ASSURANCE REPORT TO THE MINISTRY OF FINANCE, DEMOCRATIC REPUBLIC OF TIMOR-LESTE

We have been engaged by the Ministry of Finance in accordance with Article 8(c) of the Petroleum Fund Law (Law No. 9 /2005) of the Democratic Republic of Timor-Leste, ("The Law") relating to the Ministry of Finance's compliance with in the calculation of the Estimated Sustainable Income for the fiscal year 2013 in accordance with paragraphs II and III of Schedule 1 of The Law.

The Ministry of Finance's Responsibility for the Estimated Sustainable Income Calculation

The Ministry of Finance is responsible for the calculation of the Estimated Sustainable Income for the fiscal year 31 December 2013 in compliance with the amended Schedule 1 of Petroleum Fund Law (Law No. 9 /2005, Amendment 1, No. 12/2011) of the Democratic Republic of Timor-Leste, ("The Amended Law"). Additionally, the Ministry of Finance is responsible for ensuring that all assumptions comply with the provisions of Schedule 1 (IV) and (V).

Our Responsibility

Our responsibility is to express a conclusion whether the Estimated Sustainable Income Calculation for the fiscal year 31 December 2013 has been calculated, in all material respects, in accordance with the formula in Paragraphs II and III of Schedule 1 of the Amended Law. Our audit has been conducted in accordance with the International Standard on Assurance Engagements (ISAE) 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* to provide reasonable assurance that the Ministry of Finance has complied with requirements in the Law. Our procedures consisted primarily of inquiries of relevant personnel, inspection of evidence including the Budget Book and obtaining and reviewing the Estimated Sustainable Income Calculation.

These procedures have been undertaken to form a conclusion as to whether the Ministry of Finance has complied, in all material respects, with the requirements of the Law.

Conclusion

In our opinion, the Ministry of Finance has complied, in all material respects, with Paragraphs II and III of Schedule 1 of the Petroleum Fund Law (Law No. 9 /2005, Amendment 1, No. 12/2011) of the Democratic Republic of Timor-Leste in calculating the Estimated Sustainable Income for the fiscal year ending 31 December 2013. The calculation shows an Estimated Sustainable Income of $787 million United States Dollars.

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Prepared for the
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