



PETRÓLEO EN TIMOR - LESTE

Guteriano Nicolau

Charles Scheiner

LA'O HAMUTUK

laohamutuk@easttimor.minihub.org

charlie@laohamutuk.org

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INTRODUCCIÓN

Para el mundo “desarrollado” el petróleo y el gas son esenciales. Cada país, en especial los ricos, dependen del petróleo para mantener sus economías y estilos de vida. Por el otro lado, muchos países con depósitos de petróleo dependen de ellos como su principal fuente de ingresos.

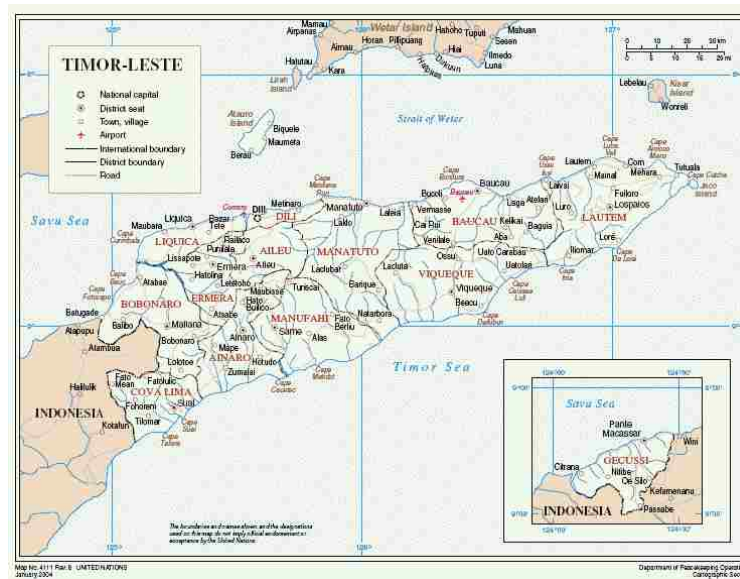
En décadas recientes, la humanidad ha descubierto que el petróleo no es la bendición que muchos creían que era. El petróleo se ha convertido en una de las causas de sufrimiento, crisis políticas, destrucción ambiental e injusticias económicas. Frecuentemente daña la seguridad – interna, externa, local y global, personal y nacional. Alrededor del mundo, muchos países sufren estos efectos.

Debido a que el dinero potencial proveniente de la explotación del petróleo es tan grande, frecuentemente causa invasiones, guerras y otros conflictos. Amplia la brecha entre los ricos y los pobres, promoviendo celos, injusticias y desigualdades sociales.

El desarrollo del petróleo ha sido el peor enemigo del medio ambiente, destruyendo comunidades, medios de sustento y hábitats al igual la perturbación del clima mundial.

Muchos países con depósitos de petróleo, desde Angola hasta Aceh hasta Nigeria hasta Irak, las prioridades económicas y políticas de las compañías petroleras de los países ricos crean un rastro de sangre y cuerpos.

Timor-Leste (también llamado Timor del Este) es un caso entre muchos otros. Han sufrido tremendamente en parte debido a sus reservas de petróleo y gas, mientras que no reciben ningún beneficio de estas reservas. Ahora que la nación es independiente y pacífica, podemos aprender de su historia y lo que la avaricia por el petróleo puede llegar a hacer. También los habitantes de Timor-Leste pueden aprender de las experiencias de otros, y talvez evitar las trampas de la dependencia del petróleo: destrucción ambiental, guerras, dictaduras, militarismo e injusticia económica.



MAPA DE TIMOR-LESTE

Mapa en mejor resolución (adjunto 1)

Sin antecedentes

Como la nación más nueva en el mundo, Timor-Leste esta inventando su gobierno, economía y leyes. No tiene deuda externa ni guerra. Hay una polución insignificante debido a la ausencia de industrias o de minería. Los cultivos y la ganadería son orgánicos ya que no hay dinero para pesticidas o fertilizantes. No existen cadenas ni compañías transnacionales ya que no hay suficientes personas que puedan permitirse sus productos.

Timor-Leste recién ha comenzado a explotar su petróleo; los proyectos están a muchos kilómetros de la costa, fuera del alcance de la vista y la mente. Esta puede ser la oportunidad para hacer las cosas bien, evitar la “maldición de los recursos” que la extracción del petróleo ha infligido en muchos países.

Las presiones económicas son enormes. El único producto exportable en Timor-Leste es el café, cuyo precio está en niveles históricamente bajos. Más de tres cuartos de la población subsisten gracias a la agricultura. Más de 40% de los adultos son analfabetos; la mortalidad materna e infantil esta por encima de los países ricos. La malaria y la tuberculosis son agresivas. Solamente pocas personas tienen acceso a agua potable, electricidad o teléfono. El índice de desarrollo humano de Timor-Leste es el peor de Asia, por debajo de todos los países no africanos excepto Haití.¹

Este subdesarrollo endémico prevalece hace siglos producto de la brutal y explotadora dominación extranjera por Portugal (1520-1942, 1945-1975), Japón (1942-1945), e Indonesia (1975-1999). Fue aumentado por la destrucción sistemática por parte de los soldados indonesios y sus apoderados militares infligieron justo antes de marcharse después de 24 años de brutal ocupación la cual tomo las vidas de 200,000 personas, un tercio de la población antes de la invasión.

Desde octubre 1999 hasta mayo 2002 los 860,000 ciudadanos de Timor-Leste están siendo gobernados por las Naciones Unidas quienes continúan con su misión hasta mediados del 2005. Miles de millones de dólares provenientes de la “asistencia” internacional comenzaron a llegar, de la conciencia atrasada de una comunidad internacional que se sentó sobre sus manos por un cuarto de siglo de genocidio. Durante este periodo, el dinero extranjero gastado anualmente en Timor-Leste era tres veces más el PBI del país. Además de los 2 mil millones gastados en misiones de las Naciones Unidas en ayuda bilateral y multilateral arrojando un promedio de \$300/ciudadano Timorense/año, el más alto del mundo.²

Esta “ayuda” la mitad de lo que Timor-Leste espera recibir del desarrollo petrolero en los próximos 20 años, produjo efectos insignificantes en el desarrollo económico. Nunca entro en la economía del país, yendo en vez a salarios y costos de soldados internacionales, asesores y consultores, o a compras de equipos o combustible de otros países. Menos del 1% del presupuesto de transición de las Naciones Unidas se gastó en salarios para el pueblo de Timor-Leste.³

¹ PNUD, *Informe de desarrollo humano 2005*, página 22. <http://hdr.undp.org/reports/global/2005/>

² Ibid, página 170, Figura 5.4.

³ Los \$563 millones del presupuesto del gobierno de transición de las Naciones Unidas para el 2001 analizado en abril 2001. *La'o Hamutuk Bulletin*. Al personal Timorense de las Naciones Unidas se les pago un total de \$5-5 millones, un promedio de \$240/por mes. El promedio de sueldo de un personal internacional

Ahora Timor-Leste es independiente – lo que sea que esto pueda significar en esta era de la globalización. Sus ciudadanos pueden a través de su gobierno democrático, tomar sus propias decisiones sobre como gobernarse y mejorar sus vidas. Pero por ahora permanecen dependientes a la asistencia.

Durante su primer año de independencia (2002-2003), se gastaron \$531 millones por parte del gobierno y agencias de asistencia. El presupuesto del gobierno era de \$84 millones, los cuales incluían \$27 millones de contribuciones locales y \$21 millones del petróleo, con el balance de donantes extranjeros. Más de cinco veces esta cantidad fue gastada por las Naciones Unidas, agencias bilaterales y multilaterales, administrando sus propios proyectos fuera del control gubernamental, con poco impacto en la economía local.⁴ La ayuda ha ido decreciendo de manera estable, con algunos efectos negativos en el empleo y comercio al por menor. El desempleo, elevado, esta aumentando.

Actualmente, casi no existe actividad de comercio no petrolera. En el 2004, Timor-Leste exportaba productos por \$7 millones; el 99% era café, la mitad del cual era vendido a los Estados Unidos. Durante el mismo periodo, el país importó bienes por \$113 millones, un insostenible déficit comercial. Casi la mitad de las importaciones fueron combustibles fósiles, y el 53% de todas las importaciones eran provenientes de Indonesia.⁵

En este punto de su historia, es difícil para Timor-Leste imaginarse una mejora en las vidas de sus ciudadanos sin vender petróleo o gas. El camino llevó a una dependencia petrolera durante dos generaciones con todos los riesgos y consecuencias del caso.

Las contribuciones provenientes del petróleo y del gas formarán mayoritariamente en gran parte las rentas económicas y del gobierno por un rato, pero se agotarán los depósitos dentro de las vidas de muchos niños vivos hoy en día. Ya que las reservas de petróleo y gas están mar adentro y el procesamiento de derivados se realizará en Australia, casi no habrá ingresos para Timor-Leste, con un efecto secundario pequeño. Los planes gubernamentales de Timor-Leste para invertir la mayor parte de las ganancias en un Fondo de Petróleo, que deberá brindar rentas después de que se haya agotado el petróleo.

Pero si ese dinero es mal manejado, derrochado o robado, y si no se desarrollan los demás sectores de la economía del país, el pueblo de Timor-Leste enfrentará una pobreza permanente.

de las Naciones Unidas en Timor-Leste fue 30 veces más que esta cifra.

<http://www.laohamutuk.org/Bulletin/2001/Apr/bulletinv2n1.html>

⁴ Después de la independencia, una misión más pequeña de las Naciones Unidas apoyada por el gobierno Timorense, con un presupuesto por dos años de \$517 millones, de los cuales 0.8% será destinado a salarios locales. Para un desglose de este y otros gastos del sector público en Timor-Leste durante 2002-3, ver mayo 2003 *La'o Hamutuk Bulletin*. <http://www.laohamutuk.org/Bulletin/2003/May/bulletinv4n2.html>

⁵ La República Democrática de Timor-Leste (RDTL) Ministerio de Planificación y Finanzas, *Timor Leste Overseas Trade Statistics, 2004* (publicado en marzo 2005). Cifras para los primeros ocho meses del 2005 muestran los mismos patrones. <http://dne.mopf.gov.tp/trade.html>

Aquí hay algunas estadísticas básicas. Todas las cifras están en millones de dólares Norte Americanos, la moneda legal en Timor-Leste.

	2005	2010	2050	Comentario
Población ⁶	947,000	1,216,000	3,265,000	Tasa de crecimiento más alta del mundo, índice de fertilidad de ocho niños por mujer.
Area ⁷	15,007 km ²			7% de la tierra es irrigada. El territorio marítimo esta en disputa.
PBI Petrolero ⁸	\$703	\$3,135 ⁹	0	Estas cifras siguen la suposición del gobierno de solamente incluir los campos de petróleo y gas de Bayu-Undan. Otros campos actuales y potenciales pueden aumentar las ganancias de Timor-Leste por un factor de tres o más. El campo de Bayu-Undan se agotará para el 2023.
PBI no petrolero	\$341	\$391	?	2050 depende en cuan bien se desarrollan otros sectores de la economía.
Porcentaje del petróleo del PBI	67%	89%	0%	Esto no incluye intereses de inversión excedente de ganancias del petróleo en el Fondo de Petróleo, el cual se tornará cada vez más importante a través del tiempo y puede reemplazar a las ganancias del petróleo cuando este se agote.
Porcentaje doméstico de ganancias no petroleras	18.5% ¹⁰	6.1%		Excluye contribuciones de donantes. No se gastarán todas las ganancias; el excedente se invertirá en el extranjero en un Fondo de Petróleo. No esta incluido el interés del Fondo de Petróleo.

Antecedentes históricos

Los prospectos futuros impuestos vienen de un pasado traumático, impuesto por extranjeros. No es coincidencia que la nueva nación sea dependiente económicamente, tuvo una dependencia política forzada durante más de 450 años.

⁶ Naciones Unidas *Prospectos sobre Población Mundial, revisión 2004*, página 44.

http://www.un.org/esa/population/publications/WPP2004/2004Highlights_finalrevised.pdf

⁷ *CIA World Factbook*, 2005. <http://www.cia.gov/cia/publications/factbook/geos/tt.html>

⁸ *RDTL Combined Sources Budget*, presentado ante la Conferencia de Desarrollo de Socios en abril 2005, página 26. Extrapolado al 2010 basado en ganancias petroleras proyectadas (página 40) y ajustado por incrementos en el precio del petróleo proyectado desde que se redactó el documento. Las cifras restantes en esta tabla han sido tomadas o calculadas de datos en este documento.

<http://www.mopf.gov.tl/dp/RDTL%20Planning%20Documents%20and%20Publications/Background%20Paper/RDTL%20Background%20Paper%20april%202005%20-%20English.pdf>

⁹ El documento del presupuesto RDTL se basó en un precio de petróleo proyectado de \$38/barril, pero en septiembre 2005, NYMEX predicen \$61.4. (<http://futures.tradingcharts.com/chart/CO/CO>). Si las tasas del petróleo se mantienen como se espera, las ganancias del petróleo para el gobierno serían de más de \$3,100 millones en el 2010.

¹⁰ Las ganancias del gobierno por el 2005 son de \$206 millones, incluyendo \$36 millones de ganancias domésticas, \$159 millones y \$11 millones de donantes... *RDTL Combined Sources Budget*, page 10.

En el siglo 16, las reservas de petróleo de Timor-Leste no valían nada. Sin embargo, tenían sándalo, mármol y (después) café, que atrajo poderes coloniales. Los comerciantes portugueses y misioneros llegaron a Timor-Leste y explotaron los recursos humanos y naturales. Cuando los portugueses se fueron en 1974, estalló una guerra civil, causada por el fracaso portugués de facilitar auto-determinación y debido a la desestabilización indonesia.

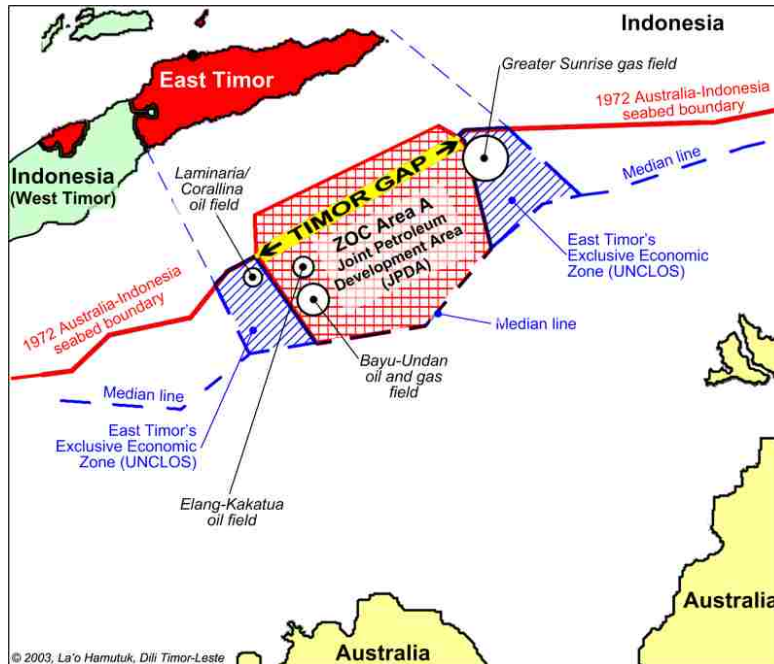
Indonesia, el vecino más cercano de Timor-Leste, es la cuarta nación más poblada de la tierra, con 230 veces más población que Timor-Leste. Por más de un siglo, Indonesia (antes Indias del Este Holandesas) han sido líderes exportadores de gas y petróleo a nivel global, brindando vastas ganancias para Holanda y la Royal Dutch Shell. Desde entonces, Exxon, Unocal, Chevron, Texaco y muchas otras han compartido el botín. En 1965, un golpe militar respaldado por los Estados Unidos derrocó un gobierno no alineado y aproximadamente un millón de indonesios fueron masacrados. La dictadura militar del Presidente/General Suharto estaba firmemente en control cuando Portugal abandonó Timor-Leste una década después. El Presidente Norte Americano Richard Nixon apodó a Indonesia como "el premio real del sudeste asiático", y permaneció como un fuerte aliado de los Estados Unidos incluso después que Vietnam derrotara a los Estados Unidos en abril de 1975.

Siete meses después, Indonesia invadió Timor-Leste con la aprobación de los Estados Unidos, Australia y otros países occidentales. Mataron a 50,000 timorenses con armas suministradas por los Estados Unidos, en los primeros seis meses. En el siguiente cuarto de siglo la ocupación militar cobró las vidas de alrededor de 200,000 personas (un tercio de la población antes de la invasión), casi todos eran civiles. Las violaciones a los derechos humanos- tortura, violaciones, arrestos indiscriminados, desplazamiento, expropiación de tierras, etc. – eran incesantes y muy difundidas. Aunque las Naciones Unidas votaron nueve veces para condenar las violaciones y el derecho del pueblo de Timor-Leste a la auto-determinación, las demás naciones no hicieron nada para que terminara. Indonesia era demasiado importante económica y estratégicamente.

El pueblo de Timor-Leste resistió la ocupación y represión por más de una generación. Además de una pequeña guerrilla en las montañas, la resistencia incluía un amplio movimiento clandestino, no cooperación extendida y esfuerzos diplomáticos. Indonesia nunca pudo conquistar el corazón del pueblo, y el espíritu de *ukun rasik 'an* (independencia) aun ardía.

La lucha alcanzó el clímax en 1999, cuando cambios políticos en Indonesia le permitieron a las Naciones Unidas conducir un referéndum en Timor-Leste. Casi el 80% de la población eligió la independencia. Una vez más, la sed de libertad fue respondida con sangre, mientras las milicias retrocedían ante los militares indonesios quienes condujeron una campaña de tierra arrasada. Mataron a más de 1,500 personas, desplazaron a tres cuartos de la población a las montañas o a Indonesia, destruyeron toda la infraestructura y quemaron el 75% de los edificios en todo el país. Finalmente cuando llegó una fuerza militar internacional, las tropas indonesias se marcharon pacíficamente, habiendo cumplido su misión. Seis años después, ninguno de estos arquitectos o comandantes de estos crímenes de lesa humanidad han sido juzgados.

Las Naciones Unidas gobernó a Timor-Leste desde octubre 1999, y Timor-Leste restauró su independencia como país soberano el 20 de mayo del 2002. Hoy es el miembro 191 de las Naciones Unidas, y uno de los más pobres.



Mapa en mejor resolución Anexo 2

Reservas de petróleo y gas

Timor-Leste es bendecido o condenado, ya que tienen amplios depósitos de petróleo y gas natural bajo el Mar de Timor. Los depósitos en tierra, incluyendo petróleo y filtraciones de gas que han sido recolectados o llameadas durante más de un siglo, han sido menos estudiadas y probablemente sean más pequeñas que aquellas bajo el mar, donde la guerra no interfirió con la exploración de petróleo. Muchas de los campos mar adentro están en disputa territorial, este mapa y el cuadro¹¹ muestra los campos más grandes y conocidos que deberían pertenecer a Timor-Leste bajo los actuales principios legales internacionales.

¹¹ Mapa y data de La'o Hamutuk, compilados de Fuentes gubernamentales e industriales.

Campos de petróleo y gas en mar abierto más cercano a Timor-Leste que a cualquier otro país									
Nombre del campo	Ubicación	%TL bajo tratados	Estatus	Reserva total de petróleo	Reserva total de gas	Petróleo ya producido	Gas ya producido	Total de reserva de carbono ¹²	Carbono ya extraído
Operador*				Millones de barriles	Trillones de pies cúbicos	Millones de barriles	Trillones de pies cúbicos	Millones de toneladas métricas C	Millones de toneladas métricas C
Greater Sunrise Woodside	20% in JPDA ¹³ , el resto reclamado por ambos países.	50% ¹⁴	En espera hasta la frontera y otro acuerdo sea terminado.	290	7.7	0	0	233	0
Bayu-Undan Conoco-Phillips	JPDA	90%	Comenzó producción en el 2004; principal ingreso de TL's.	400	3.4	20	0	135	2
Buffalo Nexen (antes BHP)	JPDA	90%*	En producción 1999-2004, ahora siendo decomisionado.	31	0	31	0	4	4
Elang-Kakatua Conoco-Phillips	JPDA	90%*	Comenzó producción en 1998; casi agotada.	56	0	50	0	7	6
Laminaria-Corallina Woodside	Just outside JPDA; claimed by TL & Australia. Occupied by Australia	0%	Comenzó producción en 1999; casi completamente consumida. Australia se ha llevado \$1.2 mil millones en ganancias.	210	0	167	0	25	20
TOTAL		61%		987	11.1	268	0	403	31

* Además de las compañías que operan los proyectos, socios en empresas colectivas incluyen a Royal Dutch Shell, Santos, Inpex, Osaka Gas, Tokyo Electric, Paladin y Agip.

* Estos campos iniciaron su producción bajo un tratado ilegal "Tratado de Brecha de Timor" Las ganancias se dividieron y los dueños han cambiado dos veces desde 1999.

¹² Tonelaje del carbono basado en los factores de conversión administrados por OilWatch: 117,340 toneladas métricas de carbono por millones de barriles de petróleo; 25,900,000 tC por trillones de pies cúbicos de gas natural.

¹³ JPDA es el Area Conjunta de Desarrollo Petrolera, compartido 50-50 entre Indonesia y Australia bajo el acuerdo ilegal de 1989 "Tratado de Brecha de Timor". Desde la independencia de Timor-Leste, se comparte 90% a Timor-Leste y 10% a Australia.

¹⁴ Para septiembre 2005, no hay ningún acuerdo aprobado sobre una frontera marítima permanente, ni otra asignación de Greater Zuñirse entre Timor-Leste y Australia, aunque han estado negociando desde el 2001. Una división de ganancias 50-50 se ha reportado, pero otros tratos rumoreados han colapsado en años previos.

Muchas naciones pequeñas tienen depósitos de petróleo y gas bajo sus suelos y mares, pero pocos han sobrellevado tanto sufrimiento y violencia incluso antes de que sean extraídos. Timor-Leste es un pequeño y pobre país. Las ganancias que el colonizador puede sacar del café, sándalo y mármol son sólo sencillas; Timor-Leste es estratégicamente significativa sólo para Australia e Indonesia. Pero la riqueza petrolera potencial ha obligado a Indonesia y Australia a recorrer una senda criminal.

Ocupación I: Indonesia

Mientras se retiraba Portugal, la caótica situación que reinaba en Timor-Leste en 1974-1975 le hizo a Indonesia la tarea más fácil para entrar, y las políticas de Guerra Fría alentaban la aprobación de Occidente. Las consideraciones económicas también fueron clave – Indonesia y Australia quería adueñarse en los diez miles de millones de dólares que valen el petróleo y gas natural en el mar de Timor entre Timor-Leste y Australia.

Indonesia y Australia comenzaron a dividir el mar de Timor en los años 60, pero el ex gobernante colonial de Timor-Leste, Portugal, declinó a participar en las discusiones fronterizas, dejando la propiedad de los campos más lucrativos poco claros. Mientras Portugal se retiraba, Indonesia les preguntaba a sus vecinos y aliados que harían si Indonesia anexaba al Timor Portugués. El embajador australiano en Yakarta le urgió a su gobierno apoyar la invasión de Indonesia debido a que esperaba que Australia tuviera un mejor momento para negociar con Indonesia que con un Timor-Leste independiente.

Estaba en lo cierto. Poco después que Indonesia reclamó a Timor-Leste como su provincia número 27, comenzó a negociar con Australia. El "Tratado de la Brecha de Timor" (Timor Gap Treaty) firmado en 1989, mientras dos ministros brindan con champaña sobrevolando el mar de Timor. Se creó la "zona de cooperación" para un desarrollo conjunto en petróleo en el territorio marítimo de Timor-Leste, después llamado JPDA. Aunque esta área está más cerca del ocupado Timor-Leste que de Australia, Indonesia le dio a Australia 50% de las ganancias –una concesión para la legitimización de Australia de una ilegal y brutal ocupación. Por lo tanto Australia se convirtió en el único país democrático en legalmente aceptar la anexión de Timor-Leste a Indonesia. Esta de más decir que el pueblo de Timor-Leste no fue informado ni consultado.

El Tratado de la Brecha de Timor entró en efecto a inicios de 1991. El 12 de noviembre de ese año, soldados indonesios balearon una protesta pacífica en el cementerio Dili, matando a más de 271; esta masacre era inusual ya que estuvo presenciada por periodistas internacionales. Las fotos y videos de la "Masacre de Santa Cruz" dieron la vuelta al mundo, el primer vistazo de la brutalidad Indonesia que ya había asesinado a un tercio del pueblo de Timor-Leste.

Un mes más tarde, se otorgaron los contratos para los recursos robados de Timor-Leste. Las compañías ávidas por este petróleo bañado en sangre eran Royal Dutch Shell, Woodside Petroleum Ltd. (que después se convirtió en Woodside Australian Energy), Santos, y Phillips Petroleum (después ConocoPhillips), todos quienes todavía están explorando y explotando los recursos petroleros marítimos de Timor-Leste. El pequeño campo petrolero de Elang Kakatua de ConocoPhillips fue el primero. Descubierta en 1994, comenzó a hacer dinero para Indonesia y Australia en julio de 1998, y ya está casi agotado.

El campo más grande en el área en común es Bayu-Undan, campo de gas y petróleo -400 millones de barriles de condensado (líquidos) y 3.4 trillones de pies cúbicos de gas.

ConocoPhillips y su socio comenzaron a desarrollar este campo a finales de los años 90 mientras que aún era territorio robado.

En 1997 la Crisis Económica Asiática conllevó a la caída de Suharto, creando un espacio para que Timor-Leste vote por su independencia. Como resultado, Indonesia perdió su reclamo, nunca válido, sobre las riquezas petroleras de Timor-Leste. La ocupación de Timor-Leste le ha costado caro a Indonesia; el dinero del petróleo recién comenzaba a entrar en 1999 cuando Indonesia se retiró de Timor-Leste. En octubre de 1999, mientras los edificios de Timor-Leste aún humeaban y la mayoría de la población era refugiada, las compañías de petróleo decidieron desarrollar planes para Bayu-Undan. Laminaria-Corallina inició la producción un mes más tarde.

Ocupación II: Australia

El derecho internacional y las realidades políticas han cambiado desde que Indonesia y Australia labraron los mares, antes y durante la ocupación indonesia de Timor-Leste. Bajo la Convención de la Ley del Mar de las Naciones Unidas de 1982 (UNCLOS), los límites marítimos entre estados cercanos están delineados en la mediana, a medio camino entre las líneas costeras. Bajo este principio, todos los campos en el cuadro de arriba pertenecen a Timor-Leste. Estos principios, en vez de acuerdos firmados por otras naciones sobre territorio ocupado ilegalmente, establecieron los derechos de la nueva nación.

Mientras que la independencia tardía de Timor-Leste era inevitable, Australia continuaba anhelando las ganancias de Bayu-Undan, el campo de gas más grande Greater Sunrise, y la lucrativa Laminaria-Corallina. Con apoyo de Woodside y Phillips Petroleum, Australia quería continuar con el desarrollo conjunto del área del Tratado de la Brecha de Timor, compartiendo las ganancias con Timor-Leste en vez de con Indonesia. También se niegan a reconocer los actuales principios legales internacionales, prefiriendo los obsoletos que privilegian a países más grandes.

Dos meses antes de la independencia de Timor-Leste, Australia se retiró del proceso para delimitar los límites marítimos en disputa utilizando al Tribunal Internacional para la Ley del Mar y la Corte Internacional de Justicia. En vez, Canberra forzó a su pobre y pequeño vecino en una desbalanceada negociación donde el derecho de Timor-Leste a los límites marítimos es definitivamente postergado (probablemente durante generaciones, hasta que sea extraído el gas y el petróleo) a cambio de una cuota de dinero del petróleo y el gas. Con inmensas necesidades humanas y ninguna otra fuente de recursos, el gobierno recién nacido sintió que no podía arriesgar demorando Bayu-Undan, y las Naciones Unidas accedieron.

Catorce horas después del nacimiento de la República Democrática de Timor-Leste el 20 de mayo del 2002, se firmó el Tratado del Mar de Timor con Australia – continuando con el área de desarrollo en conjunto con una ganancia 50-50, aunque toda el área está en el lado de la mediana de Timor-Leste.

Una de las primeras leyes que decretó la nueva nación "Ley de Zonas Marítimas", imponiendo su derecho soberano al territorio marino. Las áreas del este y oeste del JPDA son reclamadas por ambos países, pero Australia se niega incluso a hablar dónde debe estar un límite permanente. Aunque el Tratado del Mar de Timor es "sin prejuicio" a una determinación de frontera marítima futura, Australia continúa actuando como si sus campos fuera de JPDA están en su territorio, incluso aquellos que están más cerca de Timor-Leste.

Se interrumpió el desarrollo mar adentro de Bayu-Undan. La producción de líquidos comenzó en 2004, bombeando gas al suelo y condensado cargado a tanques desde una plataforma flotante. Se está construyendo una cañería de gas a Darwin, Australia, dándole a Australia la mayor parte de empleos y todas las ganancias posteriores. Allí el gas será licuado y enviado a Japón. El apogeo de la producción se dará alrededor del 2010, y el campo se agotará para el 2023. El proyecto ya es dos tercios del PBI de Timor-Leste, brindando cuatro quintos de los ingresos del gobierno.

Desde 1999 hasta el 2005, Australia se ha llevado más de US\$1.2 mil millones¹⁵ de Laminaria-Corallina, un campo petrolero mucho más cerca de Timor-Leste. Este campo, justo afuera del JPDA y reclamado por ambos países, casi se ha agotado. Timor-Leste ha protestado por este robo de sus recursos, pero Australia no discutirá el tema.

Desafiando los reclamos de Timor-Leste, Australia ha firmado nuevos contratos por la mayor parte del territorio bajo disputa adyacente a JPDA. Cuando Australia coloca tales áreas en oferta, asesoran a las compañías que Timor del Este ha declarado una exclusiva zona económica y zócalo continental que se extiende por dos millas náuticas desde sus líneas base que incluyen esta área de liberación. Australia no acepta el reclamo de Timor del Este de extenderlo a que se superponga en áreas

Australia no acepta los reclamos de Timor-Leste hasta el punto que se superponen áreas sobre las cuales Australia tiene jurisdicción. Australia ha ejercido derechos soberanos sobre esta área durante un extendido periodo de tiempo, y ha notificado a Timor-Leste que continuará haciéndolo¹⁶. Mientras Australia continúe obteniendo utilidades del pasado cómplice con los crímenes indonesios, los ciudadanos de Timor-Leste han formado el "Movimiento contra la Ocupación del Mar de Timor", para demandar que su vecino sur respete sus derechos, al igual que su vecino del norte finalmente hizo.

Greater Sunrise, el campo más grande y más cercano a Timor-Leste que de Australia, esta en un 20% dentro de JPDA y 80% fuera. En 1972, Australia e Indonesia (sin la participación portuguesa), asignaron el 80% del área a Australia. Woodside ha tenido un contrato para desarrollar Sunrise, pero apenas ha comenzado debido a que la propiedad ha sido disputada. Luego de varias partidas en falso y acuerdos rumoreados, el desarrollo de sunrise fue oficialmente suspendido al final del 2004, mientras que Timor-Leste y Australia trabajaban sobre sus diferencias. Han concordado, según se dice, sobre una división 50-50 de ganancias anteriores (una mejora sobre el 18% que Australia inicialmente estaba dispuesto a compartir con Timor-Leste), pero están estancadas sobre quienes tomarán las decisiones sobre desarrollo.

El gobierno de Timor-Leste quiere una cañería desde Sunrise hasta la costa sur de Timor-Leste, donde una planta LNG será construida. La instalación de la primera industria de esta nueva nación brindara empleos (aunque los que demanden mayores habilidades y los mejores pagados serán para extranjeros), ingresos fiscales, gas para uso doméstico, y modelo para otros proyectos. También traerá polución y peligros de accidentes, corrupción, destrucción de comunidades locales, agricultura envenenada y pesquería interrumpida. Aunque los beneficios y riesgos para Timor-Leste aun no han sido completamente estudiados, los líderes gubernamentales están tratando de convencer a

¹⁵ Calculado por La'o Hamutuk basado en ventas y cifras impositivas en los rellenos trimestrales anuales de Woodside con la Bolsa de Valores Australiana.

¹⁶ *Release of Offshore Petroleum Exploration Areas 2005, Australia, Guidance Notes for Applicants.*
<http://www1.industry.gov.au/acreagereleases2005/html/guidance.htm>

las reacias compañías de petróleo que es de interés económico para ellos. Australia, habiendo utilizado la planta LNG Bayu-Udan para estimular el desarrollo en su escasamente poblado territorio norte, ve otra gran facilidad para que Greater Sunrise se torne en un beneficio económico.

Impacto social e ambiental

Hasta ahora, el desarrollo petrolero significativo en Timor-Leste ha sido mar adentro, fuera de la vista y de la mente. Como resultado, tiene poca detección social e impacto ambiental, y el único impacto económico han sido de los ingresos fiscales y las regalías.

Aunque los pescadores de Timor-Leste han cosechado los recursos marinos durante siglos, tienen pequeños botes y rara vez se alejan mucho de la costa. Los pobladores locales también recolectan mariscos y plantas acuáticas de la orilla. Ellos creen que la riqueza del mar debe manejarse sosteniblemente para las generaciones futuras, y la pequeña población de Timor-Leste, la falta de una capacidad exportadora, y tecnología limitada han ayudado a empoderar esa ética. Un importante derrame de petróleo podría poner en peligro a los ecosistemas cercanos a la orilla, y con la creciente población y cambios económicos y culturales podría extender la pesca hacia mar abierto.

Además, Timor-Leste esta considerando vender sus derechos de pesca a otros países para diversificar su base económica; mientras que aumente el desarrollo del petróleo mar adentro, esto estará cada vez más en riesgo. El gobierno de Timor-Leste ha contratado un consorcio Chino/Noruego para realizar prospectos sísmicos en mar adentro. Aunque el trabajo se ha completado sin incidentes conocidos, a inicios del 2005, se plantearon preocupaciones sobre que las salvaguardas ambientales eran inadecuadas.

El desarrollo a pequeña escala, en tierra del petróleo y el gas de Timor-Leste viene desde la era portuguesa, con filtraciones de petróleo cosechados para uso comunitario, mientras que las filtraciones de gas flameable brindaban inspiración espiritual. Unas pocas pequeñas refinerías, ahora abandonadas, producían gasolina y kerosene para el uso local, sin exportaciones o grandes proyectos. Timor-Leste espera explorar y explotar su petróleo y gas en tierra en las próximas décadas. Aunque las reservas onshore son significativas comercialmente, probablemente sean mas pequeñas que aquellas bajo el mar. Dado su mayor impacto potencial en el ambiente y las comunidades, algunos han sugerido que los proyectos en tierra sean retrasados mientras que Timor-Leste obtenga mayor experiencia en el manejo de los de mar adentro, sin embargo, el gobierno ha rechazado esta idea. Si Timor-Leste es capaz de atraer la planta de gas licuado Sunrise, los peligros sociales y ambientales aumentarán en el futuro aún más.

Timor-Leste tiene un clima de monzones, con cinco meses de aguaceros diarios alternados con siete meses casi sin lluvias. Sus residentes recolectan madera para cocinar o hervir agua (casi no hay agua potable sin hervirla). Combinado con la agricultura tala y quema y la deforestación causada por los soldados indonesios como táctica contra insurgente, muchos de los bosques del país han sido destruidos. La erosión es un problema significativo, tanto como las inundaciones y deslizamientos de tierra, creando más problemas para la infraestructura limitada de transporte. Enfermedades relacionadas con el medio ambiente, en especial la malaria, fiebre de dengue y tuberculosis son ampliamente extendidas.

El impacto del desarrollo petrolero desde desplazamiento de tierras, derrames y polución son muy importantes. Timor-Leste tiene muy poca seguridad alimentaria y un frágil sistema agrícola; cualquier problema podría exacerbar la desnutrición o causar hambruna.

El país no es aún capaz de manejar problemas ambientales existentes crónicos, y esto crea dudas de que puedan tratar con los peligros de los proyectos petroleros.

Timor-Leste virtualmente no tiene experiencia con una administración de gobierno responsable, proyectos industriales o protección del medio ambiente. En su apuro en desarrollar sus reservas petroleras, promulgo una legislación para el manejo de proyectos petroleros. La Ley de Petróleo 2005, que define la relación entre las compañías de petróleo y el gobierno, tienen muchas lagunas jurídicas. Los estudios de impacto ambiental son inadecuados, se pueden transgredir fácilmente a los propietarios de tierras y los derechos comunales, y las áreas sagradas o ecológicamente sensibles no están protegidas. La autoridad gubernamental en torno a las compañías reside en una única individualidad, sin transparencia, vigilancia, o revisiones y balances. Parece que Timor-Leste ha estado escuchando los consejos de la industria petrolera, pero aprendiendo muy poco de las experiencias de las personas quienes viven los impactos negativos de tal desarrollo.

Manejando el dinero

En contraste con la escasa información o atención dado a las compañías petroleras, Timor-Leste ha tenido una discusión pública sobre como manejar el dinero de sus reservas de gas y petróleo. El enfoque internacional actual sobre “transparencia y responsabilidad”, combinado con la percepción que la corrupción dentro del gobierno de Timor-Leste representa un gran peligro, mas que la malversación por parte de la compañías petroleras, ha atraído gran atención para estos temas.

En el 2005, el gobierno estableció un Fondo de Petróleo. El Fondo brinda para ganancias de petróleo y gas y su inversión en el extranjero, para que el interés sea gastado “para el beneficio de generaciones futuras” después que se haya agotado el gas y petróleo. Aunque este es un concepto loable, aun no esta probado. Timor-Leste ha basado su Fondo de Petróleo en el de Noruega, que es un país rico con una larga y establecida integridad y profesionalismo a nivel gubernamental antes que recibiera ganancias del petróleo. A la fecha, ningún país petrolero rico cuya población no era rica antes ha podido evitar el “curse del petróleo” al usar su fondo de petróleo.

El pueblo Timorese tiene el derecho a tener expectativas altas para este Fondo, creyendo que será utilizado para el desarrollo del país y erradicar la pobreza, expandir los servicios sociales, aumentar la inversión domestica, crear empleo, y construir infraestructura. Por su parte, el gobierno dice que lo quiere cumplir, resaltando la educación, salud y agricultura los cuales requieren de financiamiento.

Sin embargo, la Ley del Fondo de Petróleo esta llena de lagunas jurídicas. Esta ley no designa como va a gastarse el dinero, simplemente se utiliza para llenar cualquier déficit en el presupuesto del gobierno. Aunque se recomiendan niveles sostenibles, no hay prohibición de gastar el dinero del petróleo tan rápido como se genere. No hay requerimiento que sea utilizado para desarrollar otros sectores de la economía y disposiciones para transparencia y responsabilidad no son suficientemente fuertes como deberían ser.

La mayor parte de la población de Timor-Leste son campesinos rurales. La mayoría fuera de la capital no ha recibido información substancial sobre el fondo de petróleo. Debido a esta falta de información, las personas están alienadas de las decisiones y de cómo se manejaría el fondo, un temor de continuar con el patrón de una falta de claridad, corrupción y decisiones arbitrarias establecidas durante la ocupación indonesia. Otros

países productores de petróleo han tenido malas experiencias con una pobre planificación, corrupción, confabulación y nepotismo las cuales pueden repetirse en Timor-Leste.

El gobierno y economía de Timor-Leste será dominado y dependiente de las ganancias del petróleo por muchas décadas más. Ninguna de las legislaciones de petróleo requieren que otros sectores de la economía, tales como turismo y la agricultura, sean desarrolladas, un error que ha tenido consecuencias desastrosas en otras partes del mundo.

Deuda financiera

Timor-Leste es afortunado; comenzó su vida como nación sin deuda externa, y el actual gobierno esta comprometido a no pedir dinero prestado.

No fue una decisión sencilla. Antes de la independencia, se desarrollo un Plan Nacional con una fuerte influencia del Banco Mundial y otros consultores extranjeros. El Plan establece a los servicios públicos en un nivel muy bajo (la salud y educación ha sido grandemente reducidos desde los últimos años de la ocupación Indonesia; todo el presupuesto era menos de \$100 por habitante), y el libre comercio, privatización y honorarios por servicio predispuesto del IFIs entró en muchos lugares. El Banco también estableció un mecanismo de financiamiento para cumplir estas condiciones; el dinero de donantes puede ser bloqueado al menos que el Banco este satisfecho que se sigue el Plan.

A los donantes extranjeros se les pidió contribuir con dinero para implementar el Plan hasta que las ganancias del petróleo sean adecuadas. Los autores del Plan Nacional basaron su necesidad proyectada para contribuciones de donantes en el programa de ConocoPhillips para Bayu-Undan. Pero Bayu-Undan, como muchos proyectos grandes, comenzó a producir casi con un año de atraso.

Con una disminución de las donaciones internacionales, Timor-Leste se encontró con un déficit presupuestario de \$129 millones para el 2004-2006. El Banco Mundial se apuro en ofrecer prestamos "concesionales" para llenar la brecha, pero el gobierno dijo que no. Varios meses de debate e incertidumbre resultante, aunque la decisión de no pedir prestado terminó finalmente por elevar los precios del petróleo y más recortes al magro presupuesto del gobierno. Ahora, el presupuesto del gobierno tiene un excedente (colocado en el Fondo de Petróleo), que probablemente continuará por los próximos 40-50 años, hasta que se agote el gas y el petróleo.

En muchos países, la tentación de pedir prestado contra futuras ganancias de petróleo ha sido probada como irresistibles. La Ley del Fondo del Petróleo de Timor-Leste en parte se cuida contra esto, al decir que el dinero ni puede ser utilizado como valores o para prestamos. Sin embargo, líderes potenciales sabrán que el dinero del Fondo llenará cualquier déficit en el presupuesto del gobierno y que el repago de la deuda vendrá del presupuesto. Entonces incluso con una prohibición técnica sobre los usos de los Fondos como colateral, pueden estar confiados que el dinero del Fondo estará disponible para el servicio de la deuda.

Aunque las instituciones financieras internacionales han fallado en convertir a Timor-Leste en una nación deudora, aun tienen poder extraordinario, incluyendo un claro y detallado cuidado de las políticas y el presupuesto del gobierno. Por ejemplo el Banco Mundial, les paga a los asesores del Primer Ministro sobre temas de petróleo; el FMI contrato un arquitecto del Fondo de Petróleo y diseñaron el Banco Central (autoridad en pagos y banca) que lo manejará. Se han implementado según sugerencia del Banco Mundial

servicios públicos de muy bajo e insostenible nivel. En efecto, el Banco Mundial ha impuesto las restricciones de ajustes estructurales en Timor-Leste, incluso aunque el país nunca ha pedido un préstamo, menos aun reprogramado o fallado un pago.

Deuda ecológica

La contribución de Timor-Leste a los cambios en el clima global es minúscula, grandemente debido a la falta de industrialización. En el 2004 el país quemó alrededor de 600,000 barriles¹⁷ de productos petroleros, liberando unas 70,000 toneladas de carbono a la atmósfera. Per cápita, esto es menos de un veinteavo del consumo global en promedio de combustibles fósiles, aunque aumentará si se desarrolla más el país.

Debido a la pequeña área de tierra en Timor-Leste y sus restantes y escasos bosques, su vegetación no es un gran sumidero de carbono, aunque su área de océano (aún por acordarse) ayudaría.

Las reservas submarinas de Timor-Leste tienen alrededor de 4000 millones de toneladas de carbono. Serán quemadas en el Japón y otros países durante unas cuatro décadas, devolviendo carbono a la atmósfera en un rango de 140 veces más alto que el consumo de combustible en Timor-Leste. Las personas de los países ricos y de compañías trasnacionales de energía cosecharan la mayor parte de los beneficios que acompañan esta degradación de la atmósfera, aunque Timor-Leste también recibirá su parte.

El dióxido de carbono que resulta de la quema de combustibles es un gas invernadero, pero el metano (gas natural) tiene efectos más drásticos en la atmósfera. Si se escapara algo de los miles de trillones de pies cúbicos de gas natural de Timor-Leste mientras lo extraen, reinyectan, transportan o licuan, el efecto en el clima global sería 23 veces peor que si se hubiera quemado en su intencionado destino.

En el 2003, el Programa de Desarrollo de las Naciones Unidas y el gobierno de Timor-Leste fueron los anfitriones del "Primer Taller Nacional sobre el Cambio Climático". La conferencia de dos días incluyó mucho debate sobre los impactos del consumo de combustibles fósiles y las formas de reducirlo a nivel mundial. Un activista observó que la contribución más efectiva que podía hacer Timor-Leste era abogar por la reducción del calentamiento global y por lo tanto dejar los combustibles fósiles donde está, y pregunto si el país podía recibir incentivos financieros comparables a las ganancias de su venta. Los expertos acordaron que era imposible, más allá del consenso internacional sobre como tratar con la amenaza del cambio del clima, incluso aunque solo costaría alrededor de un tercio del valor del petróleo y el gas, ya que los costos de extracción y las utilidades de la compañía no necesitan ser compensadas. Sin embargo, además de los obstáculos políticos para evaluar cuanto gas y petróleo no esta siendo extraído.

El taller también debatió los efectos locales de los cambios climáticos en Timor-Leste. Una estación húmeda más seca y una estación seca más húmeda que impactaría en la agricultura, mucha de la cual no esta irrigada. Las tormentas serían más frecuentes e intensas, incluyendo ciclones, lo que aumentaría las inundaciones y deslizamientos de tierra, dañando a la población y la infraestructura. Debido a que la mayor parte de Timor-Leste (menos su capital Dili) están bien por encima del nivel del mar, el incremento en el nivel del mar no tendría un impacto inmediato, aunque el aumento de las temperaturas

¹⁷ Derivado de RDTL Overseas Trade Statistics, op. cit, basadas en las importaciones de \$36,757,000 por el valor en combustible en el 2004.

pueden finalmente requerir que las actividades agrícolas se muden a tierras altas. (Unos días después, un activista Timorese bromeo que la elevación del nivel del mar mejoraría la justicia económica en Timor-Leste, ya que muchos de los que viven en la costa son relativamente prósperos comparados con el grueso de personas que viven con la agricultura como subsistencia en los cerros y montañas).

La deuda ecológica no es sólo sobre el cambio climático. El medio ambiente físico y humano de Timor-Leste fue seriamente dañado muchas veces durante el siglo pasado al bombardear, quemar, aclarar el bosque, destrucción de propiedades, y otras tácticas infligidas por Indonesia y los ocupantes previos, fuerzas militares extranjeras. Aunque es difícil ver quien se beneficia de esta parte desde los pocos soldados indonesios, líderes políticos y hombres de negocios, es claro quien fue herido y la deuda debe ser pagada.

Para Timor-Leste, el petróleo y gas en el subsuelo no ha hecho mucho. Mientras Australia e Indonesia se han embolsicado impuestos y regalías, las compañías de petróleo internacionales han hecho miles de millones. Para septiembre del 2005, el gobierno de Timor-Leste ha recibido aproximadamente \$80 millones de las regalías del petróleo¹⁸, además de los \$262 millones de impuestos relacionados con el petróleo. Durante las próximas décadas las ganancias de Timor-Leste provenientes del gas y el petróleo pueden sumar \$25-30 mil millones.¹⁹ Esta es la fracción de lo que Timor-Leste podría recibir como justa compensación por el sufrimiento que Timor-Leste experimentó debido a los crímenes internacionales.

El cálculo monetario por la compensación de muertes humanas y el sufrimiento es moral y prácticamente muy difícil, pero una cifra puede dar una idea de lo que se les debe al pueblo Timorese por aquellos quienes cometieron los crímenes contra ellos. Algunas cortes aconsejan daños triples por acciones malévolas e ilegales. Los daños punitivos, para determinar en crímenes similares en el futuro, son frecuentemente mayores.

Un cálculo muy crudo coloca el daño infligido por Indonesia contra el pueblo de Timor-Leste en más de \$58 mil millones. Utilizando la misma metodología, Portugal y Japón son responsables por \$8 y \$13 mil millones respectivamente. Cada una de estas ocupaciones fue malévola e ilegal, por lo que daños triples deben ser el mínimo para una reparación apropiada. Por lo que, al pueblo de Timor-Leste se le debe más de \$235 mil millones de dólares por parte de gobernantes coloniales y sus aliados. Australia, Estados Unidos, Gran Bretaña y otras naciones quienes brindaron apoyo militar, diplomático o político a la ocupación de Indonesia deben compartir la responsabilidad en los daños. Esto incluye no solo traer a los perpetradores individuales ante la justicia y pagar reparaciones a la nación, pero también brindando compensación a las víctimas y sus familias.²⁰

¹⁸ Página Web de Timor Sea Designated Authority. Informe sobre *Petroleum related revenue*, <http://www.timorseada.org/ftp.php>

¹⁹ RDTL Presupuesto, Abril 2005, op.cit, página 40, coloca un total esperado de ganancias Bayu-Undan a Timor-Leste a \$4.9 mil millones, que las actuales proyecciones de precios del petróleo podrían aumentar a alrededor de \$8 mil millones. Sunrise y otros campos podría rendir el doble más.

²⁰ La tabla puede abrirse en Excel con Microsoft Project para cálculos más detallados

Compensación que se le debe a Timor-Leste por ocupantes extranjeros									
Ocupante	inicio	fin	mese s	desplazamiento	muertes	destrucción de hogares	arestos/ torturas/ violaciones	encarcelamien tos	
Portugal	Jan-1901	Jul-1975	5053	1.000	30.000	100	200	100	
Japón	Feb-1942	Aug-1945	42	50.000	50.000	1.000	1.000	1.000	
Guerra Civil	Jul-1975	Sep-1975	2	10.000	1.500	1.000	3.000	4.000	
Ocupación Indonesia	Dec-1975	Jan-1985	109	300.000	190.000	60.000	15.000	21.000	
Ocupación Indonesia	Jan-1985	May-1999	172	30.000	10.000	5.000	1.000	500	
Indonesia pre-votación	May-1999	Oct-1999	5	50.000	300	100	300	300	
Indonesia post-votación	Oct-1999	Oct-2000	12	500.000	1.200	70.000	-	-	
Valor de dinero por evento o mes				\$100 por month	\$250.000	\$20.000	\$3.000	\$200 por month	DEUDA total
Portugal	1550-1975			\$505.302.632	\$7.500.000.000	\$2.000.000	\$600.000	\$101.060.526	\$8.108.963.158
Japón	1942-45			\$210.032.895	\$12.500.000.000	\$20.000.000	\$3.000.000	\$8.401.316	\$12.741.434.211
Guerra Civil	1975			\$2.039.474	\$375.000.000	\$20.000.000	\$9.000.000	\$1.631.579	\$407.671.053
Ocupación Indonesia	1975-85			\$3.275.328.947	\$47.500.000.000	\$1.200.000.000	\$45.000.000	\$458.546.053	\$52.478.875.000
Ocupación Indonesia	1985-99			\$516.315.789	\$2.500.000.000	\$100.000.000	\$3.000.000	\$17.210.526	\$3.136.526.316
Indonesia pre-votación	1999			\$29.582.237	\$75.000.000	\$2.000.000	\$900.000	\$301.974	\$107.784.211
Indonesia post-votación	1999-2000			\$350.986.842	\$300.000.000	\$1.400.000.000	\$0	\$0	\$2.050.986.842
Total Indonesia	1975-2000								\$57.774.172.368
TOTAL				\$4.889.588.816	\$70.750.000.000	\$2.744.000.000	\$61.500.000	\$587.151.974	\$79.032.240.789

Conclusión

Como una nueva nación, Timor-Leste esta enfrentando muchas decisiones sobre el futuro. Una de las más críticas es como y si desarrollar sus reservas submarinas de gas natural y petróleo. Con casi ninguna otra fuente de ingresos para desarrollar su economía y servicios sociales, la nación tiene pocas opciones.

La ciudadanía de un millón de personas de Timor-Leste creen que sus reservas petroleras pueden brindar un camino para salir de la pobreza, enfermedad y analfabetismo que han heredado de siglos de colonialismo y décadas de ocupación militar. Piensan evitar el camino seguido por tantas otras naciones, donde el desarrollo del petróleo y el gas llevaron sufrimiento – donde la corrupción, la violencia, los malos manejos y la devastación ambiental lejos sobrepasan cualquier beneficio. Tienen la ventaja de saber que salió mal en otros países, y las desventajas de no tener buenos modelos para seguir.

Un realista asesoría a Timor-Leste a encontrar otro camino para cumplir con las necesidades de su pueblo. Un realista diría que los riesgos y daños del desarrollo petróleo son peores que los beneficios que pueden brindar las ganancias. Un realista puede enfatizar con la desesperada situación de las personas, pero diría que la extracción de petróleo y gas solo empeoraría las cosas, como ha pasado en tantos lugares.

Pero los Timorenses no son realistas. Ellos lucharon durante más de una generación contra un enemigo brutal 200 veces más grande que ellos, incluso aunque un tercio de su población fue diezmada. No tenían apoyo internacional durante su lucha, y sin elección de derrocar militarmente al ocupante indonesio. Pero hoy son libres, a pesar de, haber pagado un altísimo precio.

Talvez el pueblo de Timor-Leste también le puede ganar a la maldición del recurso. Esta será una lucha mucho más difícil que la que libraron contra la ocupación indonesia, y los costos podrían ser igualmente altos.

Hoy, los líderes deberían estar formulando estrategias para esta batalla, pero parece que subestiman la dificultad que están enfrentando. Depende de ellos, de educar a su pueblo y que estos sean responsables.

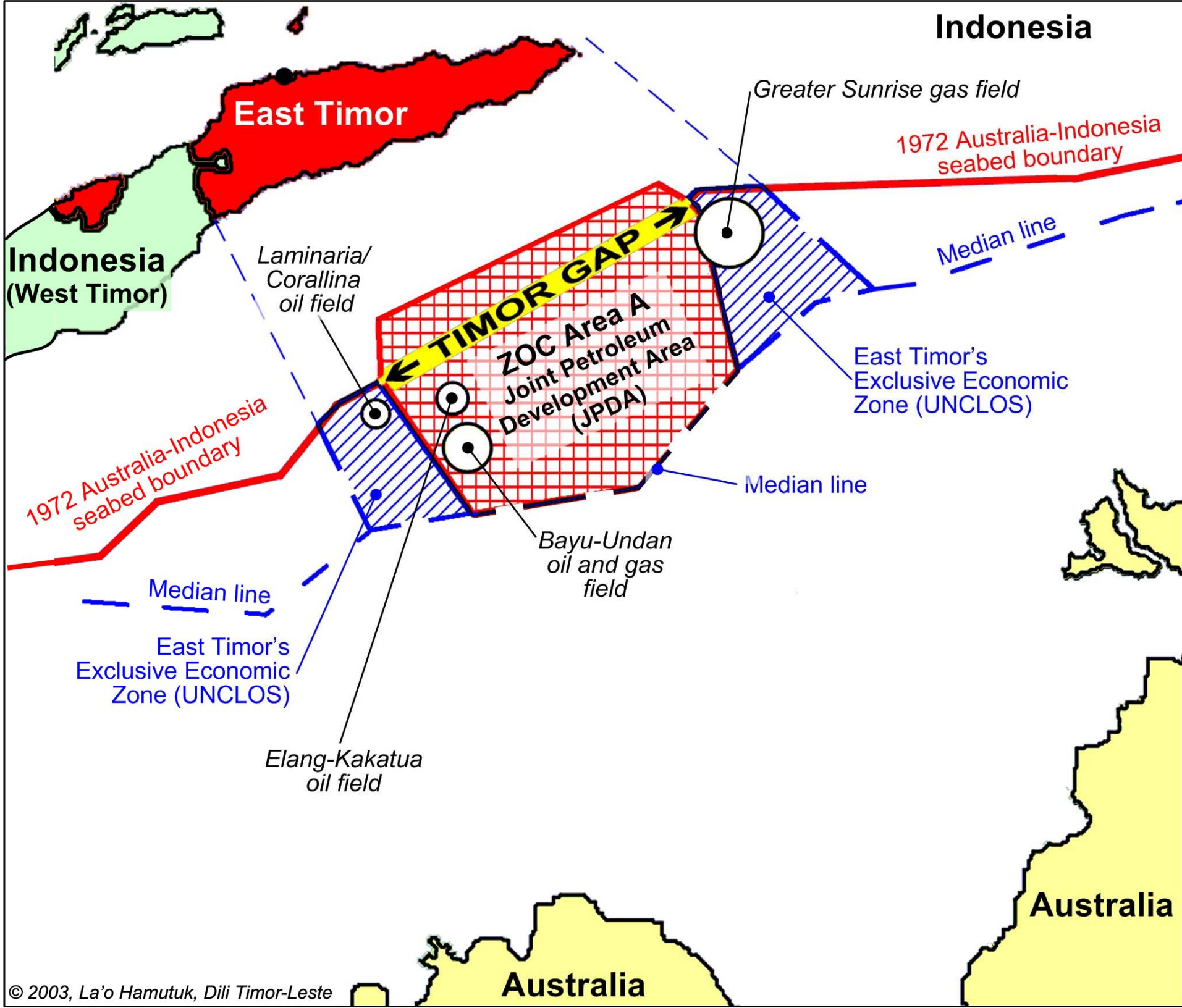
.../.

ANEXOS:

Link a:

- Mapa de Timor-leste
- Mapa de yacimientos de gas y petróleo
- La'o Hamutuk Bulletins:
 - 04-2001
 - 05-2003
- Timor leste - Overseas trade statistics - 2004
- Timor-leste - Combined sources budget - 2005-06
- Información adicional sobre la situación legal en Timor que sustenta la moratoria (en Inglés)





Indonesia

East Timor

Indonesia
(West Timor)

Greater Sunrise gas field

1972 Australia-Indonesia
seabed boundary

Median line

Laminaria/
Corallina
oil field

TIMOR GAP
ZOC Area A
Joint Petroleum
Development Area
(JPDA)

East Timor's
Exclusive Economic
Zone (UNCLOS)

Median line

1972 Australia-Indonesia
seabed boundary

Median line

East Timor's
Exclusive Economic
Zone (UNCLOS)

Bayu-Undan
oil and gas
field

Elang-Kakatua
oil field

Australia

Australia

The La'o Hamutuk Bulletin

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FUNDING EAST TIMOR'S RECONSTRUCTION: AN OVERVIEW

People in East Timor have many questions about the hundreds of millions of dollars that have flowed into the country since September 1999. Most have little idea where the money is going. The lack of public awareness, transparency, and participation in funding matters leads many to conclude that something is wrong. At the same time, there is a pervasive perception that, given the levels of funding, there has been insufficient progress in the rebuilding of East Timor.

At a meeting of international donors in Dili on 29 March, for example, Xanana Gusmão criticized various aspects of the reconstruction process, telling the donors of money ill spent and delays in the implementation of projects. The CNRT leader told the conference attendees not to be "overly impressed" with all the activity in Dili, stating that "in the interior the economic situation of the population has not changed much" since the Indonesian military's September 1999 campaign of terror and destruction.

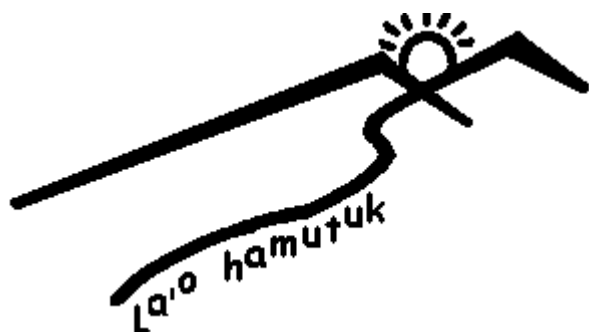
While such problems are not merely matters of funding, funding is central to the concerns raised by Xanana and many others. That is why this issue of the *Bulletin* focuses on the primary external funding sources in East Timor, and how their money is spent.

Undoubtedly, there is a great deal of money involved in the international community's efforts in the territory. Indeed, donors to East Timor have allocated more than one billion US dollars since December 1999.

Despite its small size and an economy based on subsistence agriculture, East Timor presently has one of the most complex external funding and public finance structures in the world. It is important to understand the different sources of this money, what it pays for, and the decision-making processes that govern its allocation. In this way, the people of East Timor can better evaluate the uses of this money, and more effectively influence its future flows and, thus, the reconstruction process.

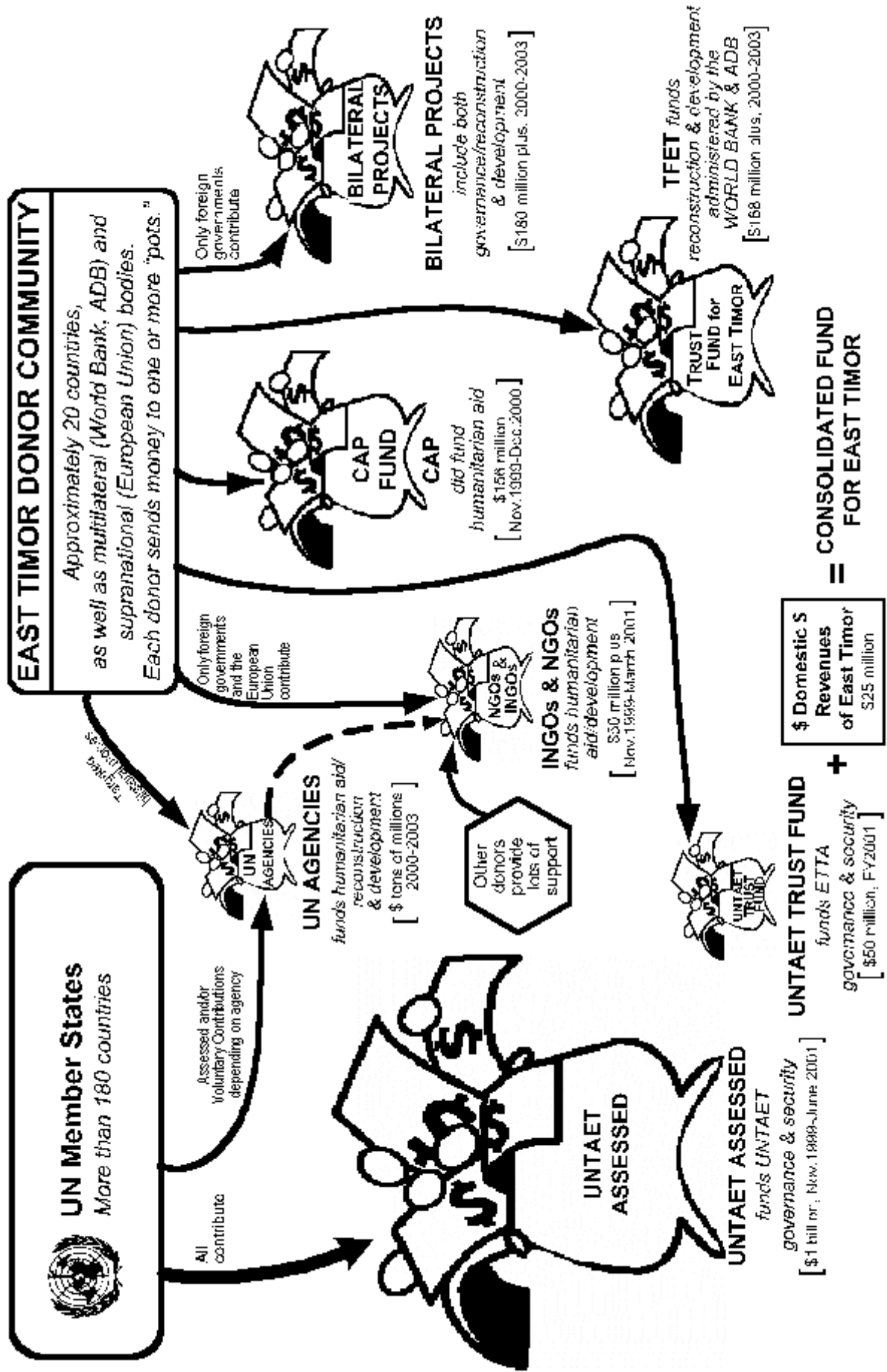
Inside . . .

Figure: International Funding in East Timor	2
External Funding: Sources and Uses	3
Decision-making for External Funding	5
East Timor Transitional Administration Budget	6
UNTAET Assessed Budget	6
Bottled Water Facts	9
Editorial: Equipment Should Stay after UNTAET Leaves	9
Commentary: Taxes in East Timor	10
In Brief	12
Editorial: UN High Commissioner for Human Rights Facilitates Indonesia's Impunity	15
Editorial: CivPol-Community Relations Need Repair	16
Editorial: Money Matters: Priorities and Process	20



La'o Hamutuk, The East Timor Institute for Reconstruction Monitoring and Analysis
P.O. Box 340, Dili, East Timor (via Darwin, Australia)
Mobile: +61(408)811373; Land phone: +670(390)325-013
Email: laohamutuk@easttimor.minihub.org Web: <http://www.etan.org/lh>

International Funding in East Timor (Figure 1)



EXTERNAL FUNDING: SOURCES AND USES

Almost all of the funds available to East Timor for reconstruction, governance, and security come from foreign governments. Although internal funding mechanisms—such as revenues from the Timor Gap and the new tax system—also yield money for public sector activities, funds coming from outside sources are currently much larger and, thus, deserve close review.

External funding goes into seven different “pots” (see figure 1). These seven “pots” support activities in one or more of three main areas: relief and/or humanitarian assistance; governance and security; and reconstruction and development. Voluntary financial contributions provide the funds of five of the seven “pots,” while contributions that member-countries of the United Nations must make supply the funding for the largest “pot.”

A description of these “pots”—or places where funds reside—follows. (*All amounts in US dollars.*)

CAP Monies and Related Work

In late September 1999, in the aftermath of the TNI post-referendum campaign of terror, the UN’s Office for the Coordination of Humanitarian Affairs (OCHA) launched a Consolidated Inter-Agency Appeal (CAP). Typically, OCHA is the UN agency that coordinates the international response to humanitarian emergencies.

OCHA’s proposed budget for humanitarian operations called for \$183 million for East Timor and \$15 million for humanitarian needs in West Timor. In response, foreign government representatives committed \$156 million in voluntary contributions to the CAP at the Tokyo Donors Conference in December 1999.

While an additional \$40-\$50 million went to emergency relief efforts outside the CAP process, the major portion of aid to refugees, including the provision of water, health services, and shelter kits was funded by CAP monies. UN agencies such as the United Nations Children’s Fund (UNICEF), the United Nations Development Program (UNDP), the United Nations High Commissioner for Refugees (UNHCR), the World Food Program (WFP), and the World Health Organization (WHO) were involved in the effort. International agencies such as the International Organization for Migration (IOM) and the International Committee of the Red Cross (ICRC), as well as numerous other international non-governmental organizations, also participated. The various implementing agencies spent almost all of the money in voluntary contributions received for this effort in the 13-month period from November 1999 to December 2000. No additional funding of the CAP is anticipated. (For a review of OCHA, the CAP, and its impact, see the *La’o Hamutuk Bulletin*, Vol. 1, No. 2.)

Assessed Contributions to Maintain UNTAET

By far the largest “pot” of money is the one that supports the establishment and maintenance of the UNTAET mission. This is the only “pot” that does not rely on voluntary contributions; rather, all foreign governments that are members of the United Nations are expected to contribute to it. Almost all funds for the budgets of UN peacekeeping operations (such as UNTAET), as well as the regular budget of the United Nations, come from the assessed contributions of UN Member States.

An assessed contribution is an amount of money that a Member State is supposed to contribute. The UN General Assembly approves the amount of each assessment, which is based on the ability of a country to pay (taking into account principally the country’s Gross National Product relative to all other countries’ GNPs). Starting next year, the scale used for peacekeeping operations will be one that has 10 levels of assessments based on each country’s per capita income.

The UNTAET assessed contributions budget finances expenses related to the UN involvement in East Timor which include the peacekeeping forces, civilian police, UN buildings, UN vehicles, UNTAET staff, and communications. The assessed budget does not include the costs of running an East Timorese government, namely the East Timor Transitional Administration (ETTA). Finally, this budget does not fund development or reconstruction projects.

UNTAET’s budget for the final eight months of the last fiscal year (November 1999-June 2000) was almost \$400 million. The budget for the present fiscal year, FY2001 (1 July 2000 - 30 June 2001), is \$563 million (see pages 5-7). Notably, the East Timorese people have little input in developing and modifying this budget. Rather, UN staff and committees in New York and Dili create and modify this budget.

Consolidated Fund for East Timor (CFET)

The CFET “pot” of money is both the smallest and, along with the INGO/NGO “pot,” the most accessible to local input and East Timorese participation in decisions around its use. It finances the embryonic national government (ETTA), which the international community is helping to build within the UNTAET structure. The CFET pays for the emerging national government’s operational costs, including the building of basic institutions, the provision of public services, the repair of government buildings, and civil servants’ salaries.

The CFET has two parts. The first part is made up of voluntary contributions from foreign governments in

the form of the UNTAET Trust Fund (UNTF or UNTAET TF). The United Nations set up the UNTF in October 1999 to help finance an East Timorese governing body—the East Timor Administration (ETA), which later evolved into the East Timor Transitional Administration (ETTA).

The second part of the CFET is made up of East Timor's domestic revenues. These include monies gained from the collection of taxes and import duties, as well as revenues from the exploitation of oil and natural gas reserves in the Timor Sea.

For the present and near future, the UNTF and donors are supposed to contribute enough monies to the CFET to ensure that with whatever domestic revenues are generated, the ETTA is sufficiently funded. But the hope is that the UNTF's and donors' share will diminish over time as domestic revenues increase. All of this is predicated on a very modest annual national budget of approximately \$60 million.

The initial amount contributed by the UNTF was \$32 million. At the June 2000 Lisbon Donors Conference, donors allocated an additional \$16 million in voluntary contributions for FY 2001 and \$25 million for FY2002 to supplement the CFET.

Trust Fund for East Timor (TFET)

The TFET "pot" contains money for reconstruction and development projects and is the second largest of the "pots." In October and November 1999, representatives from the World Bank, the International Monetary Fund, and various national governments visited East Timor to assess its needs and circumstances. Both the IMF mission and the World Bank-led Joint Assessment Mission helped inform policy recommendations and assistance requests.

Soon thereafter—in December 1999—the first international donors conference for East Timor took place in Tokyo. There, donors pledged a total of \$523 million in voluntary contributions: \$32 million for UNTF; \$147 million for a future Trust Fund for East Timor (TFET); \$33 million pledged to bilateral programs, but left unallocated (not yet designated to be spent in a certain place or program); \$156 million for the CAP humanitarian aid, and \$155 million left completely unallocated to the trust funds or for bilateral programs. (Subsequent donors conferences have not solicited additional pledges, but rather only reviewed progress and strategy and made allocation decisions.)

The conference established the Trust Fund for East Timor (TFET) managed by the World Bank and the Asian Development Bank to finance and oversee reconstruction and development projects. (For a review of the World Bank and its projects in East Timor, see *La'o Hamutuk Bulletin*, Vol. 1, No. 4.) Additional money from the unallocated fund has augmented the initial

\$147 million, bringing the current amount budgeted for TFET to \$167.4 million. This amount is spread out over three years and, with additional monies from the unallocated pledges, is likely to average \$60 million/year. While funding will continue after 2003, it is expected to diminish considerably. International and East Timorese advocacy might stimulate some additional pledges of support.

Presently, a Donor Council made up of donor representatives and facilitated by the Donor Coordination Unit (part of the ETTA National Planning and Development Agency) discusses, evaluates, and approves development and reconstruction projects as well as transitional governance assistance supported by TFET monies.

Direct Bilateral Funding

The "pot" that contains money for government-to-government assistance also has considerable in-kind (non-monetary) donations, such as agricultural and office equipment. Foreign governments have negotiated directly with UNTAET and ETTA to provide assistance. The bulk of direct bilateral assistance provided by these foreign governments has supported transitional governance and services. For example, programs of the United States government (USAID), the Australian government (AUSAid), and the Japanese government (JICA) have covered some operational costs for generating electricity, rebuilt some schools, and trained and built capacity in ETTA staff. Direct bilateral aid also helps fund reconstruction and development.

Including the bilateral support for transitional governance, bilateral donors have spent between \$50 and \$90 million to date. It is estimated that donors will spend \$160 to \$195 million over a three-year period. We will explore direct bilateral aid in a future issue of the *La'o Hamutuk Bulletin*.

Funding for UN Agencies

UN Agencies initially funded by the Consolidated Appeal Process still operate in East Timor although they now raise their funding through normal agency channels. Voluntary contributions from UN member states fund most UN agencies. Some of the administrative costs of some of the agencies are covered by the regular UN budget that is funded from assessed contributions. A few agencies also receive support from other areas (i.e. UNICEF receives significant non-governmental support and the WFP receives significant multilateral and bilateral support). Finally, bilateral monies fund some of the East Timor-specific activities of some agencies.

These agencies do a wide range of work especially in the areas of relief and development. While it is difficult to calculate their combined spending in East Timor, it runs into the tens of millions of dollars.

Funding for INGOs and NGOs

There are many local and international non-government organizations doing a wide range of work in East Timor, especially in the areas of relief and development/reconstruction. The “pot” that would collectively hold their funding has the most diverse funding sources. Some international non-government organizations (INGOs) have been in East Timor for many years while others have only recently begun operations here. These INGOs, in turn, provide some financial support to local non-government organizations (NGOs). Almost all of the money that supports the work of the dozens of international non-government organizations and over one hundred local NGOs originally comes from outside East Timor.

All of the contributions to local and international NGOs are voluntary and include some foreign government monies. In some cases, monies also come from UN agencies and supranational bodies. While it is difficult to calculate the annual combined spending of local and international NGOs in East Timor, it runs into the tens of millions of dollars. INGOs direct more than 90% of these funds. While some of the estimated \$50 million INGOs have spent in East Timor since late 1999 came from the CAP process, most monies for both INGOs and local NGOs come from individuals; community, activist/solidarity and church groups; foundations; and/or foreign government grants and in-kind donations. Additionally, some local NGOs have income-generating activities. ❖

DECISION-MAKING PROCESSES FOR THE EXTERNAL FUNDING ‘POTS’ AT A GLANCE

UNTAET ASSESSED BUDGET	DIRECT BILATERAL ASSISTANCE	NATIONAL AND INTERNATIONAL NGOs
Dialogue and information exchange lead to agreement between UNTAET and United Nations (New York) staff and committees. Inflexible once annual budget is approved.	After negotiations, agreement is reached between each donor government and UNTAET/ETTA.	Internal, varied processes which are often influenced by funding organizations.

UN AGENCIES	TRUST FUND FOR EAST TIMOR (TFET)	CAP FUND
Largely internal for each UN agency; heavily influenced by policy directives of the UN General Assembly. Several have Executive Boards that provide final approval on budgets.	Informal and formal discussions take place between UNTAET/ETTA, donors, and World Bank/Asian Development Bank; after which there is Cabinet agreement; NC endorsement of 6-month work program; then TFET donor council final approval.	OCHA consulted with UN Agencies, and other organizations that respond to emergencies. They secured agreement amongst them on approach and responsibilities.

UNTAET TRUST FUND (UNTF)	CONSOLIDATED FUND FOR EAST TIMOR (CFET)*
Donors’ discretion, primarily at donor coordination meetings. Monies are then used to augment domestic revenues and meet the needs of the East Timor Consolidated Budget.	ETTA departments submit proposals, seek Cabinet agreement, then NC approval. If seeking new funding, donor and international financial institutions’ approval is also required. * See page 6.

Reviewing the East Timor Transitional Administration's Budget

The boundary between the East Timor Transitional Administration (ETTA) and UNTAET can be difficult to understand. ETTA will become the administration of East Timor when UNTAET leaves next year. In July 2000, a cabinet system of government was established, comprising eight departments and a few autonomous agencies such as the Central Payments Office (future Central Bank), and the National Planning and Development Agency. A legislative body, the 36 member National Council, was also established. Altogether, this structure constitutes ETTA. ETTA is expected to have some 11,000 public employees by June 2001.

In effect, the government in East Timor has two budgets: one for ETTA (in the form of the East Timor Consolidated Budget, ETCB); and one for UNTAET (via assessed contributions). (Both have a fiscal year that runs from 1 July to 30 June.) Presently, ETTA is within the UNTAET structure. ETTA is comprised of East Timorese civil servants (as distinct from UNTAET local staff) and is defined by specific activities that its various departments carry out. Thus, Economic Affairs is both a department of UNTAET and of ETTA; the East Timorese civil servants within Economic Affairs receive their salary from the ETCB and have specific tasks that help to build an Economic Affairs department in the evolving/emerging independent East Timor government.

It is noteworthy that UN local staff are paid on average nearly twice as much as ETTA local staff. Officials justify this by saying that the country cannot afford to continue to pay its local staff at the same level the UN pays, ignoring the fact that the UN's presence has inflated prices and otherwise distorted the economy.

The budget for next year (July 2001 to June 2002) is currently being developed. In March and early April, each of the eight departments proposed a budget to be considered by the Cabinet during late April and early May. The National Council will consider the final Cabinet recommendations and make their recommendations in mid-May. More discussion may be necessary before final approval is won. Throughout this process, the community can have input, even if it is not encouraged.

A potentially promising approach to making future budgets is "combined sources budgeting." This entails a review of various funding sources before resources are allocated. This year, the Central Fiscal Authority (CFA) prepared a booklet that presented funding and allocations from three different sources: the Consolidated Fund (CFET), the Trust Fund for East Timor (TFET), and bilateral funding. While the three funds' budgets were created through separate decision-making processes, by presenting their allocation information together, a clearer picture of sector (health, education, justice, etc.) activity resulted. The CFA proposed that the 2001-2002 budget be a product of combined sources budgeting.

While *La'o Hamutuk* appreciates the value in this approach, we caution that decision-making processes must be open and transparent. Moreover, people at the community level should be able to effectively participate in the decision-making processes that determine not only how resources are allocated within each particular sector, but also how resources are distributed amongst the various sectors.

La'o Hamutuk will discuss this budget further in a future *Bulletin*. ❖

A Closer Look at the UNTAET Budget

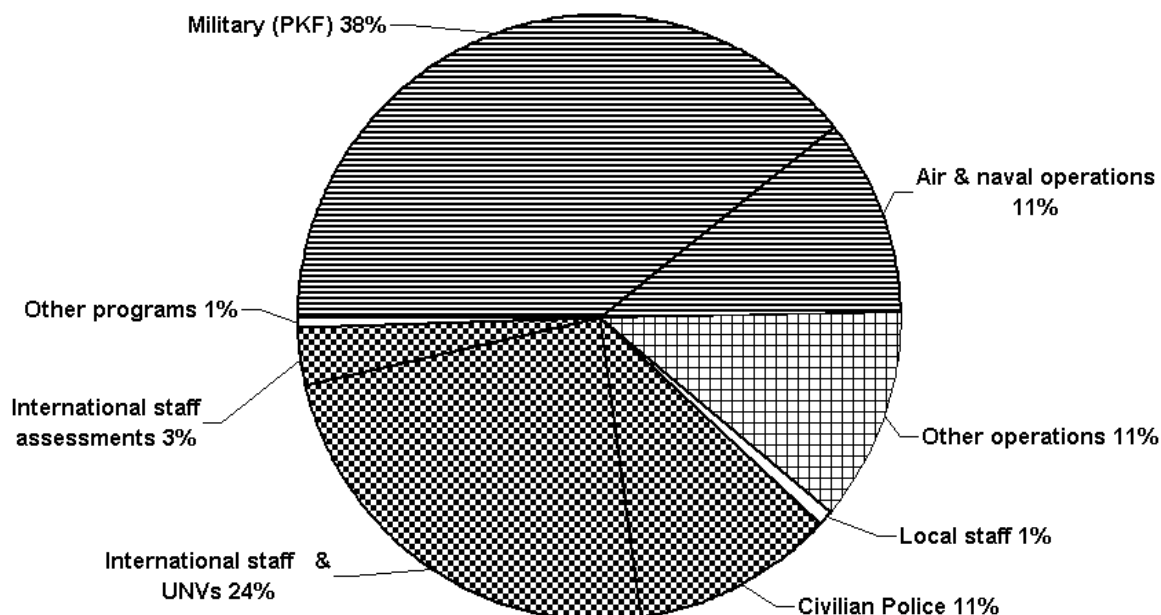
The UNTAET budget is by far the largest pool of funds available for East Timor. Nevertheless, the East Timorese people have little input in its creation, and there is no mechanism to allow for local involvement in its review. It is useful to understand more clearly what is in this budget.

The first approved budget covered a seven-month period from December 1999 to June 2000 and amounted to \$350 million. Of that amount, \$155 million was allocated for operations, \$100 million for military personnel, \$85 million for civilian personnel, and \$9 million for staff assessments ("taxes" taken out of international staff salaries *before* the salary is paid and applied to the UN membership dues of each staff member's country of citizenship).

The next approved budget covering Fiscal Year 2001, from July 2000 through June 2001, amounts to \$563 million. That budget breaks down as shown on page 7, with notes on page 8.

UNTAET Budget for Fiscal Year 2001 (US\$563 million total)

July 2000 - June 2001



\$220 million for military personnel

- ☑ approximately 150 military observers (**\$6.5 million**)
- ☑ military contingents, approximately 8,000 soldiers (**\$150 million**)
- ☑ contingent-owned equipment (**\$35 million**)
- ☑ self-sustainment (troop and police needs including catering, laundry, medical and dental, bedding and furniture, and communications) (**\$37 million**)
- ☑ death and disability compensation (**\$2 million**)

Note that more than half of the operations budget below is also for military purposes.

\$124 million for operations

- ☑ air operations (**\$58 million**)
- ☑ naval operations (**\$2 million**)
- ☑ premises / accommodations (**\$9.4 million**)
- ☑ infrastructure repairs (**\$11 million**)
- ☑ transport operations (**\$14.5 million**)
- ☑ communications (**\$14 million**)
- ☑ other equipment (**\$4 million**)
- ☑ supplies and services (**\$10 million**)
- ☑ air and surface freight (**\$1.4 million**)

\$199 million for civilian personnel

- ☑ approximately 2,000 local staff with an average pay of \$240 per person per month (**\$5.5 million**)
- ☑ 1350 Civilian Police provided Mission Subsistence Allowance to cover their living expenses, \$95 per person per day amounting to \$3,000 per person per month. (**\$61 million**) CivPols also receive a salary from their national governments.
- ☑ approximately 1,200 international staff with an average pay of \$7,800 per person per month, which includes their per diem at approximately \$3,000 per month, the service (recruitment) allowance (a financial incentive based on employment history to join the mission), and the family allowance (**\$112 million**)
- ☑ approximately 800 United Nations Volunteers paid a "modest living allowance" of \$2,250 per person per month, as well as transportation to/from East Timor, settling-in allowance, and misc. (**\$21 million**)

\$17 million for staff assessments

\$3 million for other programs

- ☑ election-related supplies and services (**\$1.8 million**)
- ☑ public information programmes (**\$1.6 million**)
- ☑ training programmes (**\$0.1 million**)

UNTAET ASSESSED BUDGET NOTES AND HIGHLIGHTS

Military personnel

- ☑ Military observers, unlike the peacekeeping forces, receive the MSA of \$95 per person per day.
- ☑ For military personnel, \$1.15 per person per day is budgeted for bottled water, which collectively amounts to just over \$10,000 per day. (See box on Bottled Water Facts, page 9.)
- ☑ The 256 military staff officers assigned at force headquarters have a laundry service based in Dili that costs \$8,333 per month. The entire laundry and cleaning budget for military personnel is \$2.1 million this fiscal year.
- ☑ The dental plan coverage for all military personnel costs almost \$7 million this fiscal year. The medical plan costs \$1.5 million.
- ☑ While UNTAET only pays peacekeeping soldiers directly a \$1.28 per day allowance, contributing countries receive an agreed upon amount of money for the troops they send (troop reimbursement), and each country then pays their own soldiers. For troop reimbursement alone, UNTAET in this fiscal year will pay a total of \$97 million to the 25 troop-contributing countries. UNTAET also covers all costs related to the troops including transportation, insurance, medical coverage, food and lodging. Significantly, UNTAET also leases military equipment from the countries that contribute troops.

Civilian personnel

- ☑ The average international staff person is paid more than 30 times the average local UNTAET staff person.
- ☑ SRSRG Sergio Viera de Mello's monthly salary is between \$12,000 and \$15,000. His pay is thus more than 50 times that of the average local UNTAET staff person.

Operations

- ☑ UNTAET had a contract with the floating Hotel Olympia that initially paid \$891,000 per month for staff accommodations.
- ☑ The air fleet of 21 helicopters and 5 fixed-wing aircraft will cost \$58 million this fiscal year. UNTAET rents all of this equipment. The various helicopters rent from \$650 to \$13,500 per hour. Their fuel costs range from \$71 to \$1,010 per hour. Annual insurance costs \$112,000 per helicopter.
- ☑ The UNTAET budget allocated \$2.1 million for upgrading of airstrips and \$2.3 million for road works. Yet, according to *The World Bank, Background Paper for Donors' Meeting on East Timor, Lisbon, Portugal, 21-23 June 2000*, "[Road] damage attributable to heavy military vehicles used by INTERFET or the UNTAET PKF is estimated by the ADB to total \$21 million." Combined with previous submissions, UNTAET has made less than \$5 million available thus far from the assessed contributions budget for road maintenance related to the military operation.
- ☑ 125 more UNTAET vehicles were purchased this year at an average cost of \$23,000 each.
- ☑ \$9 million is budgeted for petrol this year.
- ☑ The mobile telephone budget went from \$30,000 per month for last fiscal year to \$50,000 per month for this fiscal year. While this budget should cover only work-related and necessary phone calls, there is no effective enforcement of this policy. Currently, UNTAET provides approximately 350 mobile telephones to civilian and military personnel.

Compared to society

- ☑ Unemployment for the East Timorese population is around 70%. Per capita income is around \$300. If UNTAET's international staff outlays were distributed among East Timor's population, their average income would nearly triple. ❖

UNTAET Bottled Water Facts (FY 2001)



Empty plastic bottles accumulate outside UNTAET Headquarters. This is one of a handful of recycle bins; most bottles end up as litter.

- ⌘ Produced by: P.T. Erindo Mandiri, Pasuran, Indonesia
- ⌘ Trade name: Aquase
- ⌘ Size: 1.5 liters
- ⌘ Cost: \$0.375
- ⌘ Military personnel each allotted 3 bottles/day, 7 days/week
- ⌘ Civilian staff stationed in Dili each allotted one bottle/day for 5 days/week (prior to 1 January was 3/day, 7 days/week)
- ⌘ Civilian staff stationed outside of Dili each allotted 3 bottles/day, 7 days/week
- ⌘ UNTAET Mission total daily allotment: 29,000 bottles
- ⌘ Estimated annual distribution: 10.5 million bottles
- ⌘ Estimated annual cost: \$4 million

Editorial

EQUIPMENT IN GOOD WORKING ORDER SHOULD STAY IN EAST TIMOR AFTER UNTAET LEAVES

While a very small percentage of equipment has come from other UN missions, UNTAET has spent tens of millions of dollars on new equipment. This includes: 1,350 new vehicles; 1,800 desktop computers, desks, and filing cabinets; 1,500 printers; more than 500 laptop computers; 200 fax machines; and 74 computer file servers (that cost \$33,000 each). The UN mission has also spent significant monies transporting this equipment from overseas to East Timor.

There is no consistent policy regarding the disposition of equipment and material purchased for UN peacekeeping missions. In past missions, the equipment has sometimes remained in the country after the UN's departure. *La'ó Hamutuk* urges the UN member states, who through the UN collectively "own" this equipment, to make it available. If the equipment is in good working order and desired by ETTA, the UN should either donate it to the new government in a gesture of goodwill or sell it at a value that considers both its steep depreciation and what it would cost the UN to ship it out of East Timor.

It is also lamentable that some equipment that would be quite useful for the new government will clearly not remain in East Timor, even if an agreement is reached regarding other items. For instance, UNTAET rented 380 photocopiers from Ricoh Company. In just two years, UNTAET will have paid an average of \$10,000 per machine. However, because UNTAET did not decide to purchase photocopiers outright or lease them with an option to buy, the nearly \$4 million spent will have no bearing on the new government's future inventory of photocopiers. Incidentally, some ETTA departments are now buying new Ricoh photocopiers for \$7,000 each. ❖

Taxes in East Timor: An Overview and Commentary

The tax situation in East Timor is complex. All Indonesian tax laws remained in force when UNTAET began. Yet, no tax administration was in place to collect from businesses and individuals. Only companies involved with the Timor Sea oil and gas fields continued to pay taxes without interruption, putting money into a trust account until a proper tax mechanism was established.

Border Service began collecting import/export taxes in March 2000. There was a flat 5% import duty, flat 5% sales tax, and variable rates for an excise tax on certain goods such as alcohol and cars. A tax on coffee exports set at 5% of the value of the beans has also been collected since March. A minimal tax administration, the East Timor Revenue Service (ETRS), officially started 1 July 2000 along with the collection of a service tax of 10% for hotels, bars, restaurants, rental transport, and telecommunication.

In general, ETRS is trying to reintroduce a simplified version of the tax system that was in place and known to the East Timorese community during the Indonesian occupation. They will retain the same number of tax offices in the same locations. Of the six types of Indonesian national taxes (income, luxury goods, property, sales, value-added, and withholding), the ETRS has eliminated all but the income (and wage) tax, noting correctly that some taxes, such as a value added tax (VAT), while appropriate for Indonesia, do not make sense for an East Timor that has virtually no domestic production.

UNTAET Regulation 2000/32 confirmed that no other taxes would be collected since the arrival of UNTAET. Any business or individual who earned more than \$1000 in 2000 must file an income tax form by 30 April 2001. For the year 2000, no taxes will be collected on the first \$20,000 of income. Starting on 1 January 2001, a wage tax was again to be collected payable on the 15th of

each following month. Residents (defined as a “person who is present in East Timor for more than 182 days in a tax year, unless that person’s permanent place of abode is not in East Timor”) pay nothing on the first \$100 earned in a month, 10% on the amount between \$100 and \$650, and 30% on all additional income. Non-residents (except for UNTAET employees) pay a flat 20% on all income.

A basic tenet of tax policy everywhere is that taxes should be paid in the primary place where the money was earned, rather than in the recipient’s country of residence. By this logic, all of the individuals and groups listed in the chart on page 11 should pay taxes. Yet many do not. While the law that UNTAET has passed requires that all businesses, including those with UN contracts, pay taxes, some businesses have asserted their tax-exempt status based initially on a 1948 UN convention. Ironically, the UN itself has a vested interest in advocating that those businesses be tax exempt. Some contracts between the UN and particular companies state that the UN will be financially responsible for any tax liability levied against the company. Thus the UN stands to owe millions of dollars in taxes and is, moreover, concerned with setting a precedent that will affect future missions. As a result, the UN must make a political decision to uphold or amend current policy. The companies themselves are making tremendous profits here and should pay their fair share for public services they use as well as for the opportunity to be in business here.

A thornier issue is the tax-exempt status of UN employees. Tens of millions of much-needed tax dollars are denied to the people of East Timor, while government money is spent providing services for UN employees. At the very least, UNTAET should encourage a voluntary employee contribution plan that supports the fledgling government. ❖

Present Tax Scenario in East Timor

GROUP	APPROX. NUMBER	AVERAGE MONTHLY SALARY per person (US\$)	HAVE TO PAY TAXES	ESTIMATED ANNUAL REVENUE OF ENTIRE GROUP IF TAXES WERE TO BE COLLECTED (US\$)
National Council members	36	\$200 plus \$10 per working day	yes	\$9,000
East Timorese Cabinet members	5	\$1,680	yes	\$22,000
International Cabinet members	4	\$10,000 includes MSA ¹	no	\$96,000
ETTA local staff	11,000	\$123	yes ²	\$361,000
UN local staff	2,000	\$240	no	\$336,000
UN volunteers	800	\$2,250	no	\$4,300,000
UN civilian police	1,350	\$2,850	no	\$9,200,000
UN peacekeepers	8,000	\$1,050 ³	no	more than \$21,000,000
UN international staff	1,200	\$7,800 includes MSA ¹	no ⁴	\$22,500,000
Timor Sea companies	unknown	Unknown	yes	\$6,000,000
Businesses with UN contracts	unknown	Unknown	yes ⁵	\$5 - \$10,000,000

Notes:

1. Mission Subsistence Allowance - the per diem given in addition to base salary, based on health/safety risks and costs of living. UNTAET Darwin staff receive MSA of \$131. UNTAET East Timor staff MSA was reduced on 1 February 2001 from \$109/day to \$95/day.
2. Approximately one-third of the local staff owe no tax because they earn \$100 or less each month.
3. Only includes the UNTAET-paid portion of their compensation, which is significantly less than the total; consequently, the tax figure shown is much lower than the actual total would be.
4. To equalize the net pay of all UN staff members, whatever their national tax obligations, the UN deducts about 30% of their salaries, a sum designated as "staff assessment." This money is then credited towards the UN "dues" of the staff member's home country.
5. Tax status is being contested.



In Brief . . .

On 12 January, **UNTAET announced that it will carry out a poverty assessment of East Timor** in conjunction with the World Bank, the Asian Development Bank, and the United Nations Development Program. According to the UN News Service, the study will involve a survey of “500 villages by March and 1,500 to 2,000 households by July, followed by a survey in 25 communities on the nature, causes and consequences of poverty.”

La’o Hamutuk comment: *In terms of the causes of poverty, the study should include a thorough analysis of the historical and international factors and actors that have contributed to the prevalence of poverty in East Timor. This will have important implications for deciding who is responsible to help eliminate poverty in the territory.*

The number of reported cases of violence against women in East Timor rose sharply last year, according to a report in the 15 January issue of *The Guardian* newspaper (United Kingdom). The offenders are usually the husbands and/or brothers of the women. In 2000, there were four domestic murders and 165 other documented cases of domestic violence, which is now East Timor’s most common crime, making up 40 percent of all offenses. (Like everywhere, the majority of cases are not reported.) National Council Vice-President Milena Pires, an East Timorese women’s rights activist, calls domestic violence “probably the single most important issue facing Timorese women today.”

La’o Hamutuk comment: *Since it is men who perpetrate nearly all domestic violence and have the power to stop it, we urge both international and East Timorese men to take up this issue, and not ignore it as only of concern to women.*

On 17 January, **Portuguese Foreign Minister Jaime Gama visited Oe-cusse**. Repeating a pledge made by Portuguese Prime Minister Antonio Guterres last year, **Gama promised local leaders Lisbon’s help to re-establish transportation links to Dili and to recover from the post-referendum violence**. “If there is one place that deserves renewed friendship and commitment to cooperation between Portugal and East Timor, it is Oe-cusse,” Gama told them, referring to the fact that the enclave was the first place where Portuguese sailors landed on the island of Timor in the early 16th century. Gama pledged to raise the issue of Oe-cusse’s transportation plight with UNTAET officials in Dili and with Portuguese aid officials. Gama suggested that

two patrol boats offered by Lisbon as the nucleus of a future East Timorese naval force could serve as a temporary solution. Local leaders in Oe-cusse criticized Lisbon for the slow delivery to the enclave of transportation assistance promised during a 24 April 2000 visit of the Portuguese Prime Minister. This followed a January 2000 visit to Oe-cusse by Sergio de Mello who made a similar promise.

On 8 February, LUSA reported that German officials informed José Ramos-Horta during a visit to Berlin that **Germany will provide a ferry for transportation between Oe-cusse and Dili**. “We had repeatedly asked UNTAET and Portugal, but had still not found a solution,” stated Ramos-Horta. Sadly, **the news report was wrong**; German officials promised only to “think about assisting with the transportation problem,” according to Rebecca Reynolds of UNTAET’s District Affairs Office.

The East Timor Cabinet approved allocation of funds to renovate the private barge that presently carries passengers between Dili and Oe-cusse on 28 February. By press time, however, renovations have not started as UNTAET and the East Timor Shipping and Supply Company (ETSS) are still negotiating a memorandum of understanding. The allocated funds will increase the number of seats, toilets and safety equipment, as well as provide a US\$20 per passenger subsidy for tickets (passengers will be responsible for US\$10 per ticket). Rebecca Reynolds described this as “an interim measure.”

On 24 January, **José Ramos-Horta called for a resumption of non-lethal military aid from the United States to Indonesia**. Changing a long-held position, the ETTA Foreign Minister told a Jakarta press conference: “it is time for the U.S. ... to resume some level of military assistance, military co-operation with Indonesia as a gesture of goodwill towards the improvement of the situation in West Timor.” A number of long-time international supporters of East Timor publicly disagreed. The London-based TAPOL called the statements “an extraordinary and highly damaging reversal.” And the U.S.-based East Timor *Action Network*, along with the Indonesia Human Rights Network, urged the Bush administration to maintain the suspension of all U.S. military ties to Jakarta.

On 29 January, Associated Press reported that **more than 200 United Nations international employees signed a petition protesting the cutting of their**

daily allowance (MSA) from US\$109 to \$95. All international civilian staff receive this allowance *in addition to* their regular salaries. The United Nations reportedly reduced the allowances due to a decrease in the cost of living and an improved security situation in East Timor. The reduction equalizes the East Timor allowance with that received by international UN staff in Kosovo. According to Jan Koller, who led opposition to the allowance cut, the reduction will hurt the ability of international staff to take vacations, renovate destroyed accommodations, eat in restaurants and travel to and from work.

On 30 January, **UNTAET Television announced new programming** effective on 5 February. According to the announcement, there will be a total of 168 hours per week: more than five hours of new Tetum programming, five hours of Indonesian, 7.5 hours of Portuguese and the remainder in English. A station manager confirmed that as of late March, there were approximately seven hours of Tetum programming, 8.5 hours of Indonesian, 10.5 hours of Portuguese and 142 hours of English programming. Broadcasts include sports, news, BBC World, MTV, children's, educational and documentary programs. Some of the news and public service announcements are locally produced.

La'o Hamutuk comment: The relative lack of broadcasting in languages understood by most East Timorese clearly limits television's effectiveness. We urge UNTAET Television to hasten the transition from programming predominantly in English to more appropriate languages.

On 31 January, **the NGO Forum of East Timor publicly expressed concerns about the decision-making process within the National Council.** The Forum objected to what it deems to be insufficient consultation with East Timorese civil society by the National Council on matters of national importance. The NGO Forum addressed its concerns to the National Council and the Transitional Government (UNTAET/ETTA) in the aftermath of the decision to create the East Timor Defence Force. The NGO Forum argues that NC members do not have sufficient time and resources to consider proposals and to consult adequately with the public. "We are very worried with the development in the NC," stated the NGO Forum, "where many decisions are taken which are not debated and where there is not broad consultation with the people of East Timor because the NC members are not given enough time and they do not have the facilities and funding to carry out their activities." The Forum called upon UNTAET/ETTA to provide all NC members with adequate funding and facilities to carry out their work,

and to stop pressuring the NC to make important decisions in extremely short periods of time. It also called upon NC members to show their commitment to giving the East Timorese people "an active role in the process of decision-making for the future."

More than 800 people attended the **Conference on Sustainable Development in East Timor**, held from 25 to 31 January. The conference called for the adoption of sustainable development principles and guidelines as part of future planning and project implementation. In this regard, the conference recommended that national development planning include the drafting of a sustainable development strategy. An important outcome of the conference was the establishment of a Task Force on Sustainable Development which will be housed at the National University of Timor Lorosa'e. The Task Force will include "stakeholders" from all sectors including the university, NGOs, the ETTA, churches, business, and community groups. Also, a number of international participants expressed strong interest in establishing long-term links with groups in East Timor working on issues of sustainable development. Conference results are available at www.timoraid.org/dili_conference/index.html.

On 3 February, The *Suara Timor Lorosae* newspaper reported that **Bishop Carlos Ximenes Belo called for the establishment of a "Timor Gap Watch"** to monitor developments related to the resource-rich seabed and to ensure that all proceeds from oil and natural gas are spent wisely. "I am skeptical with all the talk that we will be a rich country because of oil," stated Belo. "We will only be a rich country if the royalties are used to develop the country and not if they are spent by those who have been corrupted." Belo envisioned that the government could establish the body, but warned that its composition must include respected members of civil society. "If there is such a watchdog, I believe East Timor will be a rich country," said Belo. "If not we might be like certain nations in Africa where oil revenue has been used to enrich the corrupt and not the people."

On 10 February, the West Timor newspaper, *NTT Ekspres*, reported that **an Indonesian government official expressed the opinion that Indonesia still might be able to obtain some rights to the resources of the Timor Gap.** He argued this on the basis that Indonesia and East Timor have not yet agreed to where the exact boundary between their two countries will lie. According to Arifin Tachyan, Management Director of Production Sharing Contracts at Pertamina (Indonesia's state oil company), "East Timor is now

its own country that is represented by UNTAET. So I think it [the Timor Gap] has been officially handed over. Only, the problem now is there must be a border between three countries. That doesn't yet exist."

The Labour Advocacy Institute for East Timor (LAIFET) organized **the First East Timor Workers Congress on 26-27 February**. East Timorese workers from all sectors joined together in solidarity with international trade unionists to discuss strategies for ensuring the protection and advocacy of workers rights as human rights. The participants passed a resolution in support of forming a national union called the Timor Lorosa'e Trade Union Confederation (TLTUC). The congress also declared its support for a letter to the Transitional Administrator of UNTAET, protesting against his covert signing of a document which imposes a labor disputes law by executive order, circumventing consultation with both East Timorese workers and the East Timorese National Council.

On 16 March, **East Timorese women's organizations demanded a stronger commitment from UNTAET toward women's participation in the political process**. The East Timorese Women's Network organized a demonstration in front of UNTAET headquarters in Dili, where on 13 March, the National Council had rejected provisions in the new electoral regulation that would have required at least 30% women in the Constituent Assembly. Voters are scheduled to elect Assembly members on 30 August, 2001. The Women's Network states that "the absence or poor representation of women, who form more than 50% of the population, in the Constituent Assembly would make it less democratic. The Constitution adopted by a Constituent Assembly that does not have women's participation could not be considered a constitution of the people of East Timor." The Women's Network has criticized UNTAET's Political Affairs Department for working against the 30% inclusion policy and for adding "section 38" to the proposed regulation, which would condition financial assistance to political parties on their fielding women candidates. While the spirit of the proposal pushes political parties to include women, in practice it would put a dollar tag on women's participation and not necessarily improve their effective participation. "Political Affairs should have understood the negative implication of the proposed 'section 38' on women being seen as commodities," explained the Women's Network. The recommendation for a 30% quota for women in various sectors of the government originated last June at the First East Timorese Women's Congress.

On 17 March, 28 **East Timorese NGOs raised serious concerns about the planned electoral and political process** through a letter to members of the UN Security Council. "The proposed timeframe being pushed by UNTAET and some East Timorese leaders would only allow consultation on the constitutional process to take place over a period of approximately three months due to the rush to hold the election on the 30th of August," stated the NGO letter. "A three-month process would rob the East Timorese of their right to contribute to the future of their country and it will alienate them from the very document that should voice their aspirations." The letter calls on the UN Security Council to ensure the establishment of an adequately resourced Constitutional Commission as a "formal and effective mechanism for consultation throughout East Timor on the Constitution." One week prior to the letter, the NGO Working Group on Electoral Education held a press conference in which they also called for more time for the political and electoral process. Based on research carried out in conjunction with the National Democratic Institute (NDI), the NGO Group reported that most East Timorese have little to no information about the type of elections planned and when they might occur. There is also little knowledge about the role of a constitution, or the proposed process through which its writing will take place. Throughout the country, NDI found widespread support for transparent, participatory, multi-party democracy.

On 27 March, **the National Council defeated a draft regulation which would have established a formal consultation process on the constitution** and extended the timeframe for finalizing the document. **Xanana Gusmão resigned as President of the National Council** following this defeat. He stated in his resignation letter to UNTAET, "There have been numerous attempts to find ways to clarify and debate one of the most important moments in this process with the population: the constitution and how to draft it. ... I feel, as president of the National Council, that any attempt to overcome the deadlock is in vain due to the lack of willingness by members of this body to advance the process. ... As I refuse to be part of a politically irresponsible process, I hereby tender my resignation. ..."

On 9 April, the National Council elected Manuel Carrascalão as its new President by a secret ballot, rejecting UNTAET choice José Ramos-Horta, who had resigned as Foreign Minister in expectation of becoming Council President. Two weeks later, Ramos-Horta resigned from the Council to re-assume his cabinet position. ❖

Editorial: Report from UN High Commissioner for Human Rights Facilitates Indonesia's Impunity

On 6 February 2001, Mary Robinson, the United Nations High Commissioner for Human Rights, released a report on the situation of human rights in East Timor. The report is the outgrowth of last year's meeting of the UN Human Rights Commission (UNHRC). At that time, the chairperson requested that the High Commissioner report to the 2001 meeting—currently taking place in Geneva.

The report should provide information on and analysis of matters relating to the investigation and prosecution of crimes against humanity committed in East Timor during Indonesia's occupation of the territory. In this regard, it fails miserably.

The first part of the brief, 10-page report is an account of Robinson's August 2000 visit to East Timor. It tells, for example that she went to Suai "where she laid flowers at the site of a mass killing that took place in 1999" and that she "delivered a keynote address at a workshop on human rights and the future of East Timor" in Dili.

After highlighting the High Commissioner's concern for the number of missing, presumed dead, East Timorese as well as for the "refugees" in West Timor, the report briefly discusses her November 2000 visit to Jakarta. There, Indonesia's attorney general requested technical support from the UNHRC for the investigation and prosecution of crimes that took place in East Timor in 1999. More than five months later, the UNHRC is still waiting for confirmation from Indonesia's ministry of foreign affairs that the cooperation can proceed.

The rest of the report discusses the Office of the High Commissioner's support for and assistance to UNTAET, as well as the activities of UNTAET's Human Rights Unit, and other related matters taking place within East Timor. (Regarding the inadequacy of resources for the investigation and prosecution of "serious crimes" within East Timor, see the editorial on page 20.)

Apart from mentioning last November's meeting in Jakarta, the report says nothing about Indonesia, nor about the lack of cooperation by Indonesian authorities with UNTAET in April 2000. It also fails to point out the continuing impunity enjoyed by Indonesian civil and military authorities, as well as Indonesia's failure to comply with the Memorandum of Understanding that it signed with UNTAET. The words "TNP" and "military" do not even appear in the document; "militia" only appears in the context of a discussion of attacks against three Protestant churches in Aileu last June (reportedly because the Protestant Church allegedly had links to the militia).

While the document mentions Robinson's visit to Dili, it omits the fact that a number of East Timorese called upon the High Commissioner to support accountability through prosecution for crimes against humanity committed prior to 1999.

As a press report from the time explained, however, "Robinson carefully deflected this demand, explaining that though she was aware of 'the terrible crimes committed down the years,' for which she thought a Truth and Recon-

ciliation Commission might be the best remedy, the UN was concerned only with the events of last September [1999], because the destruction had occurred while the UN was in charge."

Finally, the document does not even mention an international tribunal—even though last year's chairman's statement that led to the document took note of the report of the International Commission of Inquiry (January 2000). The Commission called upon the UN to "establish an international human rights tribunal"—a step, according to the Commission, "fundamental for the future social and political stability of East Timor."

Instead, the UN Security Council accepted Indonesia's request to have the first chance to prosecute the accused. The Council, however, called upon Jakarta to bring those responsible for the 1999 terror to justice "as soon as possible." Although more than one year has now passed, there has been very little progress.

By ignoring such matters, the recent UNHRC report facilitates the impunity that continues to reign within Indonesia. It also marginalizes East Timor's pre-1999 suffering by saying nothing about Indonesia's invasion, illegal occupation, and all the associated crimes against humanity committed from 1975 through 1998. In this regard, the UNHRC undermines justice.

The High Commissioner recently announced that she was going to resign her office after one more year. One of the reasons she gave was the lack of financial and political support provided by member-states to the Office of the High Commissioner. While Robinson's office definitely needs more support, the relative lack of support does not justify or explain the shallowness of the recent report.

Reportedly, the Indonesian government is very pleased with the document. And reading the report makes it clear why this would be the case. But for the East Timorese, there is little in the UNHRC document that is hopeful.

As the UNHRC annual session drew to a close in mid-April, the Chairman issued a statement negotiated with the Indonesian government. While not mentioning an international tribunal and downplaying Indonesia's non-cooperation with UNTAET judicial procedures, the statement does urge Indonesia "to bring to justice the suspects of" "the violations of human rights perpetrated in East Timor" (in 1999). It also urged Jakarta "to continue to disarm and disband the militia, to restore security in the refugee camps of West Timor and to take measures to ensure that the refugees could make a free and informed choice whether to return to East Timor or resettle in Indonesia." Although the Chairman's statement is better than the High Commissioner's report, it would probably have been even stronger if the High Commissioner had called for international action to end impunity.

The people of East Timor—as well as all those struggling for democracy and human rights within Indonesia—deserve much better: truth and justice. ❖

Editorial: CivPol-Community Relations in Need of Repair

The role of a police force is to protect the human, civil and property rights of the civilian population from criminals who would abuse those rights. Every country strives for a healthy relationship between police and the people they are responsible for protecting. But in many places, police frequently use excessive force, stereotyping, abuse of power and poor communication with local residents, especially where there are significant ethnic, racial, economic and/or cultural differences between the police and the community. For example, New York City just agreed to pay nine million US dollars (Rp. 90,000,000,000) to a Haitian immigrant brutally tortured by white police officers.

In East Timor, differences in culture, language and experience between international CivPols and the local population are the widest in the world. Although the UNTAET administration has good motives, its officials are not legally accountable to the people they serve. Furthermore, CivPol commanders and officers are foreigners, outsiders to the society. Consequently, police officials must make extraordinary efforts to reach out if they are to be effective and gain popular trust and respect.

Sadly, this is not happening. Unfortunately, many CivPol exhibit little respect for the people of this country. They are viewed as only reacting to events and not facilitating community solutions to security issues.

A recent dialogue illustrates the problem. On 8 February, the Australian Associated Press (AAP) article "Police Expect Election Violence in Dili" reported an interview with Commander Gary Gent, CivPol chief of operations.

Commander Gent, who is from Canberra, expects the upcoming East Timorese election to lead to "an increase in disturbances" because "the vast majority don't understand what democracy is all about" and "they don't handle conflict properly." He told AAP "Their last experience (of an election), you know what happened there; they're still learning this process."

After Cmdr. Gent confirmed that the AAP had quoted him accurately, *La' o Hamutuk* and seven other East Timorese organizations wrote to him. The following are excerpts from our letter:

"We believe that these statements are based on a lack of communication and un-

derstanding with East Timorese civil society, and we would like to help bridge this gap. ... With this letter, we hope to initiate further discussion.

"The East Timorese people understand democracy better than citizens of most Western democracies. During the 1999 Popular Consultation, 98.5% of our voters came out, peacefully defying threats and violence. ... External forces caused the violence that plagued East Timor during 1999 (and for 23 years before that).

"Your comments reinforce racist stereotypes. ... Public pronouncements of imminent violence ... have a tendency, in any country, to induce a climate of fear and become self-fulfilling prophecies.

"... [W]e welcome the opportunity to work with you to ensure that both the transitional period and our future self-government are characterized by good, peaceful open relationships between all elements of society."

After three weeks, Commander Gent wrote back. He pointed out that he had said "disturbances" rather than "violence" and that the reporter ignored his statement that crime in East Timor was "limited when compared with other western cities." (sic)

Commander Gent ignored the NGOs' offer to help with police-community relations. He wrote:

"I regret if I have offended you or your organization as this was never my intention, however, my views are gathered daily from a range of sources and from incidents and information gathered from all over East Timor. This I believe has provided me with a good understanding of the present situation here in East Timor and also affords me with an insight into issues you may not be aware of. ...

"As we move towards the impending elections it is reasonable to expect an increase in activities associated with those elections. ... [W]e must be aware of all threats and dangers to that process and react accordingly to ensure that law and order is maintained."

La' o Hamutuk calls upon CivPol commanders and UNTAET officials to refrain from making racist and inflammatory statements such as those of Commander Gent. In this spirit, Commander Gent should

publicly retract and apologize for his words. If he refuses, UNTAET head Sergio Vieira de Mello should offer a public apology and, in this manner, set an example for all international staff.

At the same time, *La'o Hamutuk* encourages CivPol officers and other international staff to work hard to build relationships with East Timorese society based on mutual respect. Foreigners who have been here only a few months and don't know the language, history or culture cannot understand this society better than those who were born here. Arrogance, self-righteousness and refusal to cooperate with the community have no place in any police department.

There must be a strong and active commitment on the part of CivPol to strengthen police-community relations. Just as in the reconstruction process

as a whole, the East Timorese people feel marginalized in policing matters. There is presently little-to-no space for East Timorese to voice their views or to help shape priorities and programs relating to policing. This must change. It is absolutely critical that there are close ties between police and communities where they patrol, and more understanding from internationals here about East Timor's history and more respect for the wisdom of its people.

When most foreigners go home next year, East Timor will live with their legacy. We hope it is one of accountability, respect for human rights, and service to the population. In democratic, independent East Timor, the mandate of authority will derive from the consent of the citizenry. Until then, CivPol should operate as if that were already in effect. ❖



Who is La'o Hamutuk?

East Timorese staff: Inês Martins, Fernando da Silva, Thomas Freitas

International staff: Pamela Sexton, Mark Salzer

Judicial monitoring project staff: Christian Ranheim, Caitlin Reiger

Executive board: Sr. Maria Dias, Joseph Nevins, Fr. Jovito Rego de Jesus Araùjo, Aderito Soares

Illustrators: Nan Porter Design, Sebastião Pedro da Silva

Translators: Benjamin Sanches Afonso, Tomé Xavier Jeronimo, Maria Bernardino, Manuel Tilman

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(Money Matters, *continued from page 20*)

graves from 1999 simply due to the lack of forensic experts and sufficient morgue space.

The 6 September, 1999 massacre at the Catholic church compound in Suai, for example, is not one of the five initial cases. Local leaders in Suai complained to the visiting Security Council delegation in November that individuals who participated in the killing spree are living freely among the local population. Kenji Isezaki, UNTAET's local District Administrator admitted that "We've had to release criminals who've confessed to rape and murder" due to a lack of resources for investigation.

These people have not been subjected to vigilante retaliation because of a community decision not to administer popular justice, based on the expectation that they will one day appear before a court. Although the United Nations recently made additional resources available following the Security Council visit, there is still a danger that if investigations and prosecutions do not speed up, acts of revenge will take place.

Even East Timor's embryonic court system is impoverished. At the Dili courthouse, for example, there is a shortage of translators; there are also regular power cuts and no system for electronic recording of the trials. For photocopies, the registrars' office must go to the nearby CivPol office. And there are no funds to house and support witnesses from outside Dili.

A Bad Process or Misplaced Priorities?

Why is there so little money for such matters? Because of the non-public nature of the budget process, it is difficult to know. In terms of assessed funds (which provide UNTAET's budget), it appears that there are significant opportunities for UNTAET to influence budgetary allocations.

UNTAET's budget process begins in Dili. UNTAET's Department of Administration asks each department to determine what its needs are. After Administration approves the resulting budget, it goes to New York where the departments of Peacekeeping Operations and Management screen it. In consultation with UNTAET, Management then decides what to change, to keep, and/or eliminate, and then sends an overall budget proposal to the NY-based Advisory Committee on Administrative and Budgetary Questions (ACABQ).

The ACABQ carefully reviews every detail of the proposal. When it identifies problems, the ACABQ requires UNTAET to revise its proposal. Once satisfied, the ACABQ sends a report to the UN General Assembly's Fifth Committee. The Fifth Committee (on which all UN member states are represented) then decides whether or not to support the proposed budget. In the case of support, it drafts a resolution for final approval by the General Assembly.

A lot of politics take place within this complicated process. Powerful countries especially are in a position to shape the final budget. The ACABQ, for example, is fully aware that the United States contributes one-quarter of the United Nations budget, and thus often recommends changes to budgets that the U.S. would like made.

We do not know what changes ACABQ made that might explain shortfalls in specific UNTAET departments. The UNTAET budget proposal for FY2001 was US\$592 million. The ACABQ recommended reductions worth about \$29 million (about 5 percent of the original proposal), which resulted in a final budget of \$563 million.

To the extent that there are unfulfilled needs, there are a variety of courses of action that UNTAET might pursue. In its "Background Paper for Donors Meeting on East Timor" (for the December 2000 meeting in Brussels), for example, UNTAET/ETTA identified a number of "unfunded priorities" as part of an effort to get donors to increase their funding by supporting specific projects. These "priorities" included capacity building for East Timorese civil servants, civic education, reintegration into society of former FALINTIL guerrillas, and ferry service between Dili and Oe-cusse. Funds for infrastructure, housing, and criminal justice, however, were not on the list. Why not?

Inflexibility of Funds?

UNTAET is not permitted to use funds that it receives from the United Nations to rebuild East Timor. It must restrict its spending to matters of peacekeeping and governance. At the same time, UNTAET cannot move funds from one department to another (for instance, from the PKF to the Serious Crimes Unit). If, for example, UNTAET were to reduce the money it spends renting and operating planes and helicopters—an amount roughly equal to ETTA's entire budget of \$60 million—it could not use the savings to provide more funds to the East Timor Transitional Administration.

It is for such reasons that Sergio de Mello has asked the Security Council to allow UNTAET more flexibility in how it spends its money, so that UNTAET can provide support for ETTA—ostensibly to undertake activities that UNTAET cannot.

While this would be a welcome change, there is no doubt that UNTAET could have made—and could still make—much better use of the money it does control.

The now-departed Hotel Olympia is perhaps one of the more obvious examples. While it was understandable that UNTAET needed to provide emergency housing to international staff in the early months of the mission, might there have been a better way to use the more than US\$7 million UNTAET spent on the floating hotel?

No Commitment to Stimulating Local Economy

A big part of the problem is that the United Nations appears to have no policy to use its funds to help stimulate the East Timorese economy. Instead of spending so much money on the foreign-owned Olympia, UNTAET could have used a significant portion of the funds in a more constructive fashion. UNTAET could have, for example, encouraged international staff to rent rooms from East Timorese families and thus enabled families to fix up their houses or to start businesses. Instead, those monies had little effect on the local economy—most of the Olympia's employees were not East Timorese.

Buying into narrow IMF logic of "fairness," UNTAET champions competitive bidding whereby contracts go to the

lowest qualified bidder. At the same time, because there is no consultation with the local community about spending matters, there is no exploration of alternative methods (that ultimately might prove to be more cost-effective in the long run) of spending funds and meeting UNTAET's (and East Timor's) needs. In this manner, UNTAET fails to support local economic development over non-East Timorese interests.

Just take the case of water: UNTAET spends over \$10,000 per day (almost \$4 million annually) on bottled water for the PKF alone. (See Bottled Water Facts, page 9.) Had UNTAET awarded the contract for bottled water to Parmalat (an East Timorese company), instead of Aquase (an Indonesian company), it is estimated that 1,000 local jobs would have resulted. At the same time, because Parmalat uses reusable 19-liter bottles, instead of disposable, 1.5 liter, single-use bottles, there would be a lot less waste and environmental damage.

A better choice would be to use the money to build and/or repair a potable water system. At a recent presentation, for example, eight engineers estimated that \$2 million would be sufficient to rehabilitate the water purification and delivery system for Dili and provide potable water to nearly all the city's residents. Other studies estimate as much as \$10 million. For an estimated \$18.5 million nearly all of the city's water pipes could be replaced, not just repaired to a serviceable level.

Why is the International Community Here?

Without a doubt, many internationals come to East Timor with the best of intentions, with a selfless willingness to share the burden of rebuilding East Timor. But the high wages enjoyed by UN international staff (in contrast with UN Volunteers) and by some employed by international NGOs creates an impression that personal gain is often a significant motivation.

While there is a sensible argument that internationals should receive higher salaries than East Timorese due to the generally higher cost of living in the home countries of international staff, the average wage differential between East Timorese and internationals is obscene. Even UN Volunteers—the lowest paid international members of the UN mission—receive almost \$30,000 per year, 34% more than East Timorese Cabinet Ministers. Meanwhile, the average local UNTAET staff member receives \$2,880 annually.

Unfortunately, recent actions by *some* internationals reinforce the resulting perception of greedy and insensitive foreigners.

In late January, for example, UNTAET announced a small reduction in the daily living allowances of international staff (see "In Brief," p. 12). That upwards of 200 international staffers expressed outrage at this very minor cut is, in and of itself, outrageous. As one aid worker stated to a reporter, "You have to question their dedication."

Also recently, a group of international NGOs has launched a campaign protesting attempts by ETTA to tax the wages of their international employees. Arguing that these taxes will undercut their ability to do humanitarian work, these international NGOs are threatening non-payment or even their departure.

Why should internationals who have relatively high earn-

ings be exempt from supporting East Timor's embryonic government? All who live in East Timor benefit from government services such as police, ambulances, firefighters, law courts and roads. This also applies to World Bank, UN, and IMF (non-local) staff — all of whom are exempt from paying taxes. Additionally, some companies that have UN contracts have not paid taxes and are likely, alongside the UN itself, to argue their exempt status based on a fifty-year old UN convention. Taxing the profits of those businesses would generate an estimated \$5-10 million annually. (See Tax chart, page 11.) While the tax revenue from the INGOs would be considerably less than this, the best leadership that the INGOs could provide in terms of capacity-building and modeling would be to pay their taxes and encourage their staff to do so too. If East Timor cannot raise taxes from locals and foreigners, then it will not be able to provide essential government services like health and education, ironically the very areas the INGOs are promoting.

Time for Budgetary Democracy

UNTAET can act to make budgetary matters more transparent and efficient.

First, UNTAET should translate and publicize all budget-related documents. Many of the relevant documents are very difficult to obtain. One easy step would be to ensure that most of the material on the internal UNTAET website is also posted on ETTA's publicly accessible website (www.gov.east-timor.org). Another step would be the establishment of a public documents room in each of the UNTAET district offices as well as in the UNTAET/Dili headquarters.

Second, UNTAET should democratize the budget making process by involving East Timorese civil society in decisions about priorities and the allocation of funds. Tied to this is the Timorization of UNTAET—a process that is advancing much too slowly.

Third, UNTAET should serve as a much more vocal advocate for the East Timorese by identifying publicly and lobbying for funding for unmet needs, as defined in conjunction with civil society.

In sum, the problem is three-fold:

- 1) There is not enough money for East Timor to rebuild in a manner that will ensure a standard of living consistent with international human rights standards and basic notions of justice;
- 2) Spending decisions are not made with serious consideration for their long term impact; and
- 3) There is not enough transparency, public knowledge, and effective input by East Timorese civil society over the money that does exist.

International supporters of East Timor, working with local organizations, can play an important role in securing more funds, and greater control over the funds by the East Timorese people. In this regard, international advocates can lobby their governments to provide more genuine support (in terms of funds and political power) for East Timor. UNTAET can begin to support this human rights activism by ending the practice of closed-door discussions about budget matters. ❖

Editorial: Money Matters: Questions of Priorities and Process

The question of money is one of the most sensitive matters faced by UNTAET. Many in East Timor and abroad wonder where the hundreds of millions of dollars have gone that the United Nations has provided to the mission from assessed contributions.

Undoubtedly, UNTAET has achieved much with the funds: it has overseen a generally successful humanitarian relief program in the aftermath of the Indonesian military's September 1999 campaign of terror and destruction; it has provided security from the TNI and its militia; and it has set up a functioning administration for the soon-to-be independent country. At the same time, it has helped to lay the foundation for the transition to full independence. These are not insignificant accomplishments.

Yet, the situation remains extremely difficult for the majority of East Timorese. Unemployment is pervasive, hunger is common, and basic social services remain highly inadequate. Meanwhile, the budget of UNTAET is more than 10 times that of the East Timor Transitional Administration (ETTA)—the future government of an independent East Timor.

These factors, combined with impressions that UNTAET has much more money than for which it can show concrete benefit, have led to a good deal of displeasure. Sergio Vieira de Mello acknowledged the validity of these sentiments last June, when he stated "Something's not right when UNTAET can cost 692 million dollars and the budget of East Timor is little more than 59 million. ... It should come as no surprise that the United Nations is targeted for so much criticism, while the East Timorese continue to suffer."

And last November, de Mello told the UN Security Council he found it "frankly absurd, as a transitional administrator, to preside over a UN mission that spends 10 assessed dollars on itself for every voluntary dollar spent administering the country for which the Council made us responsible."

Insufficient Resources

ETTA is the beneficiary of some of these voluntary dollars. Funded through the UNTAET Trust Fund and internally generated revenues, ETTA serves, in effect, as an auxiliary to UNTAET. Its resources are simply inadequate given its tasks.

ETTA Infrastructure Minister João Carrascalão, for example, used the occasion of a visiting delegation from the UN Security Council last November to explain the poverty of resources experienced by the embryonic East Timor government. "We need at least 100 million dollars to rehabilitate the basic services that the population needs and to set up a proper administration, and now we are running on a budget of 15 million dollars," Carrascalão told a reporter.

A conservative estimate, according to Carrascalão, of the damage to East Timor's infrastructure wrought by the Indonesian military and its militia in September 1999 was \$3 billion. The current budget is woefully insufficient not only for rebuilding the infrastructure, but also for hiring and training the personnel to carry out the work. Given current fund-

ing levels, he estimated that his department would not have adequately-trained personnel to be self-sufficient even after five years.

The lack of sufficient resources extends to sections of the UNTAET mission as well. In early March, three prisoners—two convicted murderers (from the jail in Gleno, Ermera) and one convicted rapist (from the prison in Becora, Dili)—escaped. One of the escapees was João Fernandes, the first militia member convicted of a serious crime. A court had recently sentenced him to 12 years for killing a pro-independence activist in Maliana in September 1999. "[T]here are indications that there are limitations in the current [prison] infrastructure," stated Isabel Hight, the Director of Prisons. (UNTAET subsequently apprehended two of the three escapees, expending considerable resources in the process.)

At the same time, UNTAET officials assert that they do not have the funds to investigate many of the serious crimes committed in 1999. Scarce resources have forced UNTAET to prioritize five high-profile cases initially, and thus to neglect the important first phase of investigation of other cases. Indeed, there has been no excavation of a large number of

(Continued on page 18)

What is La' o Hamutuk?

La' o Hamutuk (*Walking Together* in English) is a joint East Timorese-international organization that monitors, analyzes, and reports on the principal international institutions present in Timor Lorosa'e as they relate to the physical and social reconstruction of the country. *La' o Hamutuk* believes that the people of East Timor must be the ultimate decision-makers in the reconstruction process and that the process should be as democratic and transparent as possible. *La' o Hamutuk* is an independent organization, encouraging effective East Timorese participation in the reconstruction and development of the country. In addition, *La' o Hamutuk* works to improve communication between international institutions and sectors of East Timorese society. Finally, *La' o Hamutuk* is a resource center, providing literature on development models, experiences, and practices, as well as facilitating contacts between East Timorese groups and development specialists from various parts of the world.

In the spirit of encouraging greater transparency, La' o Hamutuk would like you to contact us if you have documents and/or information that should be brought to the attention of the East Timorese people and the international community.

See review of World Bank's Transition Support Program, page 10.

UNMISET and Internal Security in East Timor

The first United Nations mission in East Timor (UNAMET) arrived in May 1999. Since then the UN has sent two other missions: UNTAET and currently UNMISET. Each has its own mandate and objectives:

- ◆ **UNAMET - United Nation Assistance Mission in East Timor – May to October 1999.** The UN first came to East Timor to organize and carry out the referendum in which the East Timorese people chose independence.
- ◆ **UNTAET - United Nation Transitional Administration in East Timor – October 1999 to May 2002.** After the referendum and the violence that surrounded the vote, UNAMET was replaced by UNTAET, with the mandate to govern until East Timor could govern itself. As a transitional government, UNTAET had total sovereignty and absolute power to govern East Timor in every aspect, with no local accountability. (*See La'ó Hamutuk Bulletins Vol.2 No.1-2, Vol.2 No.4, Vol.2 No.6-7 and Vol.3 No.1.*)
- ◆ **UNMISET - United Nation Mission of Support in East Timor – May 2002 to June 2004.** On 20 May 2002, East Timor officially became an independent country with its own government. Therefore, UNTAET was replaced by UNMISET, with the mandate to give support to the new government until May 2004, supporting the long-term stability and security of the country.



Prime Minister Mari Alkatiri's home after the 4 December 2002 civil disorder.

After nearly a year of UNMISET's presence in East Timor, many still do not understand what UNMISET is or what its mandate or responsibilities are. This article will try to clarify some questions about UNMISET, especially in regard to its responsibilities for the internal security of East Timor.

UNMISET's Mandate

UN Security Council Resolution 1410, passed 17 May 2002, authorized the formation of UNMISET for an initial period of one year. UNMISET has three main tasks:

- √ “to provide assistance to core administrative structures critical to the viability and political stability of East Timor.”
- √ “to provide interim law enforcement and public security and to assist in the development of a new law enforcement agency in East Timor, the East Timor Police Service.”
- √ “to contribute to the maintenance of external and internal security of East Timor.”

UNMISET has a Mandate Implementation Plan, composed of three programs:

1. Stability, Democracy and Justice
2. Public Security and Law Enforcement
3. External Security and Border Control

The Mission is headed by a Special Representative of the UN Secretary General (SRSG), Indian diplomat Kamallesh Sharma, and a Deputy Representative, Sukehiro Hasegawa from Japan, who also heads UNDP in East Timor. UNMISET consists of a civilian component, which includes the office of the SRSG, Civilian Support Group (technical advisors to East Timor's government), Serious Crimes Unit and Human Rights Unit, as well as a civilian police component and a military component (*see Table 1, next page*).

(Continued on page 2)

Inside . . .

- Millennium Development Goals conference 9
- WB Transition Support Program assessed 10
- Diagram: Where does East Timor get money? 12
- Editorial: No Justice No Peace 16

**Table 1:
UNMISSET's Authorized Maximum Strength**

Civilian Staff	455 international staff 977 national staff 241 UN Volunteers
Civilian Police	1,250 civilian police
Military	5,000 military personnel (including 120 military observers)

According to the December 2002 Report of the Secretary-General on UNMISSET's budget for July 2003 to June 2004, UNMISSET's two-year budget is approximately U.S.\$517 million. About 62% of this goes to personnel, with 22% spent on civilian staff. Although UNMISSET has nearly twice as many East Timorese as international staff, only 0.8% of the budget (3% of the civilian personnel money) pays for local staff (see Graph 1).

Public Security and Law Enforcement

This article will focus on UNMISSET's Mandate for Internal Security and Law Enforcement, which states that UNMISSET is responsible to "provide interim law enforcement and public security and to assist in the development of a new law enforcement agency in East Timor, the East Timor Police Service" and to "contribute to the maintenance of the external and internal security of East Timor." Thus we will look mainly at the mandate and performance of international police, not of the military.

According to the Mandate, this program has two objectives:

1. to continue providing executive policing;
2. to support the development of a national police service through training, co-location and timely and coordinated handover of responsibilities.

What does this mean? First, that UNMISSET, through its police component UNPOL, will provide police services un-

til the national police is prepared to do so. Second, that it has the responsibility to train and prepare the national police force – Polisia Nasional de Timor Leste (PNTL) – as a professional, democratic, efficient, sustainable and community-based police force. UNMISSET has overall responsibility for security in East Timor, with the UNPOL Commissioner and the SRSG as ultimate decision makers in regard to security in the country until operational responsibilities are fully handed over to the East Timorese authorities. "Until that time, they [the national police] would remain under the command of the international police commissioner reporting to my Special Representative," according to the Mandate Implementation Plan.

UNPOL Component in East Timor

According to UNMISSET's Mandate, "the programme would be implemented by the UNMISSET police component, assisted by a small number of civilian experts." When the Mission was established on 20 May 2002, the UNPOL component was 1,250 officers spread among the 13 districts of East Timor. Following the Mandate's orders that "downsizing of UNMISSET should proceed as quickly as possible, after careful assessment of the situation in the ground," this number has been gradually reduced according to a plan made at the beginning of the Mission. In March 2003, the UNPOL contingent in East Timor included 662 officers (see Table 2, next page).

Training and Development of the National Police

The East Timor national police force, PNTL, was formed on 27 March 2000 with 50 recruits. Police candidates were recruited and selected by UNPOL in Dili and throughout all districts, and the recruiting process was based on international criteria such as height (at least 155 cm for women and 165 cm for men), and the candidates had to pass medical and other tests. There was no consideration of whether the candidate had been pro-autonomy or pro-independence,

**Graph 1: UNMISSET Expenditures 2002-2004
(\$517 million over two-year mission)**

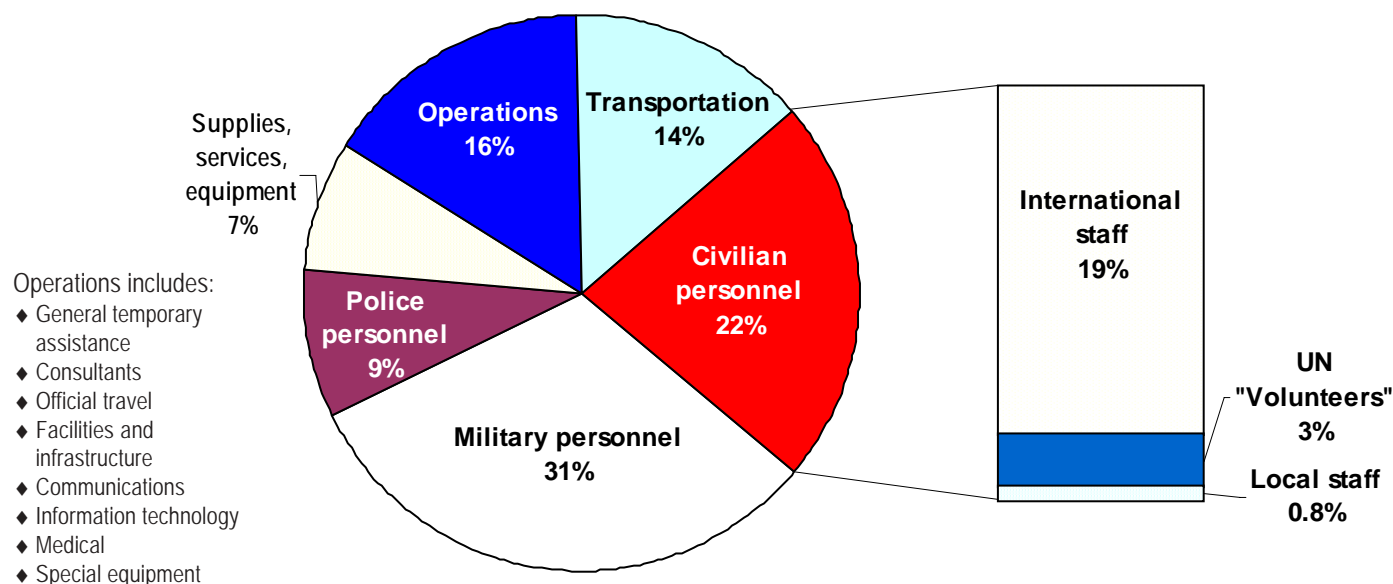
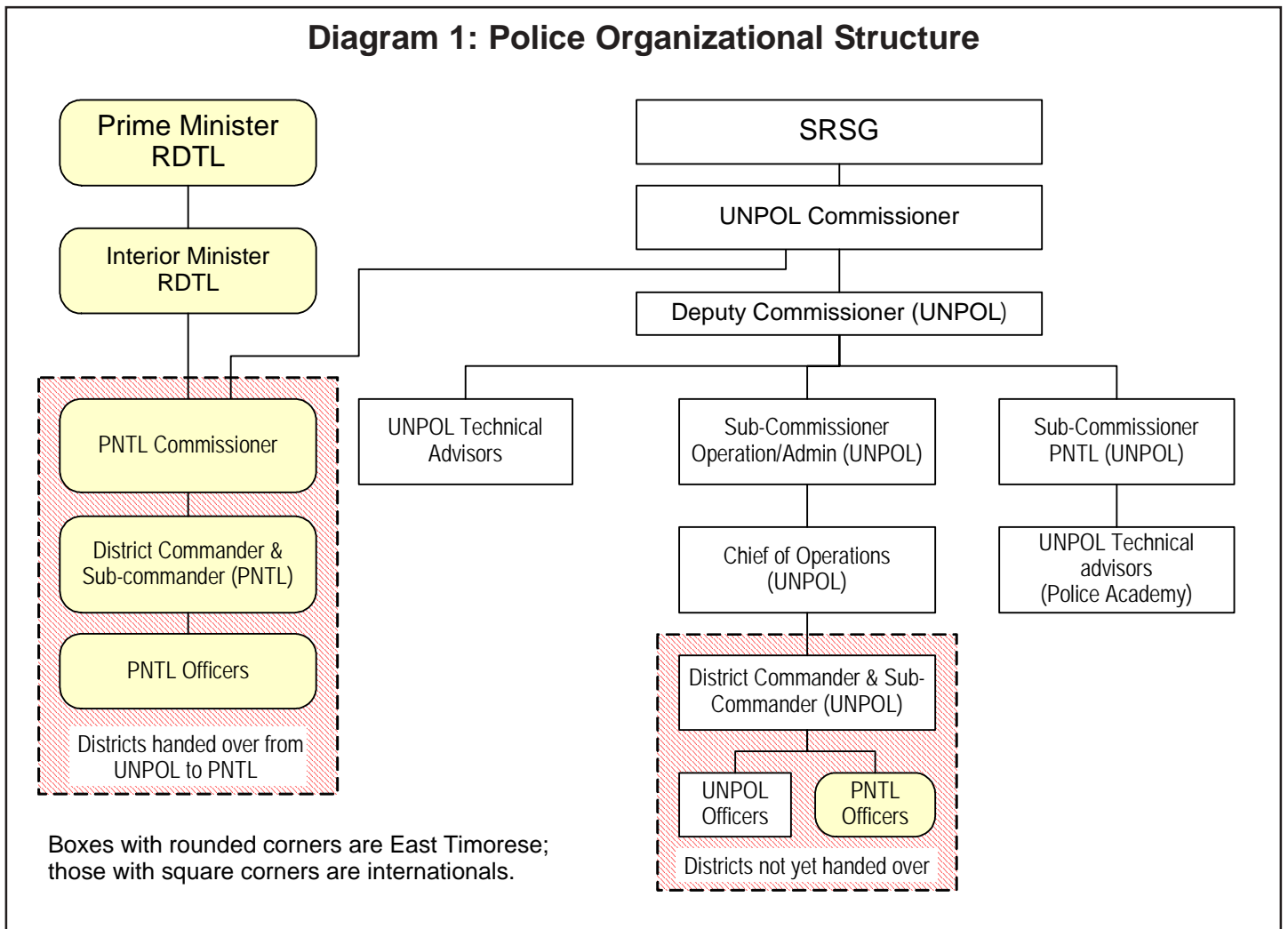


Diagram 1: Police Organizational Structure



which generated protests from parts of East Timorese civil society. The East Timor police now number 2,530, and another 253 recruits started the training at the Police Academy on 31 March 2003.

As already mentioned, one of the objectives of UNPOL in East Timor is to train the national police force and prepare them to assume full responsibility for the internal security of the country after UNMISSET leaves.

The training for the East Timorese National Police is composed of:

- √ Basic Training: three months classroom training in the Police Academy
- √ Field Training: nine months “on the job” training
- √ Specialist Training: such as bomb search, investigations and basic intelligence
- √ Special Training: given to special units such as the UIR (Rapid Intervention Unit, see page 7) and the UPV (Vulnerable Persons Unit)
- √ Professional Courses: management and administration.

Police Academy

The selected candidates undergo three months of basic training at the Police Academy, where they learn theory and become familiar with police work. The training program was prepared by the UN and covers 54 subjects, with monthly exams. Many national police recruits have only middle school education, so they sometimes have trouble understanding all of the material covered in such a short period.

All officials interviewed by *La’o Hamutuk* agreed that the basic training given to the PNTL is not enough to prepare a professional police force and that three months is a very tight timeframe. The Joint Assessment Mission on the Timor Leste Police Service, held from 18 to 29 November 2002, recognized in its Aide-Memoire: “All TLPS [now

Table 2: UNPOL Personnel

DISTRICT	UNPOL
Dili	482
Baucau	58
Aileu	3
Manatuto	4
Viqueque	24
Bobonaro	36
Liquisa	5
Oecussi	30
Manufahi	4
Covalima	38
Ermera	11
Ainaro	4
Lautem	17
TOTAL	662

Source: UNMISSET, March 2003

PNTL] recruits receive twelve weeks of basic training in addition to field training. However, it's widely acknowledged that this is insufficient and further training is required to strengthen basic policing skills."

UNPOL says that the time period for the training is limited because it has only two years to prepare 2,830 East Timorese national police officers, and it faces time pressures to reach high targets for the numbers of recruits trained. However, the training of the East Timorese National Police didn't start with UNMISSET, but during the UNTAET Mission, in the beginning of year 2000. When UNMISSET started in May 2002, the East Timorese police already had about 1,800 officers (see Graph 2, page 6). That means that, in the two years of its mandate, UNMISSET was required to train around 1,000 officers, not 2,800.

La'o Hamutuk has just received information that a new curriculum for six months basic training has been developed and will be implemented prior to the end of the Mission. With the new curriculum, the timeframe for the training will continue to be one year, six months basic training plus six months field training. But until now, five months after the Joint Mission made its recommendation, PNTL recruits are still receiving the same three months basic training.

Until May 2002, the training at the Police Academy was entirely given by UNPOL officials and international experts. During this period, besides the short timeframe, communication was another problem in the Academy. Most of UNPOL officers giving the training used English, which most East Timorese recruits do not understand. According to a UNPOL technical advisor, as well as PNTL officers interviewed by *La'o Hamutuk* at the Police Academy, interpretation further reduces the time for training, apart from the fact that in many cases the interpretation is not very accurate.

After independence, PNTL officers began giving the basic training and now command of the Academy has been handed over to PNTL, following the UN plan. UNPOL officers at the Academy are now technical advisors, in an advisory role, monitoring the classes, helping with administration and giving assistance when needed. They also prepare PNTL instructors and, along with international experts, give specialized training on scenarios, human rights, management and other topics. There are currently 44 PNTL instructors and 31 UNPOL technical advisors in the Police Academy.

Field Training and Executive Policing

The first objective of the Internal Security and Law Enforcement programme is "to continue providing executive policing." Since the establishment of the national police force, the executive policing in East Timor has been functioning as a "joint service," provided by UNPOL and PNTL, under the command of the UNPOL Commissioner who reports to the SRSG in East Timor.

The first nine months of "joint service" after graduating from the Police Academy is called "field training" or "on

the job training." The recruits return to the towns where they were selected to put into practice what they have learned in the Academy. During this period, a PNTL recruit works side-by-side with a UNPOL counterpart. After finishing the field training, the recruits are tested and evaluated to become professional police officers. But until the district where they work is handed over to the PNTL command, they keep working with their UNPOL counterparts in this joint service.

According to UNPOL Deputy Commissioner Denis McDermott, UNPOL priorities in East Timor change depending on the context and development of the situation. Police service is part of UNPOL's mission, but with the development of the national police, PNTL is usually at the front of daily police operations, while UNPOL now mostly monitors and advises, concentrating its activities on training and investigation.

The "field training" and "joint service" described above have had some problems and difficulties:

1. **Lack of a Common Language:** most UNPOL officers working as counterparts of PNTL officers don't speak Tetum or Indonesian, and most PNTL officers don't speak English. This makes communication between East Timorese and UNPOL counterparts difficult, although translators are provided in some cases, especially in the stations. But in daily policing, when PNTL and UNPOL officers are working together in the field,

there is usually no one to make the bridge between them. The majority of PNTL officers interviewed by *La'o Hamutuk* stated that communication is a big problem, especially in the field.

2. **Insufficient Knowledge about Local Culture:** some PNTL and UNPOL officers interviewed by *La'o Hamutuk* stated that UNPOL officers lack knowledge about the local culture, which may be a problem in field policing. This was also acknowledged by the Joint Assessment

**Table 3:
32 Countries provide
741 Civilian Police**

Argentina	9
Australia	58
Bangladesh	25
Bosnia-Herzegovina	10
Brazil	9
Canada	20
Chile	6
China	76
Egypt	12
Ghana	69
Jordan	40
Malaysia	44
Mozambique	6
Nepal	35
Niger	3
Norway	4
Pakistan	9
Philippines	74
Portugal	14
Russia	5
Samoa	2
Singapore	25
Slovenia	2
Spain	5
Sri Lanka	38
Sweden	10
Thailand	36
Turkey	11
Ukraine	7
United Kingdom	12
United States	58
Zambia	7
Total	741

Source: SG Report on UNMISSET
6 November 2002

Mission on the PNTL, which reported that “deficiencies in regard to language and culture by some UNPOL staff have hampered the effectiveness of some technical assistance.”

3. **Methods:** the first three months of training in the Police Academy, whether given by UNPOL or PNTL officers, follows a curriculum prepared by the UN. But when PNTL officers undergo field training, they work with internationals from all over the world (*see Table 3*), each with his/her own methods of policing and of applying the theory in practice. This confuses the new East Timorese officers, who see different examples of implementing what they have just learned in the Academy. In fact, these differences raise problems even among UNPOL officers working together.

PKF Back-up Support

The Peace Keeping Force (PKF, the military component of UNMISSET) has, as a secondary task, to give back-up support to the police “in the event of serious or large scale internal security incidents exceeding police capabilities”. Back-up support normally starts with a request from the District Commander to the UNPOL Commissioner, but the SRSB must make a formal request to the PKF Force Commander.

According to the November 2002 Report of the Secretary-General on UNMISSET, UNPOL had, up to that date, required support from PKF to re-establish order on four occasions related to “issue-based security groups” provoking violence. Since this report, the police have requested back-up support from PKF at least three more times: during the civil unrest in Dili on 4 December 2002, and during the two armed incidents in Atsabe and Atabae, in January and February 2003.

The use of military support to deal with internal security affairs is very problematic. Although it may be necessary in cases of extreme threat to security, it should be avoided as much as possible, and its limits and roles have to be very clear. As the name says, it is support given to the police force to re-establish order and provide security, but the responsibility for controlling internal security incidents remains with the police.

Confusion over the roles of police and military are not the only problem with using the military for internal security. The military is not trained to deal with civilians. They are trained to fight wars, to take actions against enemy soldiers, and normally, to kill. To involve the army in civilian disturbances or civil unrest can be very dangerous, and is a bad precedent for a nation building a new democracy. UNPOL requested PKF support seven times in ten months, a very high rate for any country.

There are opinions, even inside PKF, that PKF is doing the police’s work in some places, like Dili, because the police cannot do their own job. In many cases, like in the 4 December incident, people expect the PKF to take action, which shows that the role of UNPOL and PKF is not clear to most people, especially in cases of civil disturbances. The fact that the population so often sees PKF in the streets may increase their confusion.

The question is: Why does UNPOL so often need support from the military in East Timor? The police should be well prepared, trained and equipped and have enough personnel to ensure law and order in internal security matters. The cases in which the police need military support should be exceptional.

Handover and Downsizing

Operational responsibility for day-to-day executive policing is transferred to the National Police Command gradually, district by district, according to a plan made before the beginning of the Mandate, with the agreement of the Transitional Government. Under this plan, the national police service will assume full executive responsibility for policing in all 13 districts by January 2004, and UNPOL will take on a technical advisory function. Seven of the 13 districts have been handed over to the PNTL command (*see Table 4*).

With the handover, an East Timorese District Commanding Officer, who reports to the PNTL Commissioner, assumes responsibility for command of routine policing, but UNPOL keeps a few personnel as technical advisors. The performance of PNTL officers is still reviewed by Mobile United Nations Police Teams. And until January 2004, when executive responsibility for all the 13 districts, headquarters and specialized units is handed over, PNTL and UNPOL are under the control of the UNPOL Commissioner, even in districts where PNTL has responsibility for daily operations. As described in the agreement between UNMISSET and the RDTL Government on the transfer of police responsibilities “the

Table 4: UNPOL to PNTL Handover

Already handed over

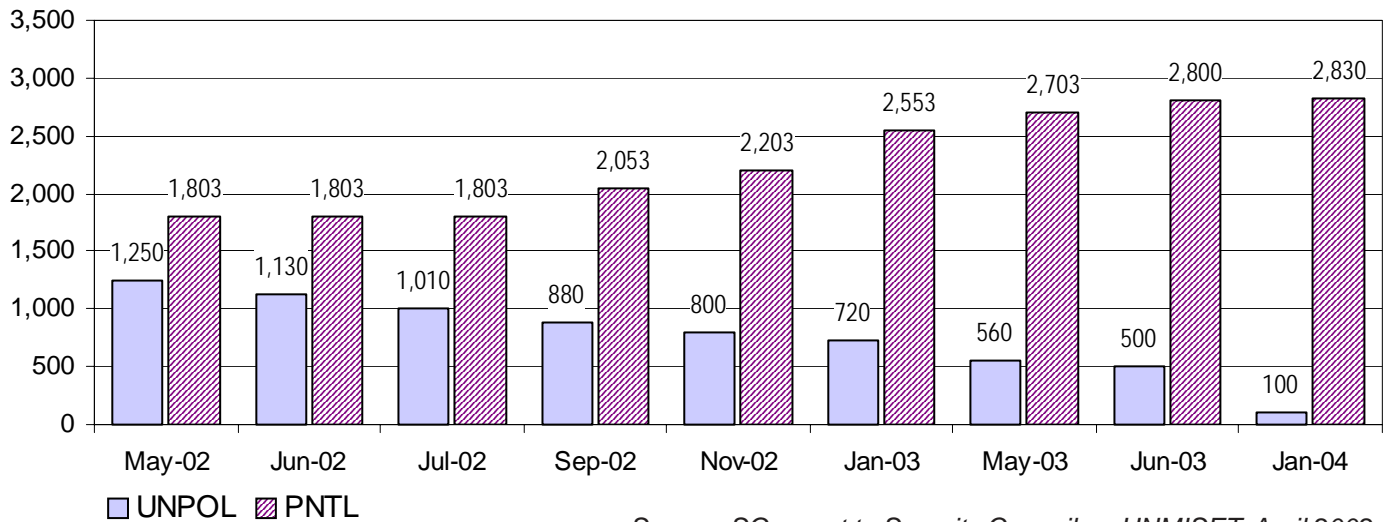
Date	Responsibility
May 2002	Aileu district
May 2002	Dili port
May 2002	UIR Baucau
June 2002	UIR Dili
June 2002	Manatuto district
June 2002	Dili District Court
Sep 2002	Security of the Police Academy
Oct 2002	Manufahi district
Nov 2002	Ainara district
Dec 2002	Ermera district
Jan 2003	Immigration
Jan 2003	Maritime unit
Mar 2003	Liquisa district
Apr 2003	Lautem district
May 2003	Viqueque district

Planned for future handover

June 2003	Dili airport (Comoro)
June 2003	Bobonaro district
June 2003	Border patrol
June 2003	Covalima district
Aug 2003	Oecussi district
Sep 2003	Baucau district
Nov 2003	Dili district
Jan 2004	Headquarters

Source: UNMISSET

Graph 2: UNPOL and PNTL planned force strength



Source: SG report to Security Council on UNMISSET, April 2002

East Timorese Commissioner shall, following District/Unit handover, promptly bring all Operational Command and Control matters to the attention of the UNPOL Commissioner, for his appropriate action.”

With the gradual handover of operational responsibilities to PNTL commanders, UNPOL strength has already been gradually downsized. The downsizing plan was drafted according to the handover plan (see Graph 2, next page) and when the national police assume total command the UN police will remain in an advisory role, with 100 technical advisors, until June 2004.

The plan for the handover of responsibilities and downsizing has been questioned many times, since the great majority of UNPOL officials we interviewed believe that with the little training received the National Police are, in some cases, still not ready to assume responsibility. In November 2002 the Joint Assessment Mission recommended that “it may be that the timeline for handover merits further consideration taking into account both the current skill levels of the PNTL officers and relevant political factors.” When *La’o Hamutuk* asked the Deputy Commissioner of UNPOL about this recommendation, he said that “the agenda for the handover will continue as planned. We have to leave East Timor in 2004, so we don’t have time to delay the handover of responsibilities to the PNTL.” Even though Denis McDermott agrees with the plan, also said that he is “well aware that a lot more work still needs to be done to leave the PNTL in a position to maintain law and order in the future.”

But after the events in Dili, Atsabe and Atabae (see below) UNMISSET authorities changed their minds. The Special Report of the SRSR presented to the Security Council

on 10 March, recommends several changes in the UNMISSET plans in order to address security challenges, including that “... UNMISSET would ensure that handover takes place at a pace that does not jeopardize stability....”

The events in Dili, Atsabe and Atabae

Three major events affecting internal security took place in East Timor in the last few months.

On 4 December 2002, a demonstration initiated by students protesting in front of the National Parliament against the attitude of the police during the arrest of one of their classmates the day before was manipulated and directed to

attack specific targets symbolic of the Prime Minister or of the unequal wealth of foreigners. During the protest in front of the Parliament three demonstrators were killed, reportedly by PNTL police (see *La’o Hamutuk Bulletin Vol.3, No.8*).

The ineffective police response to this incident is still unexplained. There are several questions being asked: why did the police shoot into an unarmed crowd? How could the mob have walked around Dili for several hours, and in nearly

every incident, the police arrived after the destruction was complete, although they have helicopters, motor vehicles and sophisticated communications equipment? Why did UIR, the unit specially trained to act in civil disturbances, not act to control the protest? Where were the UNPOL counterparts of the PNTL officers who were deployed in front of the Parliament? Why were UNPOL and PNTL officers, plus PKF troops, which gave back-up support to the police in this event, unable to control an unarmed crowd of about 200 people? Why were PKF troops protecting places such as foreign embassies and UN facilities, while nobody, for example, was

Material Resources

When talking about developing East Timorese sustainable institutions, such as the National Police force, we cannot forget that these institutions require well-prepared human resources in addition to adequate material resources. PNTL now depends on UNPOL’s material resources like computers, cars, radios and equipment necessary to perform their duties. UNMISSET authorities are aware that PNTL will still need these resources after the mission leaves. UNPOL has made several requests to UNMISSET to leave the important equipment with PNTL, but it’s still not clear if it will happen.

protecting the Prime Minister's house, which was the last target attacked by the mob?

Answers given to *La'o Hamutuk* by UNPOL officials are quite vague. First they said that the police weren't able to control the crowd because it split into several groups, heading (on foot) to different targets at the same time. That still doesn't explain why, with all the equipment and personnel that UNMISSET has, they weren't able to figure out where the groups were heading and block the roads. It was also said that there weren't enough police personnel to control the crowd of 200 people, even counting PNTL and UNPOL officers posted in Dili, plus the back-up support of the PKF. Regarding the UIR, instead of being deployed to control the crowd, it was deployed to protect the UNPOL Headquarters and the Dili Police Station. A UNPOL official told us unofficially (although his superiors deny this) that, after UIR's intervention in civil disturbances in Baucau some months before, the command decided to "preserve their image," and not send them to the streets. Some UNPOL officials told us that "they weren't prepared" to deal with such an event, even though they are responsible for internal security in East Timor.

What is clear is that the responsible authorities, UNMISSET and UNPOL, didn't take effective action to prevent or control the situation. Why they didn't is not yet clear. It is clear from the UNMISSET Mandate that PNTL is under the command of UNPOL. On 13 December, nine days after the event, SRSK Kamalesh Sharma stated that "some discipline problems were evident within the Timor Leste Police Service, and immediate steps have been taken to deal with it." Mr. Sharma never mentioned who was in command of PNTL that day, nor who was responsible for their training. As a high-ranking UNPOL official told us, "if the PNTL committed any mistakes on 4 December, that's many people's fault, and since UNPOL is the one responsible for their training and command, it is the most responsible for the way [PNTL officers] act."

Just after the event, UNPOL opened an investigation into the causes of the disturbance and UNPOL and PNTL performance, as well as the actions taken by PNTL officers involved in the killing of the three demonstrators. In February, the UNPOL Deputy Commissioner told *La'o Hamutuk* that they were only waiting for the results of ballistic tests to complete the inquiry, and that once completed the outcome will be forwarded to the Prosecutor General. By late May, almost six months after the incident, the results of the investigation have not been released, and nobody has been charged.

According to UNPOL officials, however, some things changed after 4 December: UIR has gone through further

training in crowd control skills and appropriate use of force, and new equipment for crowd control was acquired and officers received training on how to use this equipment. If they weren't prepared and well equipped to respond effectively at that time, now they say they are.

The other two events involving internal security occurred in January and February, near Atsabe, Ermera district and Atabae, Bobonaro district, both near the Indonesian border. In both cases armed groups attacked the local population, with seven deaths in Atsabe and two in Atabae. The precise motivation for the attacks is still unknown, but, according to the a UNMISSET report "there is an increasing amount of credible evidence to suggest that former militias and armed groups may be establishing bases within the country with the objective of undermining stability."

Both in Atsabe and in Atabae, the intervention of the military, PKF and the East Timorese Armed Forces (FDTL), confused who has the responsibility to handle such cases. According to Deputy SRSK Hasegawa, these are internal security matters, and therefore the responsibility of the police. But, once more, the police did very little. In Atsabe, FDTL carried out arrests (most of which were overruled by a judge the next day for being unconstitutional) and remained in the area, along with Portuguese PKF, to guarantee security. In Atabae it was PKF, not police, who searched the area after the attacks and arrested

UIR

The Rapid Intervention Unit or UIR (Unidade Intervensãun Rapida) is a special unit of East Timorese police trained to respond in cases of riot, civil disorder and crowd control. There are two UIR units, one based in Dili, composed of 130 officers, and another in Baucau, with 60 officers. UIR officers were recruited from all police officers, but now it's made only among officers who volunteer to take part in the unit. UIR has already been handed to the PNTL, and the unit receives special training outside the Police Academy. They were first trained by the Portuguese Intervention Corps (CIP), followed by training from Malaysia and Australia. After the 4 December incident, UIR received further training in the use of force and crowd control from Malaysia, a country with a poor record of police respect for human rights.

suspects. In both cases, the population asked for the presence of FDTL and PKF, because they lack confidence in the police to guarantee their security.

These three events clearly show the fragility and inefficiency of UNPOL's ability to guarantee internal security in East Timor. In his March 2003 report, the SRSK recommends several changes in UNMISSET plans for UNPOL. "The events of recent months suggests that serious deficiencies in Timorese and international capabilities already exists, and can invite further problems," says the report, which calls for freezing the downsizing of UNPOL and PKF until December 2003, and recommends a revised strategy for the military and police forces. These events made the UN authorities in East Timor officially recognize problems previously identified by many others, including the weakness of training and the problems stemming from the rush to hand over districts in order to meet downsizing schedules.

The suggestions made by the SRSK include:

- √ to adjust the composition and strength of UNPOL and the schedule for its downsizing;
- √ to provide further training to PNTL, especially in crowd control;

- ✓ to include an international police unit specialized in emergency situations and civil disturbances, which will be prepared to act when the situation exceeds the capacity of UIR while it is still under training;
- ✓ to increase UNPOL monitoring and advisory presence in districts that have been handed over to the East Timor Government;
- ✓ to adjust the planning for handover to take place at a slower pace.

These recommendations were approved by the UN Security Council on 5 May 2003, as part of Resolution 1473.

Conclusion

A stable and secure environment is essential for the development of any nation. And it's clear that in East Timor there are still many problems regarding security. UNMISSET, as the institution responsible for maintaining security in East Timor and establishing sustainable Timorese structures for after it leaves, is responsible to solve these problems.

East Timor has many economic, social and historical reasons for its special security problems: Massive unemployment, a lack of education and other public services; limited mutual respect between government and civil society; frustration with the pace of democratic and economic development; widespread post-conflict and post-traumatic stress; lack of confidence in peaceful processes for change. These problems are the legacy of centuries of colonial rule and decades of military occupation. The three-year UNTAET government and the first year of UNMISSET made some progress in addressing these problems, but there is far to go and the responsibility of the international community has not ended.

La'ó Hamutuk welcomes Security Council Resolution 1473, which makes important recommendations aimed to address security problems. We also hope that these recommendations are implemented, and do not stay only on paper. The Joint Assessment Mission made similar recommendations back in November, but very little has been done to make them happen.

We know that guaranteeing security in East Timor is not an easy task. If UNMISSET is to leave a stable East Timor, however, it is not enough to acknowledge the problems in meetings, missions and reports. The Mission has to fully commit itself to face and resolve these problems, and to make serious investment in training and preparing a professional national police force, able to perform its tasks in the best way possible. ❖



Who is La'ó Hamutuk?

La'ó Hamutuk staff: Cassia Bechara, Simon Foster, Tomas (Ató) Freitas, Mericio (Akara) Juvinal, Yasinta Lujina, Inês Martins, Adriano do Nascimento, Charles Scheiner, João Sarmento, Jesuina (Delly) Soares Cabral, Andrew de Sousa

Drawings for this Bulletin: Cipriano Daus

Translation for this Bulletin: Douglas Kammen, Johanna Maria, Pamela Sexton, Kylie

Executive board: Sr. Maria Dias, Joseph Nevins, Nuno Rodrigues, Aderito de Jesus Soares

Workshop on Millennium Development Goals in Bangladesh

The United Nations Development Program (UNDP) held a workshop on the Millennium Development Goals (MDGs) from 23-25 February 2003 in Dhaka, Bangladesh. This workshop was attended by UN agencies, and governments from Bangladesh, Cambodia, Sri Lanka, Malaysia and East Timor, as well as local and international media and NGOs from Bangladesh, Iran, Sri Lanka, Malaysia, India and East Timor.

The delegation from East Timor included UNDP Deputy Secretary Haoliang Xu, UNICEF special officer Joshiro Uramoto, RDTL Vice-Minister of Planning and Finance Aicha Bassarewan, RDTL Advisor on Planning and External Assistance Management Emilia Pires, and Adriano do Nascimento from *La' o Hamutuk*, who represented NGOs.

The Dhaka workshop was intended to unify the perspectives and development strategies of countries in the Asia Pacific region to implement the Millennium Development Goals adopted by 189 countries at the September 2000 Millennium Summit at UN headquarters in New York.

What are MDGs?

Millennium Development Goals are a global framework designed by world leaders to address humanitarian problems such as poverty, education and health. A unified commitment has been made to achieve goals and targets regarding development, government, peace, security, and human rights.

In the Millennium Declaration, the heads of state of 189 nations adopted eight goals as a framework for development:

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria and other diseases
7. Ensure environmental sustainability
8. Develop a Global Partnership for Development

The development goals focus on efforts to improve and attain a proper and humane world standard of living in the framework of cooperation between nations.

Perspectives or presentations from the workshop participants

Governments

At the workshop, the six countries' governments described how the Millennium Development Goals were being implemented in their countries in relation to their overall national development planning.

Emilia Pires discussed East Timor's national development planning. After describing the condition of the people and the nation, Pires discussed five issues: homelessness in East Timor; the destruction of infrastructure as a result of the war; reconstruction carried out by the UN, international agencies and NGOs; progress in the reconstruction of

infrastructure and the creation of a peaceful political process and system. Regarding national development planning, Pires explained that there is a National Development Plan for the next 20 years, where the development framework and strategy are established for each five year period. The main agenda is to overcome poverty, achieve strong and sustainable economic growth, health, education and the prosperity of each person. Regarding MDGs, Pires said that the people of East Timor, through President Xanana Gusmão, participated in the Millennium Summit in New York, and MDGs are an integral part of East Timor's national development map. She added that the East Timorese government will hold a workshop about MDGs in Dili, which was organized by the East Timorese delegation and held in March.

Civil Society Groups

In a separate session, NGOs from Bangladesh, East Timor, Iran, Sri Lanka, Malaysia and India gave presentations.

Print and electronic journalists also commented on the implementation of MDGs. Most of the representatives of large media said that they lack knowledge and interest in the MDG program because the publicity about MDGs is difficult to present in the media. For this reason, they asked UN bodies to develop partnerships with the media, especially about implementation of projects relating to basic human needs. They also asked the UN to be more open about its activities and how its programs are carried out.

Besides giving their perspectives on MDGs and the work of UN agencies, the Bangladeshi reporters also criticized their government for not providing enough information about its activities. Because the government is not open to the media, journalists must ask for information from international agencies. To overcome this problem, they called on governments and international agencies around the world to build partnerships to address the problems of people at the grassroots.

Civil society groups raised issues about the implementation of the MDGs, and appealed to rich countries to respect the right of developing countries to choose their own development models appropriate to their economic situation and human resources. Groups advocated that all sovereign nations should be able to design their development plans to meet specific national needs, and to build global, regional and national partnerships between wealthy and poor countries. Some warned the UN not just to toss out brilliant ideas, but to actually implement what they were talking about.

Mahfuz Anam is the senior editor of Bangladesh's *Daily Star* newspaper, in his fifties. He explained why the media don't write about the MDGs: "The United Nations has talked about education for years. When I was young, the UN talked about education. And now, 40 years later, the UN is still talking about education. The Millennium Development Goals are a project for the UN themselves, and I do not want to do propaganda for them." ❖

A Review of the First Year of the Transition Support Program

At the May 2002 Dili donors' conference the future government of the Democratic Republic of East Timor estimated that it would need an extra \$30 million to finance the first year's national budget. This is in addition to the \$42 million it could raise within East Timor. The national budget is used to pay for government offices and the salaries of civil servants and officials. It also pays for government services and functions like defense, public safety, education, health care and infrastructure. It is expected that from 2005 to 2020 sufficient revenues will be received from the royalties from the exploitation of East Timor's oil and natural gas resources in the Timor Sea to finance the entire budget without external support.

A donor working group consisting of the World Bank, the International Monetary Fund, the Asian Development Bank, Japan, Portugal, Australia and the United Kingdom agreed to consolidate donor contributions to the national government budget through a facility similar to the outside financial support for the UNTAET Consolidated Fund for East Timor (CFET), which financed the transitional administration (ETTA/ETPA) (see *La'o Hamutuk Bulletin* Vol.2 No.1-2). The donor working group recommended that the World Bank act as trustee for the new facility, which became the Transition Support Program (TSP). Prior to the donors' conference, the East Timorese government had not wanted the World Bank to control these funds and had asked the UN to control them instead, but the UN and donors refused. The TSP began in July 2002, a few days after East Timor joined the World Bank.

The donor working group wanted the government and the World Bank to agree on how the money would be spent and monitored. The program was supposedly negotiated between the government, donors and the World Bank. In fact the government presented its draft action plans for the fiscal year (July 2002 until June 2003) to the World Bank. The World Bank then selected those items they considered the most important for the Transition Support Program and specified the timetable for implementing the selected activities.

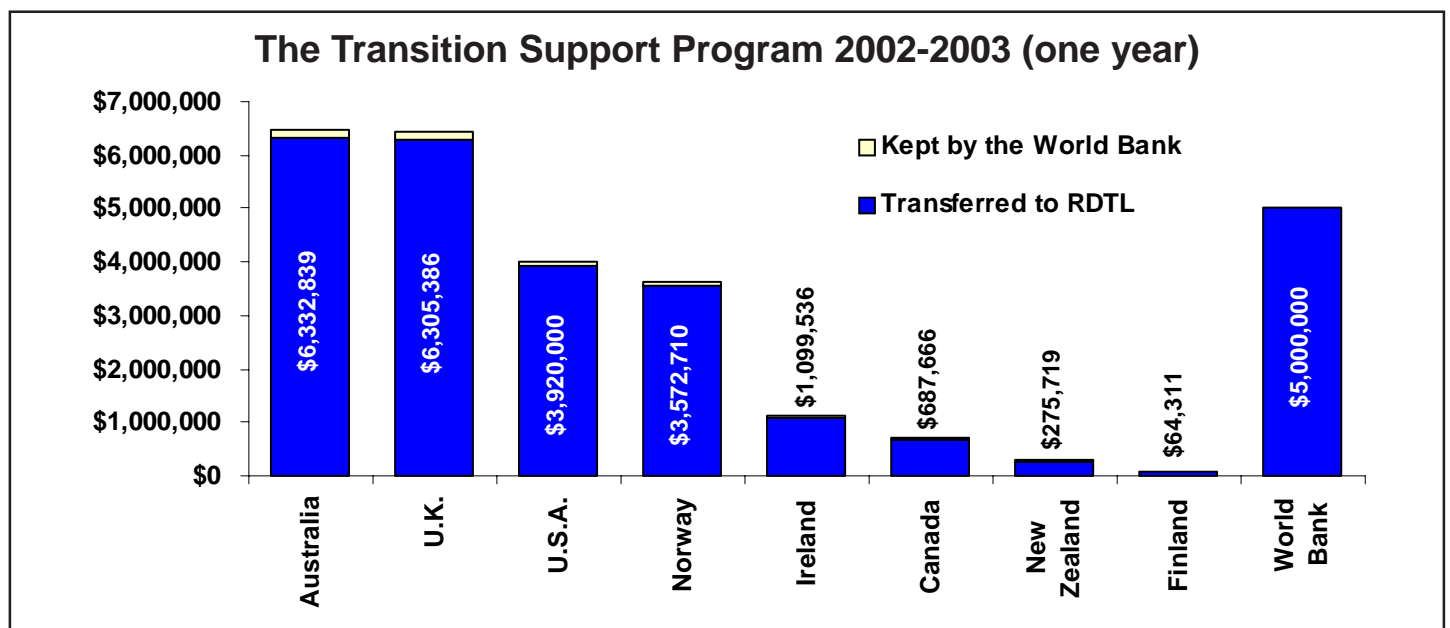
International organizations finance and administer other programs outside the government budget. These include UN, which finances UNPOL and the PKF, and bilateral projects such as Portugal and education, and Japan and agriculture (See *La'o Hamutuk Bulletins* Vol.3 Nos.2-3, 6, 7, 8). Altogether this is called the Combined Sources Budget. The government administers the national budget including the areas identified by the Transition Support Program, but the World Bank is supposed to monitor the TSP areas only.

As trustee of the TSP, the World Bank receives funds from donors and transfers them to the government. The donors have each agreed with the World Bank to transfer funds at a certain date. East Timor's government has signed a separate contract with the World Bank to receive each donor's contribution. Currently some donors have signed one year agreements with the World Bank and some have signed three year agreements. The World Bank attempted to persuade all the parties to sign three year agreements. The government resisted, fearing that the World Bank would control the funds by transferring the money in small installments and delaying or canceling installments if East Timor's government failed to meet their conditions. Funds from each donor for each year are transferred soon after the World Bank receives the funds from that donor.

Portugal has not provided funds through the TSP process, but will contribute \$3 million dollars directly to the government of East Timor in June 2003 for the 2002-03 fiscal year. The Portuguese embassy here would not explain why Portugal chose not to distribute funds through the TSP or if they placed any conditions on their contribution.

The government had consistently asked for the TSP to enable the transfer of donor contributions to the budget as determined by government. It was under the impression that there would not be any more conditions. However, the World Bank has placed general conditions: the government may withdraw the funds as long as it "has maintained a macro-economic policy satisfactory to the Bank." The World Bank says that this is a standard phrase, which is in the agreement

See diagram of all East Timor's funding sources on pages 12-13.



to prevent any major changes in government policy. There are also standard World Bank restrictions prohibiting spending on certain items such as alcoholic beverages and tobacco.

Some of the conditions are specific to East Timor many of which had already been completed when the TSP began. These include:

- ✓ Preparing a budget for the 2003 fiscal year
- ✓ Limiting the number of civil servants to 16,400
- ✓ Allocating more than 35 percent of the national budget to health and education and less than 22 percent to defense and public law and order
- ✓ Employing a private management team for its Power Service from 20 May 2002 to 30 August 2002
- ✓ Appointing a consultant to prepare terms of reference and performance indicators for the management contract for the East Timor Electricity Authority.

The agreement also states that if the government does not comply with these conditions the World Bank can stop transferring the money. For this fiscal year this does not mean much, as the World Bank has already transferred most of the funds. However, it could cause problems with the next two years of the Transition Support Program. The World Bank has acknowledged that they might stop funding if there were significant policy changes.

The donor contributions to the Transition Support Program are detailed in the graph on the previous page. The World Bank keeps 2% of all bilateral donor funds. As of April 2003 the World Bank has taken \$450,000 and will earn approximately \$1,300,000 over the three year period. The World Bank states that this is standard for all trust fund arrangements. World Bank officials we talked to were unable to tell *La'o Hamutuk* where all the money went. Some of the money has gone to the World Bank's East Asia and Pacific regional office, and part of this may find its way back to the World Bank office in East Timor.

In addition to money from donor countries, the World Bank contributes \$5 million of its own money to the TSP for the first year, and \$3 million more for the second year. The Bank has placed additional conditions on its own contribution. Following the regulation of the World Bank's charter, these funds cannot be used for 'goods and services' from within East Timor, but only from outside the country. In practice this does not have any effect since the government imports goods worth more than \$5 million per year. Although the World Bank claims to promote poverty reduction, it seems strange that this is to be done without spending any of the money within the country.

The World Bank sees the TSP as a way to influence East Timor's development. An internal World Bank document from April 2002 states that World Bank's financial contribution to the TSP is "essential for the success of the Bank's future operations in the country. Donors are looking to the Bank to play a strong role in the design and negotiation of a program for the post-independence period, 2002-2003 and beyond."

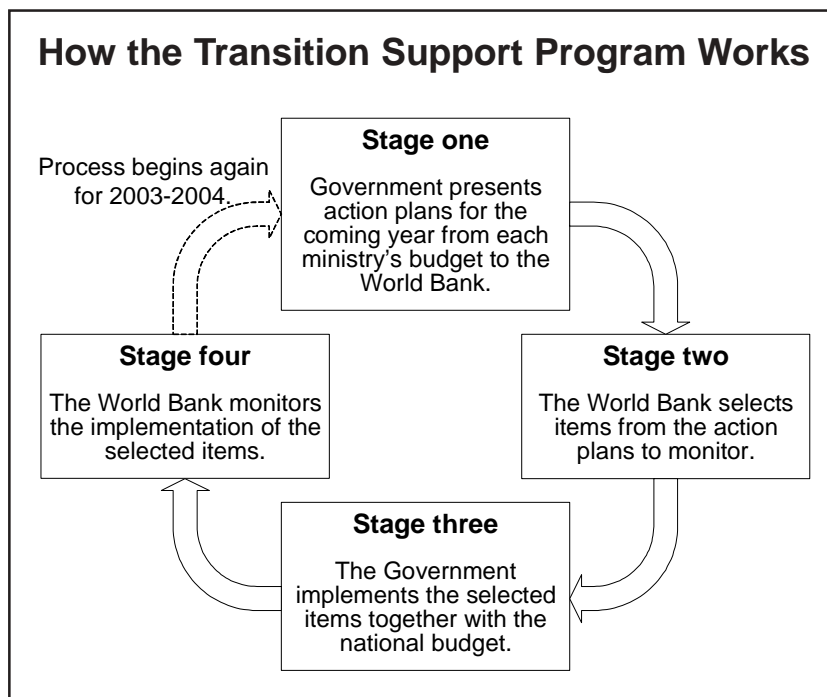
This is the first year of the Transition Support Program. The government has resisted World Bank attempts to interfere in the national budget through the TSP negotiating process. The World Bank planned to send a TSP appraisal mission in February, comprised of World Bank officials and representatives from the donors, to evaluate the first year of the TSP and plan the second year. The government objected to the mission coming while they were preparing next year's budget, fearing that the World

Bank would become involved in the budgeting process rather than accepting areas chosen by the government. The World Bank agreed to postpone the mission, and it came in April 2003 after the budget was drafted. So far, TSP planning for the second year is a more cooperative process than the first year was.

Worldwide, the World Bank encourages a model of development that promotes dependency on exports and foreign investment. It does this by promoting economic liberalization,

which can mean the removal of import and export tariffs, and limiting government regulations on, for example, wages or working hours. It also supports the privatization of government enterprises like electricity and water and reduces government spending by insisting that people pay for services like health and education. Although these policies often hurt the poor, the institution is not open to ideas outside of this framework.

The Transition Support Program is a multi-donor program, but the World Bank occupies an extremely powerful position as the intermediary between the donors and the East Timorese government. The World Bank should remember that the money moving through to the Transition Support Program is not its own money. Donor countries have made grants to East Timor to support development priorities in the national budget and the National Development Plan. The World Bank's role is to transfer the funds from the donors to the government and monitor a program that has been agreed on by the donors, the World Bank and the government. It should not abuse its position to advance its own agenda, but should keep its promises and respect East Timor's sovereignty. ❖



How does East Timor's Government get money to spend?

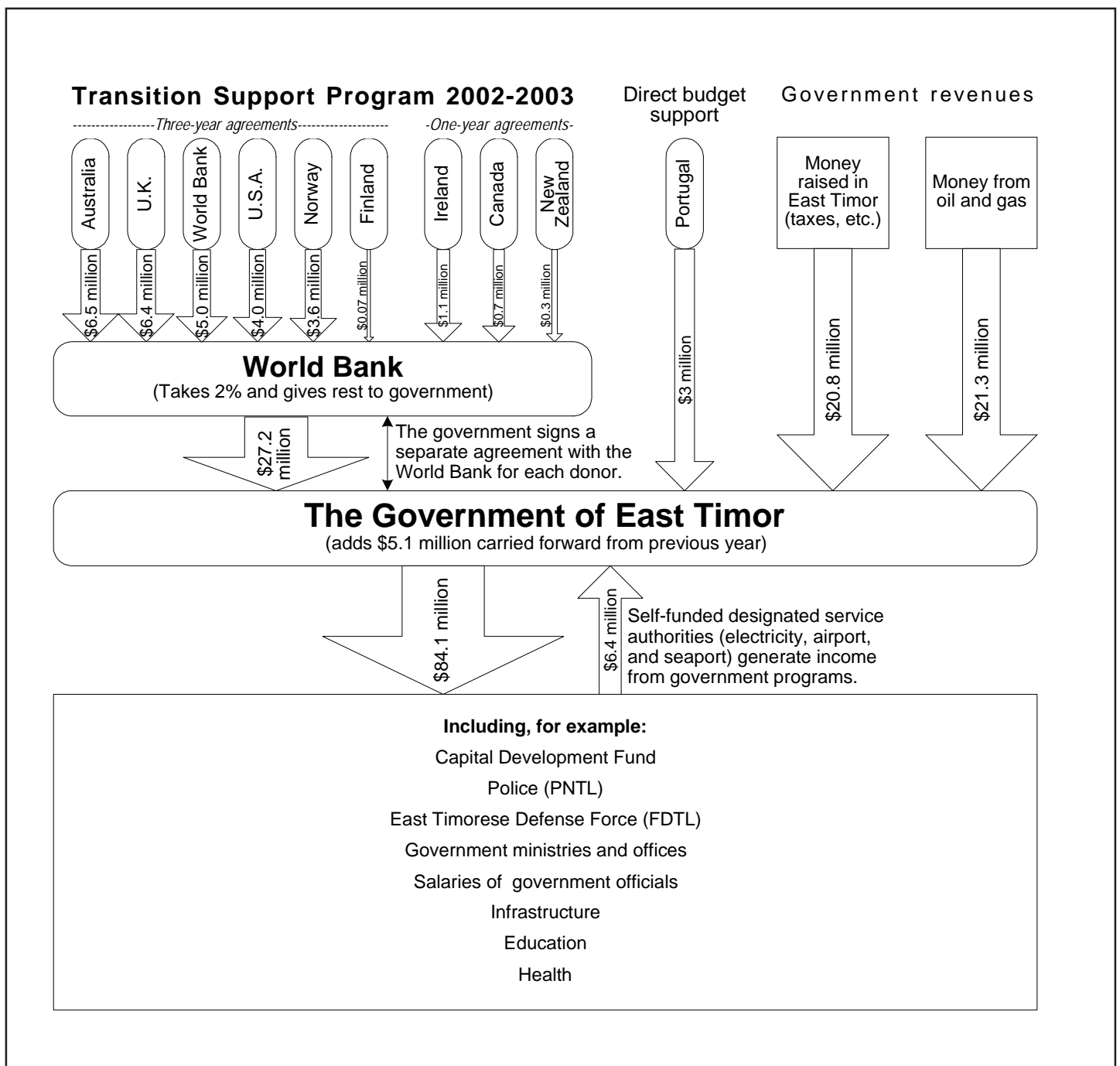
East Timor's government receives money from:

- ✓ **Bilateral (government) donors.** Most of these come through the World Bank-managed Transition Support Program (see previous article), although Portugal supports the government here directly.
- ✓ **Taxes and fees** and other government activities which generate income. Most of this is from wage tax, sales tax, import duties and excise taxes.
- ✓ **Oil and gas sales.** This is from early stages of Timor Sea oil and gas development, and is expected to increase significantly in three or four years.

These are shown in the diagram below. The data is taken from several sources, and some of the figures have changed slightly in the course of the year, so they may not be precisely current or exact. Nevertheless, we believe this is an accurate portrayal of East Timor's funding sources and streams.

The size of each arrow represents approximately how much money is involved.

All figures are in United States dollars, for the current fiscal year (July 2002-June 2003). This data comes from the Medium Term External Financing Requirements (2002-2003) report and other sources.



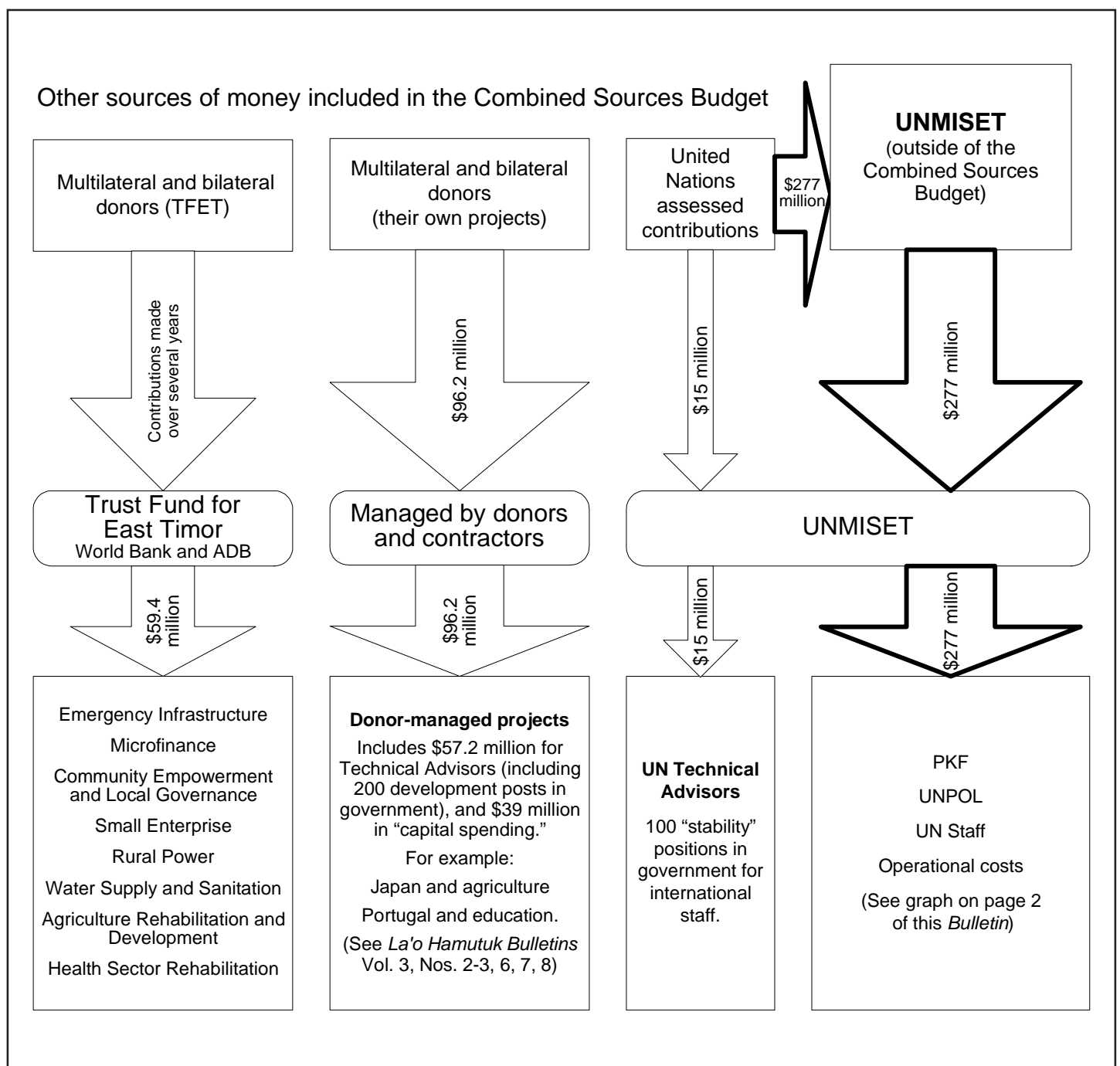
Who else spends public money in East Timor?

In addition to East Timor's government programs, many donors fund projects directly. Although these are not controlled by the RDTL government, they are included in the Combined Sources Budget, and are considered when planning programs and allocating resources. There are four main components of the Combined Sources Budget:

- 1. The RDTL government budget** (see previous page): \$72 million.
- 2. The Trust Fund for East Timor (TFET)**, supported by many donors; managed by the World Bank and the Asian Development Bank. TFET is smaller than it was during UNTAET. \$58 million this year.
- 3. Direct aid projects** chosen and managed by such agencies as UNDP, AusAID, USAID, governments and donors. This year, these add up to \$96 million.
- 4. A small part of the UNMISSET budget** — funded from dues assessed of UN member states — pays international advisors who work within the RDTL government and its programs, about \$15 million.

About 95% of the UNMISSET budget is not part of the Combined Sources Budget. We show it below because it is larger than all other public expenditures in East Timor added together. See Graph 2 on page 2.

All figures are in United States dollars, for the current fiscal year (July 2002-June 2003).



Editorial: No Justice, No Peace *(continued from back page)*

Until the end of 2001, the SCU and SPs were largely dysfunctional, mainly due to lack of institutional backing and political will from the international community (see *La'o Hamutuk Bulletin* Vol. 2 No. 6-7). Since January 2002, SCU performance has improved markedly, with many investigations and indictments. In February 2003, the SCU indicted former Indonesian Defense Minister Wiranto and other high-ranking Indonesian officers for crimes against humanity, murder, deportation and persecution during 1999. During the first four months of 2003, the SCU indicted 119 people, bringing the total number of indictees to 247 in 60 separate indictments. Two-thirds (169) of those perpetrators remain at large, protected by Indonesia. At this writing, no arrest warrants have been issued for those indicted this year, and only 11 warrants (of 30 requested from 2001-2) have been circulated internationally by Interpol.

Although the indictments are a significant start to the process, they are likely to come to nothing. SCU head Siri Frigaard finished her contract in April 2003; no replacement has been hired. Officials from the UN and East Timor's government disowned the indictments when they came out, although both later acknowledged the independence of the judicial process. We understand, however, that East Timor's leaders have discouraged the prosecutor's office from pursuing these cases, and East Timor's Ministry of Justice considers the Serious Crimes process a United Nations responsibility. If an Interpol country does arrest one of the perpetrators, many worry that East Timor's government will not negotiate seriously for his extradition to stand trial here.

Even more troublesome is the lack of international support for the judiciary. East Timor has not had a functioning appeals court since November 2001, due to the inability of the government and the UN to agree on judicial appointments. Consequently, few of the trials already held before the Special Panel have been conclusively concluded; many defendants have been jailed for longer than international human rights standards allow before final conviction. The UN planned for two Special Panels to be able to hold simultaneous trials, but that has never been the case. Since early April, they have not had enough international judges to compose even one Special Panel. Approximately 30 defendants have been convicted by the Special Panels in the past two years (including eight pending appeal), although most of them pleaded guilty. Each contested trial has taken several months. With only a year remaining, how many of the more than 40 defendants awaiting trial, let alone the 169 hiding in Indonesia, will ever face justice?

After months of delay, judge Cláudio de Jesus Ximenes was just sworn in as President of the Court of Appeal, which should enable further judicial appointments. But he is only on a six-month UNMISSET contract, and his hiring at an international salary (he is an East Timorese who has been a judge in Portugal for 21 years) is resented by others in the judicial system. Who will pay his salary after UNMISSET leaves?

The lackluster performance of the UN courts here has been matched by downplaying of justice concerns at the political and international levels. In April, UN Secretary-General Kofi Annan acknowledged that "relations between Indonesia and Timor-Leste will also be enhanced by bringing to justice

those in the two countries who are accused of serious crimes committed in 1999; again, political commitment is essential if this objective is to be achieved." But he recognized that "the judicial process dealing with serious crimes will remain incomplete by June 2004. ... Strong political commitment will also be essential. ... It is crucial that these indictments for serious crimes be respected, on grounds of principle and of precedent, and that the individuals involved face trial."

The recent strong words of the Secretary-General do not match the UN's record. Although Indonesia promised in April 2000 to cooperate with the justice process in East Timor, they have never kept their promise. UNTAET never pushed the international community to press Jakarta, and Indonesia was glad for the excuse to do nothing.

For the past three years, the international community has waited for Indonesia's *ad hoc* Human Rights Courts, using this fundamentally flawed process as an excuse for their own inaction. After extensive delays at every step, and numerous procedural flaws, that process is now almost finished. The prosecution and the judges viewed the perpetrators as loyal Indonesians seeking to quell a rebellious province – most were charged only with failing to prevent crimes by East Timorese against each other. Eleven of 14 defendants have been acquitted; the five convicted (including the only two East Timorese defendants) were given very light sentences, four less than the legal minimum. The process is so defective that even the pro-Indonesia UN Human Rights Commission expressed "its disappointment at the way in which the trials are being carried out." But the Commission – continuing the wishful thinking that has diverted attention from meaningful justice since 2000 – "encourages the Government of Indonesia to take the necessary steps to improve the current legal processes in a transparent way, in order to ensure that justice will be done."

It is clear that Indonesia has never intended to do justice, shielding military and civilian officials from accountability before the courts in Jakarta and Dili. That has been obvious to decision-makers in Jakarta, in Dili, in New York, and in the capitals of the UN Member States. By pretending not to see it, and by failing to act to achieve justice in any meaningful way, the international community continues its complicity in Indonesia's crimes, and prevents many East Timorese people from emerging from victimhood to rebuild their lives and country.

The Commission on Reception, Truth and Reconciliation (CAVR) is often portrayed as part of the justice process; by supporting CAVR donors and governments create a distraction from their lack of support for justice. The truth-seeking, victim statement-taking, public education, and community reconciliation programs of the CAVR are useful, but they have little to do with justice. CAVR cannot hold the thousands of people who committed serious crimes accountable. CAVR's Truth Report will contain important information about Indonesia's crimes in East Timor — although everyone here knows that their illegal military occupation killed 200,000 East Timorese and raped and tortured countless more; and indictments already issued by the Serious Crimes Unit contain many specifics about 1999.

When the CAVR report comes out at the end of 2004, the Serious Crimes Unit and Special Panels will no longer exist.

The limited international financial and organizational support that currently exists for justice will be exhausted; political will may have practically vanished. The report will be useful for researchers and historians who study East Timor, but it will not help end the cycle of impunity.

For the past two years, East Timor's President, with support from other government officials, has often said that East Timor's government cannot take the lead for justice – that his nation's relationship with Indonesia and with militia leaders (and the refugees still under their control) takes priority over prosecuting the major criminals. We understand his perspective – but it serves neither justice nor East Timor's people to emphasize confession and reconciliation among the small fish while the big fish swim free. Blaming the victims of Indonesia's crimes — whether they were oppressed or manipulated to be oppressors – does not help those who suffered move on with their lives. And impunity for the big fish only encourages them and their followers to commit crimes against humanity throughout Indonesia and the world.

La'ó Hamutuk agrees that the responsibility for justice

lies first with the international community, and we reiterate our call for an international tribunal for East Timor, and for effective pressure on Indonesia to cooperate with the Serious Crimes process here. We also call for an extension of international support for the Special Panels as a hybrid international-East Timorese court with universal jurisdiction, until all those indicted are brought to trial. We make this call on the community of nations – beginning with Australia, the USA, Britain, Japan and others who supported Indonesia's occupation. But East Timor's government and parliament must also be strong, supporting justice rather than obstructing it.

Our call is echoed by most East Timorese people, and many in the international solidarity movement, including in Indonesia. We invite them to work with us to press our government and theirs not to abandon accountability for crimes against humanity.

The final United Nations mission in East Timor has only one year remaining. The time for procrastination and *realpolitik* is over. If there is political will, there can be justice. If not, the people of East Timor will never have peace. ❖

Listen to La'ó Hamutuk's Radio Program

Interviews and commentary on the issues we investigate -- and more!

In Tetum and Bahasa Indonesia

Every Friday at 3:00 pm on Radio Rakambia.

Every Saturday at 11:00 am on Radio Timor Leste and Radio Timor Kmanek

CD-ROM on East Timor's Oil and Gas

Oil and gas under the Timor Sea between East Timor and Australia are essential to East Timor's economic future.

Although these resources will bring much-needed money to East Timor, they also bring danger. Around the world, oil and gas development often comes with war, corruption, dictatorship, repression and environmental destruction.

To help explain these issues, *La'ó Hamutuk* has compiled information and documents in a "website" which does **not** require connection to the internet. Most of **OilWeb** is English, although it includes much in Bahasa Indonesia and some Tetum and Portuguese. **OilWeb** includes:

Overviews, information and analysis about history, companies, geology, finances, development options, economics, and environmental consequences. **In-depth articles** relating to East Timor or other parts of the world.

Complete text of all treaties and agreements relating to Timor Sea oil development and boundaries since 1971, as well as the U.N. Convention on the Law of the Sea.

Articles and analysis, from the *La'ó Hamutuk Bulletin* and other publications.

Movie "Don't Rob Their Future" (English, 17 min.) which explains the boundary issue in simple terms.

Audio drama (Tetum, 15 min.) of the history of Australia-Indonesia-East Timor negotiations.

Profiles of oil companies and oil fields, including annual reports, financial information, and background.

Fact Sheets from the governments of East Timor, Australia and Northern Territory, UNTAET and the oil industry.

Australian Parliament hearings and debate on the Timor Sea Treaty, including 65 testimonies, the committee's report, and transcripts of seven hearings and the Parliamentary debate on treaty ratification.

Commentary on the boundary issue, including the *Portugal v. Australia* ICJ case and analysis by many experts.

OilWatch Network information about consequences and popular resistance, including cases from around the world.

Edition 1.2 of the OilWeb CD-ROM is now finished. *La'ó Hamutuk* distributes OilWeb at cost to East Timorese NGOs and their supporters and for \$50 to others. It is available from our office or by mail.



Editorial: No Justice, No Peace

This month marks one year of East Timor's independence, and one year before the end of the UN Mission in Support of East Timor. Indonesian troops and their militia proxies ended their reign of terror here three and half years ago, but little progress has been made in holding them accountable for their crimes. *La'o Hamutuk* is worried that impunity may prevail, since neither the international community nor East Timor's government has the political will to hold Indonesia and its leaders accountable for their crimes against humanity.

Justice is a difficult problem, compounded by the fact that East Timor's largest neighbor continues to deny responsibility for its 1975 invasion, quarter-century of occupation, and scorching the earth during 1999. East Timor must coexist with Jakarta, and Jakarta's government is a respected member of the United Nations, the world's most populous Muslim nation and an economic power.

Unfortunately, justice may become the latest East Timorese victim of the desires of the West and Australia to satisfy Indonesia. Last month, the UN Human Rights Commission, with agreement from East Timor's government, took Indonesia's human rights violations off its agenda. The UN then elected Indonesia to a three-year term on the Human Rights Commission, and Australia has proposed them as a permanent member of the UN Security Council. International political will to end impunity, always limited, is fading rapidly.

The victims of Indonesia's crimes in East Timor – virtually the entire East Timorese population – demand that our government and the international community press for justice, but that demand is not well-received by those in power. We appreciate that East Timor needs a peaceful border, and a good-neighbor relationship is in the long-term interests of both peoples. But protecting criminal generals – even if they retain power at the moment – does not serve the citizens of either nation. Indeed, many of the TNI master-criminals have been promoted, and they continue to inflict terror in Aceh, Papua, and elsewhere.

As democracy evolves on both sides of the border, the rule of law and civilian authority over military power need to be reinforced at every opportunity. East Timor needs friendly relations with all 235 million Indonesian people, not a few dozen military and Suharto-era criminals.

That said, the primary responsibility for justice lies with the United Nations and the international community. These crimes violated the UN Charter and resolutions of the UN Security Council since 1975; in 1999 they were in direct contradiction of the agreement between Indonesia, the United Nations and Portugal. The international community must take responsibility for justice, but the government of East Timor (and, hopefully, Indonesia) should give them full support. We are disappointed that all three appear to be resisting efforts toward justice.

The first Indonesian and UN investigations of the 1999 violence named high-ranking military and government officials, and recommended an international tribunal. We believe that an international tribunal, backed by the political will to compel Indonesia's cooperation, is still the best option. But the governments of the world, unwilling to take decisive action or confront Indonesia, gave Jakarta a chance to prosecute its own. They have watched and waited for more than three years, even though it has long been clear that the Indonesian government has no commitment to justice.

From October 1999 until May 2004, the United Nations has responsibility for security in East Timor, and for punishing perpetrators of crimes against humanity and other serious crimes. UNTAET established the Serious Crimes Unit (SCU) to investigate and prosecute, and the Special Panels (SPs: courts with international and East Timorese judges) to try the perpetrators. These agencies continue under UNMISSET, still authorized, funded, staffed and managed by the United Nations, although they are now in the office of East Timor's General Prosecutor. Unless other arrangements are made, they will go out of existence when UNMISSET ends in June 2004.

(Continued on page 14)

What is La'o Hamutuk?

La'o Hamutuk (*Walking Together* in English) is a joint East Timorese-international organization that monitors, analyzes, and reports on the principal international institutions present in Timor Lorosa'e as they relate to the physical, economic, and social reconstruction and development of the country. *La'o Hamutuk* believes that the people of East Timor must be the ultimate decision-makers in this process and that this process should be democratic and transparent. *La'o Hamutuk* is an independent organization and works to facilitate effective East Timorese participation. In addition, *La'o Hamutuk* works to improve communication between the international community and East Timorese society. *La'o Hamutuk's* East Timorese and international staff have equal responsibilities, and receive equal pay and benefits. Finally, *La'o Hamutuk* is a resource center, providing literature on development models, experiences, and practices, as well as facilitating solidarity links between East Timorese groups and groups abroad with the aim of creating alternative development models.

In the spirit of encouraging greater transparency, La'o Hamutuk would like you to contact us if you have documents and/or information that should be brought to the attention of the East Timorese people and the international community.



**REPÚBLICA DEMOCRÁTICA DE TIMOR-LESTE
MINISTÉRIO DO PLANO E DAS FINANÇAS
DIRECÇÃO NACIONAL DE ESTATÍSTICA**



**TIMOR LESTE
OVERSEAS TRADE STATISTICS
2004**

Dili, Timor Leste
March 2005

Preface

It gives me great pleasure to present ***Overseas Trade Statistics 2004***, the first official publication of annual Trade Statistics for Timor Leste. The statistics contained in this report reflect the patterns of international trade relating to Timor Leste during the 2004 calendar year.

Due to some unique characteristics of the Timor Leste economy it is important that readers are aware of the concepts and definitions used in the compilation of this report. I would urge therefore that special attention be given to the initial sections of the report that provide clarification on some aspects of the data.

This publication is aimed at users of economic statistics in government, the donor community, NGOs, universities, research organisations and the private sector. It is intended to produce similar reports each year, along with the regular monthly Trade data releases that began in January 2004.

Overseas Trade statistics are compiled from declarations made to the Timor Leste Customs Service by importers and exporters, or their agents. I would therefore like to express my thanks for the cooperation of the Customs Service in providing the data used for this publication.

I would also like to extend my appreciation for the support provided by the Asian Development Bank through a Technical Assistance program over the past 2 years. As a result of this TA which included expertise provided by Mr Gavin Lucas, there is now a fully operational Trade Statistics Section within the DIRECÇÃO NACIONAL DE ESTATÍSTICA. I have confidence that the staff of the Trade Statistics Section will be able to provide excellent service to users of Trade data in the future.

Copies of this annual publication will be available in English, Portuguese and Bahasa (Indonesian). I would welcome any comments from users of this publication as such feedback would help in improving the usefulness of future Trade Statistics releases.

Manuel Mendonça
Director
National Statistics Directorate

Table of Contents

IntroductionPage 4

Concepts, Definitions and Explanations of DataPage 5

Key StatisticsPage 7

Imports TablesPage 9

- Table 1: Merchandise Imports by Chapter Heading (HS2).
- Table 2: Merchandise Imports by Country of Origin.
- Table 3: Non Merchandise Imports by Country of Origin.

Exports TablesPage 13

- Table 4: Exports by Country of Destination.
- Table 5: Re Exports by Country of Destination.
- Table 6: Coffee Exports by country of Destination.
- Table 7: Coffee Exports by Month, Quantity and Value.

- Chart 1: Coffee Exports by Month, Quantity and Value.

Introduction

With the publication of this annual Trade Statistics report the DIREÇÃO NACIONAL DE ESTATÍSTICA provides the latest available data on imports and exports for Timor Leste during the 2004 calendar year.

As a “stand alone” indicator Trade statistics form a valuable source of information on the economic health of a country, as well as being used by a wide variety of planning and business organisations. Statistics on imports and exports form a valuable component of a country’s statement of economic transactions in the National Accounts and Balance of Payments. Accordingly, internationally comparable Trade Statistics that are accurate, detailed and timely have always been a statistical priority. Such information is vitally important for the planning and future development of Timor Leste.

The information contained in this report aggregates the regular monthly releases of Trade Statistics issued by the Directorate during 2004. Additionally there are tables and charts that aim to provide a more comprehensive picture of trading patterns than is possible from viewing a single month’s data.

In the setting up of a system for the production of Trade Statistics there must always be a “balancing act” between the need for accurate, timely information that meets certain acceptable standards whilst at the same time taking into account the limited resources of both personnel and equipment. The sustainability of any system put in place is critical and refinements to data quality and coverage can be incorporated as staff gain further experience.

No two economies are identical nor have exactly the same overseas trading patterns and these factors need to be considered when attempting to compare Trade Statistics published by various countries and via different agencies. As a newly developing nation Timor Leste has some unique economic features of its own that require special attention when compiling and analysing Overseas Trade Statistics. Within the following Section titled “Concepts and Definitions” these differences from the “international norm” are identified and further explained.

The statistical methods and concepts used to compile data for this report closely follow the recommendations of UN publication “**International Merchandise Trade Statistics: Concepts and Definitions (IMTS, Rev.2)**” wherever possible. The objective of **Overseas Trade Statistics, 2004** is to provide an aggregated view of import and export statistics for the 2004 calendar year, accepting the fact that more detailed analysis of specific commodities will be available in future statistical publications.

Concepts, Definitions and Explanations of Data

The following section aims to provide additional information on the methods used to collect and analyse the Trade Statistics contained in this report. As already mentioned, these Trade Statistics are compiled using the UN *“International Merchandise Trade Statistics: Concepts and Definitions (IMTS, Rev.2)”* as a guide and quotations from that publication are included here.

Additionally there are explanations of specific situations in the Timor Leste economy that may differ from international convention, meaning caution should be exercised when analysing some of the data contained in this report.

Source of Data	<p>Data is obtained from import and export documents lodged with the Customs Service of Timor-Leste. This data is then processed by the National Statistics Directorate to produce Merchandise Trade Statistics that conform to United Nations statistical concepts.</p> <p>The ASYCUDA (Automated System for Customs Data) system became operational in the Timor Leste Customs Service in October 2003. This system provides the basic data from which Merchandise Trade Statistics are prepared. Currently this system provides coverage of all imports and exports from the main airport and seaports plus parcel post. Some documentation from “small” ports is also processed at the Dili Customs Office, however it should be noted that approximately 4% of entries (those not lodged electronically via ASYCUDA), may not be included in the Trade Statistics.</p>
Time of Recording	<p>Import and Export Statistics are compiled by Date of Assessment. This is the date on which the duty to be paid (if any) is assessed by the Customs Service, in effect “clearing” the goods for import/export.</p>
System of Recording	<p>Overseas Trade statistics are compiled in close accordance with the United Nations International Merchandise Trade Statistics Concepts and Definitions. The system is known as the “general” system of recording trade statistics as defined in UN statistical papers M52. Under this system imports includes all goods entering the economic territory of a compiling country and exports includes all goods leaving the economic territory of a compiling country. The “economic territory” includes bonded warehouses.</p>
Merchandise Trade	<p>Merchandise Trade is the import or export of goods that alter the nation’s stock of material resources as a result of their movement in or out of the country.</p>
Non Merchandise Trade	<p>Goods which do not permanently add to the material resources of a country are identified as “Non Merchandise” trade. Some common examples would be temporary imports, returnable containers, goods in transit and goods consigned to foreign embassies or military installations within a host country.</p>

Country Statistics	<p>Import statistics are available by “Country of Origin” - the country of manufacture of the goods.</p> <p>Export statistics are available by “Country of Destination” – the country of final destination as shown on the export declaration.</p>
Commodity Classification	<p>Goods are classified by Customs using the Customs Tariff which is based on the international “Harmonised Commodity Description and Coding System”, or “HS” as it is sometimes called.</p>
Limitations of data	<p>Overseas Trade statistics are compiled from documents provided by exporters and importers to the Timor Leste Customs Service. Considerable reliance is placed on the exporters/importers and their agents submitting correct codes and information. Before the data is released for statistical purposes it is validated and detected errors corrected however no warranty can be given that this information contains no errors.</p> <p>It should also be noted that goods crossing international borders without appropriate Customs documentation would not be included in Trade Statistics.</p>
F.O.B. (Free on Board)	<p>Method of valuation for Exports. This valuation includes the cost of the goods plus their delivery on board ship ready for departure.</p>
C.I.F. (Cost, Insurance and Freight)	<p>Method of valuation for Imports. This valuation includes the cost of the goods, cost of insuring the goods during transportation and cost of freight.</p>
Re Exports	<p>Re Exports are goods leaving the country that were previously imported into Timor Leste and comprise less than 50 percent Timor Leste value by content at time of export.</p>

NOTE: The Treatment of Re Exports Data

It is standard practice when compiling Export statistics to collect separate data on both Exports and Re Exports. It is also normal practice (according to international convention) to include the total Re Export value in published “TOTAL EXPORT” values.

Applying this convention to Timor Leste would mean a disproportionately large portion of the “TOTAL EXPORTS” would in fact be Re Exports. The situation arises due to the large outflows of personnel and equipment returning to home countries as UNIMISSET operations are scaled down. For this reason, when referring to “TOTAL EXPORTS” in this report, Re Exports have been excluded but further identified in separate tables.

Key Statistics

- SUMMARY OF TOTALS -

Totals for the 2004 Calendar Year	Merchandise Imports (\$000)	\$113,491
	Non Merchandise Imports (\$000)	\$32,619
	Total all Imports (\$000)	\$146,110
	Exports (\$000)	\$6,973
	Re Exports (\$000)	\$98,682
	Total Exports (incl. Re Exports) (\$000)	\$105,656

- FURTHER TOTALS OF INTEREST -

Trade Balance for 2004 Calendar Year	Calculated by subtracting Exports from Merchandise Imports	Deficit of \$106,518 (\$000)
Total Re Exports for the 2004 Calendar Year	Total comprises large values for equipment belonging to outgoing peacekeeping forces	\$98,682 (\$000)
Total Value of Coffee Exports for 2004 Calendar Year	Includes exports of green beans, roasted beans and ground coffee	\$6,900 (\$000)
Largest Value Trading Partner (Imports)	Contribution to Merchandise Imports, based on Country of Origin	Indonesia - \$60,201 (\$000)
Largest Value Trading Partner (Exports)	Contribution to Exports, based on Country of Destination	USA - \$3,551 (\$000)

Key Statistics – (continued)

- 2004 IMPORTS, TOP TEN COMMODITIES -

HS Chap.	Description	Value (\$000)
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	36,757
87	Vehicles; other than railway or tramway rolling stock, and parts and accessories thereof	14,735
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers; television etc.	9,821
10	Cereals	8,111
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	4,651
90	Optical, photographic, cinematographic, measuring, checking, medical or surgical instruments and apparatus	2,657
30	Pharmaceutical products	2,653
24	Tobacco and manufactured tobacco substitutes	2,171
19	Preparations of cereals, flour, starch or milk; pastrycooks' products	2,113
22	Beverages, spirits and vinegar	1,739
		85,408

- 2004 IMPORTS, TOP TEN COUNTRIES OF ORIGIN -

Country of Origin	Value (\$000)
Indonesia	60,201
Australia	20,051
Singapore	15,154
Viet Nam	5,242
Italy	2,117
Portugal	1,686
Denmark	1,655
Thailand	1,306
Japan	1,269
China, Peoples Republic of	1,149
	109,830

Imports Tables

**Table 1: Merchandise Imports by Chapter Heading (HS2).
Annual 2004.**

HS2 Code	HS Description	Value (\$US,000)
01	Animals; live	10
02	Meat and edible meat offal	905
03	Fish and crustaceans, molluscs and other aquatic invertebrates	134
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included	1,066
05	Animal originated products; not elsewhere specified or included	15
06	Trees and other plants, live; bulbs, roots and the like; cut flowers and ornamental foliage	5
07	Vegetables and certain roots and tubers; edible	324
08	Fruit and nuts, edible; peel of citrus fruit or melons	215
09	Coffee, tea, mate and spices	101
10	Cereals	8,111
11	Products of the milling industry; malt, starches, inulin, wheat gluten	1,192
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit, industrial or medicinal plants; straw etc.	76
13	Lac; gums, resins and other vegetable saps and extracts	2
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	10
15	Animal or vegetable fats and oils and their cleavage products; prepared animal fats; animal or vegetable waxes	1,077
16	Meat, fish or crustaceans, molluscs or other aquatic invertebrates; preparations thereof	379
17	Sugars and sugar confectionery	1,392
18	Cocoa and cocoa preparations	75
19	Preparations of cereals, flour, starch or milk; pastrycooks' products	2,113
20	Preparations of vegetables, fruit, nuts or other parts of plants	216
21	Miscellaneous edible preparations	302
22	Beverages, spirits and vinegar	1,739
23	Food industries, residues and wastes thereof; prepared animal fodder	82
24	Tobacco and manufactured tobacco substitutes	2,171
25	Salt; sulphur; earths, stone; plastering materials, lime and cement	1,598
26	Ores, slag and ash	89
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	36,757
28	Inorganic chemicals; organic and inorganic compounds of precious metals; of rare earth metals	388
29	Organic chemicals	83
30	Pharmaceutical products	2,653

Table 1: Merchandise Imports by Chapter Heading (HS2) – Ctd.

31	Fertilizers	30
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring matter; paints etc.	439
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	457
34	Soap, organic surface-active agents; washing, lubricating, polishing or scouring preparations	845
35	Albuminoidal substances; modified starches; glues; enzymes	41
36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	32
37	Photographic or cinematographic goods	88
38	Chemical products n.e.s.	221
39	Plastics and articles thereof	1,287
40	Rubber and articles thereof	1,038
41	Raw hides and skins (other than furskins) and leather	1
42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut	58
43	Furskins and artificial fur; manufactures thereof	2
44	Wood and articles of wood; wood charcoal	765
45	Cork and articles of cork	1
46	Manufactures of straw, esparto or other plaiting materials; basketware and wickerwork	4
47	Pulp of wood or other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard	6
48	Paper and paperboard; articles of paper pulp, of paper or paperboard	1,005
49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts etc.	538
50	Silk	13
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	5
52	Cotton	35
53	Vegetable textile fibres; paper yarn and woven fabrics of paper yarn	2
54	Man-made filaments	8
55	Man-made staple fibres	14
56	Wadding, felt and nonwovens, special yarns; twine, cordage, ropes and cables and articles thereof	105
57	Carpets and other textile floor coverings	17
58	Fabrics; special woven fabrics, tufted textile fabrics, lace, tapestries, trimmings, embroidery	10
59	Textile fabrics; impregnated, coated, covered or laminated; textile articles of a kind suitable for industrial use	42
60	Fabrics; knitted or crocheted	8
61	Apparel and clothing accessories; knitted or crocheted	318
62	Apparel and clothing accessories; not knitted or crocheted	165
63	Textiles, made up articles; sets; worn clothing and worn textile articles; rags	518
64	Footwear; gaiters and the like; parts of such articles	502
65	Headgear and parts thereof	24

Table 1: Merchandise Imports by Chapter Heading (HS2) – Ctd.

66	Umbrellas, sun umbrellas, walking-sticks, seat sticks, whips, riding crops; and parts thereof	13
67	Feathers and down, prepared; and articles made of feather or of down; artificial flowers; articles of human hair	11
68	Stone, plaster, cement, asbestos, mica or similar materials; articles thereof	205
69	Ceramic products	427
70	Glass and glassware	358
71	Natural, cultured pearls; precious, semi-precious stones; precious metals, metals clad with precious metal etc.	9
72	Iron and steel	1,484
73	Iron or steel articles	1,391
74	Copper and articles thereof	113
75	Nickel and articles thereof	31
76	Aluminium and articles thereof	509
78	Lead and articles thereof	26
79	Zinc and articles thereof	426
80	Tin; articles thereof	7
81	Metals; n.e.s., cermets and articles thereof	14
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof, of base metal	502
83	Metal; miscellaneous products of base metal	364
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	4,651
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers; television etc.	9,821
86	Railway, tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings	1,400
87	Vehicles; other than railway or tramway rolling stock, and parts and accessories thereof	14,735
88	Aircraft, spacecraft and parts thereof	11
89	Ships, boats and floating structures	51
90	Optical, photographic, cinematographic, measuring, checking, medical or surgical instruments and apparatus	2,657
91	Clocks and watches and parts thereof	28
92	Musical instruments; parts and accessories of such articles	21
93	Arms and ammunition; parts and accessories thereof	261
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting	1,175
95	Toys, games and sports requisites; parts and accessories thereof	355
96	Miscellaneous manufactured articles	505
97	Works of art; collectors' pieces and antiques	5
Total Merchandise Imports		\$113,491

**Table 2: Merchandise Imports by Country of Origin.
Annual 2004.**

Country of Origin	Value (\$US,000)
Indonesia	60,201
Australia	20,051
Singapore	15,154
Viet Nam	5,242
Italy	2,117
Portugal	1,686
Denmark	1,655
Thailand	1,306
Japan	1,269
China, Peoples Republic of	1,149
India	1,143
Malaysia	709
United States of America	618
Belgium	352
Hong Kong	314
Others	525
Total	113,491

**Table 3: Non Merchandise Imports by Country of Origin.
Annual 2004.**

Country of Origin	Value (\$US,000)
Australia	16,208
Bangladesh	4,954
Portugal	2,627
Indonesia	2,371
United States of America	1,785
Singapore	1,257
Japan	1,074
Brazil	989
China, Peoples Republic of	172
Italy	162
Denmark	157
Russia	155
Malaysia	99
Netherlands	88
India	76
Others	445
Total	32,619

Exports Tables

**Table 4: Exports by Country of Destination.
Annual 2004.**

Country of Destination	Value (\$US,000)
United States of America	3,551
Indonesia	1,277
Portugal	580
Australia	512
Germany	441
Singapore	158
Netherlands	94
Taiwan	93
Japan	80
Norway	71
Others	115
Total	6,972

**Table 5: Re Exports by Country of Destination.
Annual 2004.**

Country of Destination	Value (\$US,000)
Australia	43,557
Japan	24,034
Portugal	13,132
Bangladesh	4,226
Italy	3,637
Canada	2,768
Malaysia	1,703
Pakistan	1,443
Indonesia	1,352
Singapore	829
United States of America	787
Others	1,214
Total	98,682

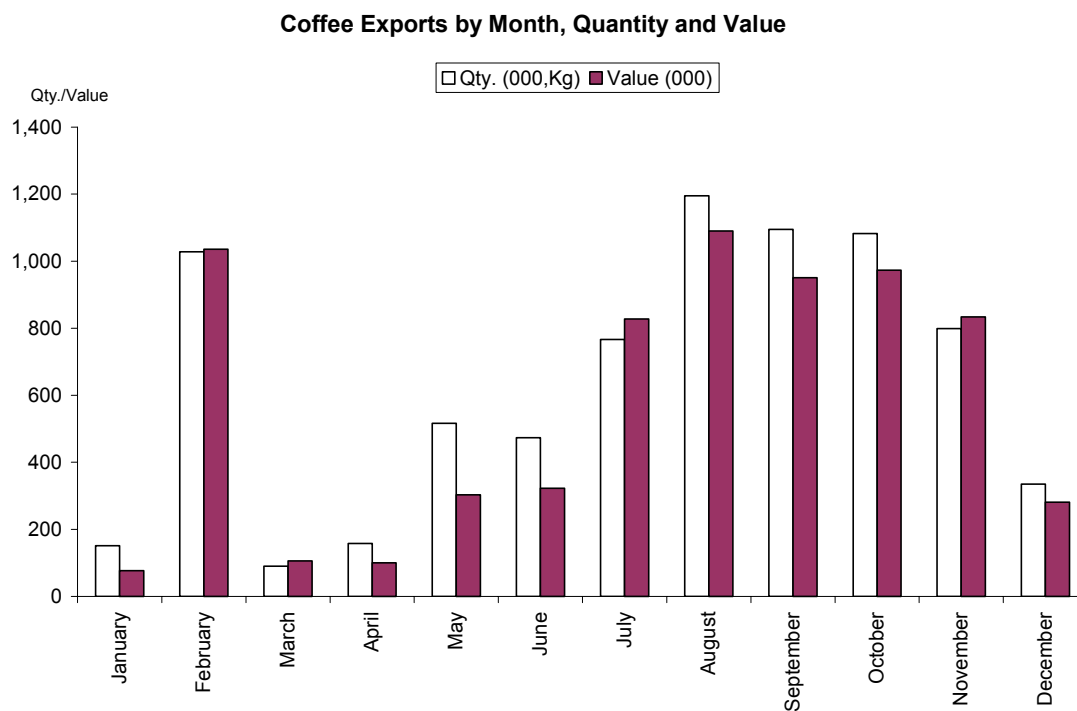
**Table 6: Coffee Exports by Country of Destination.
Annual 2004.**

Country of Destination	Quantity (Kg,000)	Value (\$US,000)
United States of America	3,053	3,551
Indonesia	2,512	1,265
Portugal	453	580
Australia	405	511
Germany	670	441
Singapore	229	158
Netherlands	73	94
Japan	43	80
Norway	54	71
Gambia	77	52
Others	121	96
Total	7,691	6,900

**Table 7: Coffee Exports by Month, Quantity and Value.
Monthly 2004.**

Months	Quantity (Kg,000)	Value (\$US,000)
January	152	77
February	1,028	1,036
March	90	106
April	158	100
May	517	303
June	474	323
July	766	828
August	1,196	1,090
September	1,095	950
October	1,083	973
November	799	834
December	335	281
Total	7,691	6,900

**Chart 1: Coffee Exports by Month, Quantity and Value.
Monthly 2004.**



**THE DEMOCRATIC REPUBLIC OF
TIMOR-LESTE
COMBINED SOURCES BUDGET
2005-06**



Draft Budget/Background Paper

*For Discussion at the Timor-Leste Development Partners'
Meeting 25-26 April 2005*

April 2005

Prepared by Ministry of Planning and Finance
Democratic Republic of Timor-Leste

TABLE OF CONTENTS

TABLE OF CONTENTS	1
TABLE OF FIGURES AND CHART.....	3
INTRODUCTION	5
ENTERING A NEW PHASE OF DEVELOPMENT	5
CONTINUING COMMITMENT TO GROWTH AND POVERTY REDUCTION	5
PURSUING STRATEGIES FOR A BETTER FUTURE.....	5
REQUESTING CONTINUED SUPPORT OF DEVELOPMENT PARTNERS	6
REDEFINING AND STRENGTHENING PARTNERSHIPS	6
PART 1 - OVERVIEW	7
COMBINED SOURCES BUDGET	7
POSITION OF THE GENERAL BUDGET OF THE STATE	9
GENERAL BUDGET OF THE STATE EXPENDITURE EXECUTION	11
SAVINGS POLICY AND PETROLEUM FUND.....	12
SECTOR INVESTMENT PACKAGES (SIPs)	13
CONSOLIDATION SUPPORT PROGRAM (CSP).....	14
POLICIES TO INCREASE ECONOMIC GROWTH	15
PART 2 - KEY DEVELOPMENTS IN THE NATION.....	18
GOVERNANCE	18
BASIC SOCIAL SERVICES.....	19
PRODUCTION RELATED SECTORS.....	20
BASIC INFRASTRUCTURE	21
CAPACITY BUILDING & INSTITUTIONAL DEVELOPMENT	21
EXTERNAL ASSISTANCE PLANNING & COORDINATION	22
TRENDS IN EXTERNAL ASSISTANCE	22
PART 3 – THE ECONOMY	24
PAST DEVELOPMENTS	24
PRESENT DEVELOPMENTS	25
FUTURE DEVELOPMENTS	26
IMPLICATIONS AND POLICIES.....	27
PART 4 – REVENUE.....	29
TOTAL REVENUE	29
PETROLEUM REVENUE.....	30
Risks.....	32
NON-PETROLEUM REVENUE.....	33
NON-FINANCIAL PUBLIC AUTHORITY REVENUE	34
PART 5 – PETROLEUM FUND.....	35
BACKGROUND AND CONSULTATIONS	35
KEY DESIGN PRINCIPLES	35
KEY FEATURES OF THE PETROLEUM FUND.....	36
SAVINGS POLICY	38
CALCULATING THE ESTIMATED SUSTAINABLE EXPENDITURE LEVEL.....	38
PART 6 – EXPENSES	41
STATE BUDGET AND COMBINED SOURCES SECTORAL SHARES.....	41
JAPANESE NON-PROJECT AID.....	44
GENERAL BUDGET OF THE STATE EXPENDITURES AND KEY NEW MEASURES.....	44
OVERVIEW	44
CONSOLIDATION SUPPORT PROGRAM (CSP).....	51
STAFFING NUMBERS AND ISSUES	52
FUNDING OVERVIEW AND MEASURES BY MINISTRY AND SECRETARY OF STATE	54
Office of the President	54
National Parliament	56
Office of the Prime Minister & Presidency of the Council of Ministers	58
Ministry of Defence.....	61
Secretary of State of the Council of Ministers.....	64
Ministry of State Administration	66
Ministry of the Interior (Excluding the PNTL)	69
National Police of Timor-Leste.....	71
Ministry of Development	73
Ministry of Justice	74
Ministry of Agriculture, Forests and Fisheries.....	77

Ministry of Education and Culture.....	80
Ministry of Health.....	83
Ministry of Labour and Community Reintegration.....	86
Ministry of Foreign Affairs and Cooperation.....	89
Ministry of Planning and Finance.....	92
Ministry of Transport and Communications	95
Ministry of Public Works	97
Role of the Ministry of Public Works and integration with the SIPS.....	97
Ministry of Natural Resources, Minerals and Energy Policy	99
Secretary of State of Tourism and Environment	102
Ministry of Youth and Sport	104
Banking and Payments Authority.....	109
Public Broadcasting Service	111
Provedor of Human Rights	114
Electricidade de Timor-Leste (EDTL) (Self Funded)	117
Other Self Funded	119
ANNEX 1 GENERAL BUDGET OF THE STATE (INCLUDING AUTONOMOUS AGENCIES).....	121
ANNEX 2 GENERAL BUDGET OF THE STATE (EXCLUDING AUTONOMOUS AGENCIES)	122
ANNEX 3 CAPITAL AND DEVELOPMENT PLAN FOR TIMOR-LESTE.....	123
ANNEX 4 STRUCTURE OF THE PUBLIC SECTOR IN TIMOR-LESTE	127
ANNEX 5 ACRONYMS	128
ANNEX 6 USER GUIDE	129

TABLE OF FIGURES AND CHART

TABLE 1.1 THE COMBINED SOURCES NON-PETROLEUM BUDGET 2004-05 TO 2008-09 (\$M).....	8
TABLE 1.2 ESTIMATED BALANCES OF THE TIMOR-LESTE PETROLEUM FUND 2005-06 TO 2008-09 (\$M).....	8
CHART 1.1 OIL PRICES MOVEMENTS AND ASSUMPTIONS 1986 - 2011.....	9
TABLE 1.3 WHOLE OF STATE FISCAL BALANCE UNDER BASE, HIGH AND LOW CASES FOR OIL PRICES	9
TABLE 1.4 GENERAL BUDGET OF THE STATE 2004-05 TO 2008-09 (\$M)	10
CHART 1.2 ESTIMATED PETROLEUM REVENUE AND SUSTAINABLE EXPENDITURE FROM PETROLEUM INCOME	12
TABLE 1.5 COMBINED SOURCES BUDGET 2004-05 TO 2008-09 (\$M).....	16
TABLE 1.6 COMBINED SOURCES BUDGET 2004-05 TO 2008-09 (% OF GDP).....	17
TABLE 3.1 TRENDS IN ASSISTANCE TO TIMOR-LESTE.....	22
TABLE 3.1 MAJOR COMPONENTS OF GDP (\$M) 2000 TO 2003.....	24
TABLE 3.2 GROWTH RATES AND CONTRIBUTIONS TO GDP GROWTH (%) 2001-2003.....	25
TABLE 3.3 GROWTH RATES OF REAL GDP,.....	26
TABLE 3.4 LEVELS OF NOMINAL GDP	26
CHART 3.1 EXPENDITURE BY UN PEACEKEEPERS, OTHER INTERNATIONAL ASSISTANCE AND STATE BUDGET, AND NON-OIL GDP..	27
TABLE 4.1 TOTAL ESTIMATED TIMOR LESTE REVENUE (\$M)	29
TABLE 4.2 WORLD OIL PRICE ASSUMPTIONS (\$ PER BARREL)	30
TABLE 4.3 ESTIMATED PETROLEUM REVENUE (\$M)	31
CHART 4.1 CHANGES IN WORLD OIL PRICES – WTI BASIS (\$ PER BARREL).....	31
CHART 4.2 TIMOR-LESTE PETROLEUM REVENUE 2004-05 TO 2022-23.....	32
TABLE 4.4 SCENARIOS FOR TIMOR SEA REVENUE (\$M)	32
TABLE 4.5 NON-PETROLEUM REVENUE (\$M)	33
TABLE 4.6 FEES, USER CHARGES AND OTHER REVENUE (\$M)	33
TABLE 4.7 NON-FINANCIAL PUBLIC AUTHORITY REVENUE (\$M).....	34
DIAGRAM 5.1 HOW THE PETROLEUM FUND OF TIMOR-LESTE IS ENVISAGED TO OPERATE	37
TABLE 5.1 THE PETROLEUM FUND.....	37
CHART 5.1 ESTIMATED PETROLEUM REVENUE AND SUSTAINABLE EXPENDITURE FROM PETROLEUM INCOME.....	38
DIAGRAM 5.2 CALCULATING THE ESTIMATED SUSTAINABLE INCOME FROM PETROLEUM REVENUES.....	39
TABLE 5.2 DISCOUNTED PETROLEUM REVENUE	40
TABLE 6.1 2005-06 COMBINED SOURCES BUDGET (\$'000)	42
TABLE 6.2 GROUPING OF MINISTRIES WITHIN THE NDP/SIP SECTORS	43
TABLE 6.3 GENERAL BUDGET OF THE STATE TOTAL ALLOCATIONS 2005-06	45
TABLE 6.4 KEY MEASURES OF THE 2005-06 BUDGET OF THE STATE 2005-06 TO 2008-09.....	46
TABLE 6.5 GENERAL BUDGET OF THE STATE (GENERAL GOVERNMENT) AGGREGATE FIGURES	48
TABLE 6.6 ACHIEVEMENTS AGAINST TSP TARGETS 2005-06 TO 2008-09 (%).....	51
TABLE 6.7 TOTAL STAFFING 2005-06.....	52
TABLE 6.8 FUNDING AND STAFFING OVERVIEW OFFICE OF THE PRESIDENT (\$000)	54
TABLE 6.9 FUNDING AND STAFFING OVERVIEW NATIONAL PARLIAMENT (\$000).....	56
TABLE 6.10 FUNDING AND STAFFING OVERVIEW OFFICE OF THE PRIME MINISTER & PRESIDENCY OF COUNCIL OF MINISTERS (\$000)	58
TABLE 6.11 FUNDING AND STAFFING OVERVIEW MINISTRY OF DEFENCE (\$000).....	61
TABLE 6.12 FUNDING AND STAFFING OVERVIEW SECRETARY OF STATE OF THE COUNCIL OF MINISTERS (\$000).....	64
TABLE 6.13 FUNDING AND STAFFING OVERVIEW MINISTRY OF STATE ADMINISTRATION (\$000)	66
TABLE 6.14 FUNDING AND STAFFING OVERVIEW MINISTRY OF INTERIOR (EXCLUDING THE PNLT) (\$000)	69
TABLE 6.17 FUNDING AND STAFFING OVERVIEW OF NATIONAL POLICE OF TIMOR-LESTE (\$000)	71

TABLE 6.18 FUNDING AND STAFFING OVERVIEW MINISTRY OF DEVELOPMENT (\$000)	73
TABLE 6.19 FUNDING AND STAFFING OVERVIEW MINISTRY OF JUSTICE (\$000)	74
TABLE 6.20 FUNDING AND STAFFING OVERVIEW MINISTRY OF AGRICULTURE, FORESTS AND FISHERIES(\$000)	77
TABLE 6.21 FUNDING AND STAFFING OVERVIEW MINISTRY OF EDUCATION AND CULTURE (\$000)	80
TABLE 6.22 FUNDING AND STAFFING OVERVIEW MINISTRY OF HEALTH 2004-05 TO 2008-09 (\$000)	83
TABLE 6.23 FUNDING AND STAFFING OVERVIEW MINISTRY OF LABOUR AND COMMUNITY REINTEGRATION (\$000)	86
TABLE 6.24 FUNDING AND STAFFING OVERVIEW MINISTRY OF FOREIGN AFFAIRS AND COOPERATION(\$000)	89
TABLE 6.25 FUNDING AND STAFFING OVERVIEW MINISTRY OF (\$000)	92
TABLE 6.26 FUNDING AND STAFFING OVERVIEW MINISTRY OF TRANSPORT AND COMMUNICATIONS (\$000)	95
TABLE 6.27 FUNDING AND STAFFING OVERVIEW MINISTRY OF PUBLIC WORKS (\$000)	97
TABLE 6.28 FUNDING AND STAFFING OVERVIEW MINISTRY OF NATURAL RESOURCES, MINERALS AND ENERGY POLICY(\$000)	99
TABLE 6.29 FUNDING AND STAFFING OVERVIEW SECRETARY OF STATE OF TOURISM AND ENVIRONMENT (\$000)	102
TABLE 6.30 FUNDING AND STAFFING OVERVIEW SECRETARY OF STATE FOR YOUTH AND SPORT (\$000)	104
TABLE 6.31 FUNDING AND STAFFING OVERVIEW OF THE JUDICIARY (\$000)	106
TABLE 6.32 FUNDING AND STAFFING OVERVIEW OF THE BANKING AND PAYMENTS AUTHORITY (\$000)	109
TABLE 6.33 FUNDING AND STAFFING OVERVIEW PUBLIC BROADCASTING SERVICE (\$000)	111
TABLE 6.34 FUNDING AND STAFFING OVERVIEW OF THE PROVIDOR OF HUMAN RIGHTS (\$000)	114
ELECTRIDADE DE TIMOR-LESTE (EDTL) (SELF FUNDED)	117
TABLE 6.35 FUNDING AND STAFFING OVERVIEW OF ELECTRICIDADE DE TIMOR-LESTE (SELF FUNDED) (\$000)	117
TABLE 6.36 FUNDING AND STAFFING OVERVIEW OF OTHER SELF FUNDED AGENCIES (\$000)	119

INTRODUCTION

ENTERING A NEW PHASE OF DEVELOPMENT

Three years since restoring its independence, Timor-Leste is entering a new stage in its development process, moving well beyond the post-conflict transition phase. In the past years, Timor-Leste has made some progress in rehabilitating basic services and infrastructure, building the democratic state institutions, and strengthening the capacities of the public administration system. However, more needs to be done in these areas, while also improving budget execution, reducing poverty and fostering economic growth. Timor-Leste is in an important stage of implementing its policies so as to ensure that its achievements will be irreversible and sustainable and will allow the country and its people to advance towards a sustainable strong economic growth and poverty reduction.

CONTINUING COMMITMENT TO GROWTH AND POVERTY REDUCTION

Overall, development challenges continue in Timor-Leste. While government service delivery has improved in many areas, the economic situation in Timor-Leste has experienced great difficulties. The economic contraction that began in 2002 is now reducing. Growth is expected to recover in 2005-6. In the long-term, the Government aims to create conditions necessary for the economy to enter a period of strong economic growth determined by private sector economic activity. With a small population and still widespread poverty, domestic demand is not large enough to carry out the level of growth. Therefore, the emphasis of the Government's efforts in the long-term must be on seeking external markets for products and services. As a result it is crucial to attract investment aimed at developing exports

Timor-Leste will continue to face significant challenges in its efforts to reduce poverty. As a result, there is a need to work towards strong economic growth to promote faster progress and achieve a reduction in poverty. However, in the light of its high population growth, indications are that Timor-Leste's average income per capita is expected to further decline, presenting ever increasing demands for government programs targeting those who are on the fringe of the population in situations of severe poverty. Whilst maintaining its strong growth policies in the long-term, the Government cannot however forget its objectives in the medium term of continuing to improve the delivery of basic services to the population, particularly the most vulnerable.

PURSuing STRATEGIES FOR A BETTER FUTURE

To move forward in its pursuit of strong growth and poverty reduction and of steady progress within the ambit of the National Development Plan and the Millennium Development Goals, the Government's strategies envisage the following three challenges:

First, it is critically important that the progress in development is achieved in a way in which tangible benefits can be felt immediately in everyday life of average Timorese. In order to achieve the level of economic growth which is sufficient to absorb a rapidly-growing labor force and to improve income levels, the Government intends to employ a two-pronged approach aimed at promoting growth and investment:

- On one hand, the main source of growth in a long run will be the promotion of private investment in commercial agriculture and non-farm private activity. This will be achieved by developing a regulatory environment and building public infrastructure to support business growth; and
- On the other hand, the Government in a shorter-run will aim for generating employment by increasing public construction activities, while continuing to meet the immediate needs of the most vulnerable fringes of the population.
- In responding to these challenges, the pattern of expenditures on a combined sources basis is undergoing change over the coming years. Important shifts in the sectoral allocation of expenditures are required, to place greater emphasis on, for example, public investment in infrastructure and private sector development.

Second, in order to progress in the two-pronged approach, the capacities of the Government and the entire public administration need continuous and further strengthening. Further steps need to be taken, beyond building institutions and towards strengthening leadership at all levels of public administration and gradually moving forward with deconcentrating with a view to decentralization. In particular, further strengthening of

the Government's program planning, execution, and resource absorption capacities is vital to achieving the Government's objectives.

Third, the Government recognizes the urgent need to expand capacity building efforts beyond public administration, to also strengthen the other institutions or services of other sovereign organs – the Office of the President of the Republic, the National Parliament, and the courts. Elevating the total capacity of the functions attributed by the Constitution to these organs is essential to guaranteeing the deepening and the consolidation of the democracy and the rule of law.

REQUESTING CONTINUED SUPPORT OF DEVELOPMENT PARTNERS

Realizing these ambitious agendas will not be without difficulties, given the volume of work required in the immediate future to develop the capacities of national institutions and staff to better execute their task.

The 2005-06 Combined Sources Budget shows a financing gap over the next four years. Despite large improvements in estimated petroleum revenues, the level of financing required by far exceeds the level of available resources. Timor-Leste will continue to require strong support from its Development Partners, focused particularly on the following three mechanisms and their associated outcomes.

First, the Sector Investment Program is the most important mechanism for the Government to seek assistance from Development Partners in the medium-term future. For each sector, the Sector Investment Program articulates the Government's policy framework and priorities and presents a menu of priority development activities that are essential to achieve the sector goals.

The Sector Investment Program (SIP's) is a landmark initiative that promotes greater national ownership and leadership over setting priorities for external assistance and mobilizing and coordinating resources to meet them. In considering their program of assistance for Timor-Leste, Development Partners are urged to support and consider the priorities articulated in the Sector Investment Program.

Second, the Government requests support for the Consolidation Support Program – a successor framework of the Transition Support Programs of the past three years. The Consolidation Support Program goes beyond an opportune injection of additional financial resources into the State Budget. More importantly, it aims to help Timor-Leste progress into the next phase of its development through strong continued policy dialogue. It is designed to help the Government further strengthen its abilities to assume greater responsibilities for planning, executing, and monitoring its programs in support of the strategies for the future. We request that Development Partners take a lead in providing strong support to the Consolidation Support Program by contributing, to guarantee Timorese autonomy in leading the conduct of these processes.

Third, we request that Development Partners pay special and increased attention to the emerging capacity building requirements which require a response. Moving into the consolidation phase, Timor-Leste is confronted with the need to strengthen the capacities of public and private institutions and the development of human resources. The country seeks to progress in a direction towards sustained growth, increasing the need for strengthening the effective and transparent management of resources. The significant needs exist not only within the Government and the public administration, but also in the other Organs of the State, such as the Court, the National Parliament, and the President of the Republic. Furthermore, in order to support the Government's economic growth strategy, we request strong support in areas such as infrastructure, investment promotion and public finance management.

REDEFINING AND STRENGTHENING PARTNERSHIPS

Standing now at the entrance to the next stage of development, Timor-Leste proposes a new approach to its partnership with Development Partners. It is necessary to strengthen to and adjust future partnerships to the current situation of the country and its emerging challenges in the future.

The guiding principle of the partnerships in this new era is stronger national leadership at all levels. With the continued support of Development Partners, Timor-Leste is now seeking to assume more responsibility for meeting its own development challenges. We must continue in this direction. Of particular importance are the Sector Working Groups that are being established for each external sector category. Led by senior Ministers, the Sector Working Groups will provide the forum where external assistance is planned, mobilized, and coordinated so as to effectively support the sector priorities. .

The Government would like to involve Development Partners in a dialogue in the new stage of our partnerships.

PART 1 - OVERVIEW¹

To date, Timor-Leste has achieved mixed results in implementing the National Development Plan (NDP). There are two major fiscal challenges that Timor-Leste must meet if these NDP goals are to be realized. First, the Government policies and programs articulated in the Sector Investment Programs (SIPs) must be financed and implemented. Second, the Government must budget for higher but still sustainable levels of expenditure from its own revenue and also significantly improve its execution rate of those budgeted expenditures. Development Partners can assist overcoming these challenges through continuing to contribute to the SIPs programs, providing technical assistance and capacity building and contributing to Consolidated Support Program (CSP) assistance.

This Overview describes issues in: the Combined Sources Budget; the General Budget of the State; budget execution; savings policy and the Petroleum Fund; further work to develop the SIPs; defining the CSP; and policies to increase economic growth. It concludes with tables showing the consolidated fiscal position for Timor-Leste, including as a share of GDP.

COMBINED SOURCES BUDGET

The 2005-06 Combined Sources Budget shows a financing gap over the next four years. This arises because the total estimated expenditure level in the SIPs is greater than the total financial resources available from expected sustainable State Budget expenditure levels and the expenditure commitments currently made by Development Partners. Closing this financing deficit is the first major fiscal challenge for Timor-Leste and its Development Partners.

The SIPs estimate that about \$988m of expenditure or about \$247m per year is required over the next four years to better implement and achieve the objectives in the NDP and the objectives of the Millennium Development Goals for Timor Leste. This estimate is the result of a broad ranging analysis of the development needs of Timor Leste, a reasonable financial contribution from Development Partners and the capacity of development projects to be implemented and executed in Timor Leste. A lower level of expenditure will compromise the poverty reduction strategy drawn up by the Government and lead to poorer rates of economic and social development in Timor Leste.

The Government is determined to manage its own resources wisely and to avoid the “resource curse” that has afflicted so many other resource-rich developing countries. Accordingly, Timor-Leste will spend at a sustainable level and save its remaining revenue in the Petroleum Fund, thus respecting the principle of generational justice in the utilization of resources which are not renewable. While the outlook for the petroleum industry always contains risks, high oil prices in world markets (for both current and expected future prices) and successful development of the Bayu Undan project have led to strong current and expected budget revenues. Timor-Leste will pursue a strong savings policy using its Petroleum Fund to: build significant savings of petroleum revenues; as a mechanism of investment to conserve the value of the resources; attainment of incomes; and thus ensure future generations also benefit from current petroleum revenues.

The sustainable level of expenditure is now estimated at about \$150m in 2005-06 rising to about \$170m in 2008-09. Therefore, the Government will simultaneously pursue a strong expenditure policy with very significant increases in expenditure in 2005-06 and the years beyond. For example, expenditure in 2005-06 will increase by over 35 per cent. The Mid Year Review and future Budgets will be used to further increase expenditure towards the estimated sustainable level of expenditure and to monitor the level of budget execution rates. Government intends that State Budget expenditure as a percentage of total expenditure will increase markedly from a relatively small proportion (about 40 per cent) of combined sources expenditure in 2004-05, to half of expenditure in 2005-06 and to a major proportion (about 70 per cent) of expenditure in 2008-09.

The remainder of the combined sources expenditure will consist of bilateral and multilateral programs that are funded by Development Partners. The Register of External Assistance (REA) shows that the

¹ “In the Overview, total SIPs expenditure is drawn from Table 12 of the SIP Overview Paper, Vol 1. See also footnotes in Part 6 – Expenses.”

expenditure commitments made by Development Partners decline to very low levels over the next four years. For example, they decline from about \$108m in 2004-05 to about \$58m in 2005-06 and further decline to about \$6m in 2008-09. Obtaining commitments to expenditure by Development Partners consistent with the development needs of Timor-Leste is the first major challenge for Timor-Leste and its Development Partners. Government requests Development Partners to work through Sector Working Groups to commit to additional programs identified in the SIPs.

Table 1.1 shows the estimates of expenditure, revenue and financing for the 2005-06 Combined Sources Non-Petroleum Budget, including contributions from the Budget and Development Partner contributions. Table 1.2 shows the estimated development of the Petroleum Fund and CFET Balance, pending a decision as to how much to transfer to the Petroleum Fund on 1 July, 2005.

Table 1.1
The Combined Sources Non-Petroleum Budget 2004-05 to 2008-09 (\$m)

	2004-05	2005-06	2006-07	2007-08	2008-09	4 Year Total
Total Expenditure in SIPs	197	234	259	262	233	988
Budget of the State	87	119	118	124	123	484
Development Partners	110	115	141	138	111	505
Total Financing	195	177	149	138	129	593
General Budget of the State Commitments	87	119	118	124	123	484
Development Partners Commitments	108	58	32	14	6	109
Total Financing Gap	(2)	(57)	(110)	(124)	(104)	(395)
Indicative Future General Budget of the State Commitments	-	-	16	32	46	94
New Commitments Required from Development Partners	2	57	94	92	58	301

Table 1.2
Estimated Balances of the Timor-Leste Petroleum Fund 2005-06 to 2008-09 (\$m)

	2004-05	2005-06	2006-07	2007-08	2008-09
Balance (start of year)	14	63	153	291	424
+ FTP/Petroleum Revenue	49	159	186	181	219
- Withdrawals	0	73	57	61	65
+ Interest	0	5	9	13	19
= Balance (end of year)	63	153	291	424	597

As always, these estimates are subject to risks and uncertainties. The greatest uncertainties lie with world oil prices and with expenditure commitments by Development Partners for Bilateral/Multilateral programs.

For example, in 2004 world oil prices fluctuated between \$32 and \$56 or within a \$24 band. This high level of volatility has very serious consequences for Timor-Leste. Chart 1.1 shows fluctuations in world oil prices and the assumption underlying the revenue estimates in the 2005-06 Budget. Importantly, it illustrates the large risks concerning future movements in world oil prices, with the likelihood that oil prices could be much higher or much lower than assumed.

**Chart 1.1
Oil Prices Movements and Assumptions 1986 - 2011**

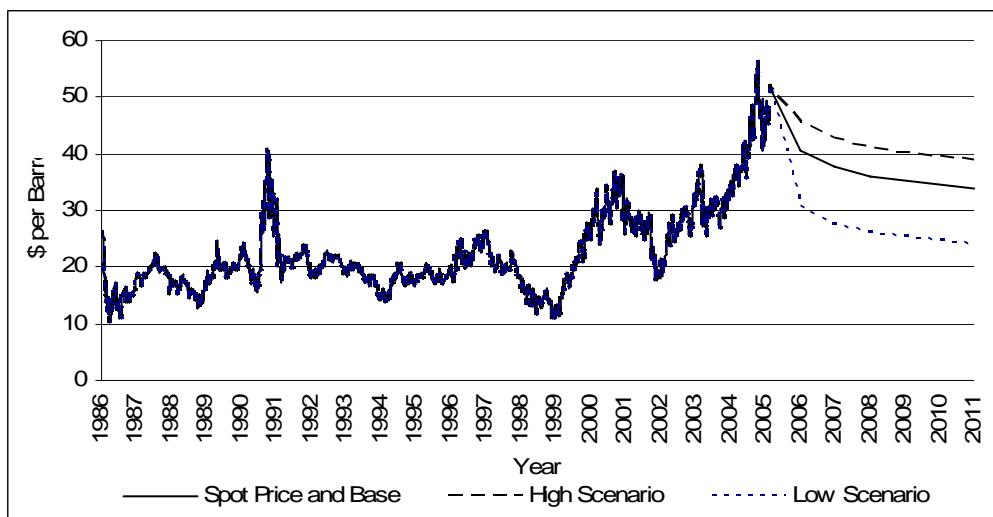


Table 1.3 shows that a High Case scenario, where prices are just \$5 higher than assumed for the Base Case, would lead to very large fiscal surpluses. However, it also shows that in a Low Case scenario, where prices are just \$10 lower than the Base Case, there would be only small fiscal surpluses which would then mean that expenditure policies would be unsustainable and the Government's fiscal strategy would need to be revised.

**Table 1.3
Whole of State Fiscal Balance under Base, High and Low Cases for oil prices**

	2005-06	2006-07	2007-08	2008-09	4 Year total
Base Case	86	129	120	153	488
Low Case	15	41	28	31	115
High Case	118	162	149	305	735

POSITION OF THE GENERAL BUDGET OF THE STATE

The most significant developments in the medium-term State Budget position since the 2004-05 General Budget of the State arise from the significantly higher levels of petroleum revenue into the Petroleum Fund. This initiates strong growth in State Budget expenditure, a closing of the State Budget deficit shown in the last General Budget of the State and significant savings in the Petroleum Fund. The medium-term State Budget position is shown in Table 1.4.

Table 1.4
General Budget of the State 2004-05 to 2008-09 (\$m)

	2004-05 Est	2005-06 Est	2006-07 Est	2007-08 Est	2008-09 Est	Total 4 Yrs
General Government						
Total Revenue	306	206	235	232	263	936
Domestic Revenue	33	36	39	41	44	160
Domestic Taxes	27	27	28	29	30	114
Other Domestic Revenue	6	9	11	12	13	46
Petroleum Revenue	243	159	186	181	219	744
Petroleum Tax	194	112	135	127	113	487
Timor Sea Royalties and Interest (FTP)	49	41	42	41	86	210
Other Petroleum Revenues	0	6	9	13	19	47
Direct Budget Support	31	11	11	11	1	32
Total Expenditure	79	109	106	112	110	437
Salaries	28	29	31	32	34	126
Goods and Services	34	45	45	45	46	181
Subsidies (to NFPA)	5	4	4	6	5	19
Minor Capital	2	5	4	4	4	17
Major Capital Undertaken by General Government	9	24	19	23	18	85
Major Capital Subsidised by General Government	0	2	2	3	3	9
General Government Budget Balance	228	97	129	120	153	499
Total Investments	0	11	0	0	0	11
Capitilisation of BPA	0	11	0	0	0	11
Capital Development in Public Authorities	0					
General Government Fiscal Balance	228	86	129	120	153	488
Non Financial Public Authorities						
Revenue						
Net Transfers from General Government	5	6	6	8	8	28
Non Financial Public Authorities Revenue	8	10	12	12	13	47
Expenditure						
Non Financial Public Authorities Expenditure	14	16	18	20	21	75
Non Financial Public Authorities Budget Balance	-0	0	0	0	0	0
Whole of State Fiscal Balance	228	86	129	120	153	488

State Budget revenues are now estimated to be much stronger than before, as discussed in Part 4. This is due to stronger petroleum revenues. Stronger petroleum revenues arise from high world oil prices, with prices now above \$50 per barrel after fluctuating between \$32 and \$56 per barrel since the start of 2004. Further, markets now expect the future oil price to be much stronger than previously, with markets expecting the oil price in 2010 to be about \$38 at the time of forecasting, which is higher than \$28 as expected a year ago.

The Government's policy is to spend, but to spend wisely. With higher petroleum revenues, an increase in State Budget expenditure is planned. For example, it will increase from \$79m in 2004-05 to \$109m in 2005-06, which is an increase of over 35%. The Government plans to review and update its expenditure decisions in the Mid Year Review and future Budgets with the intention of increasing expenditure over the medium term to its sustainable level.

Much of this increase in expenditure will be achieved by using State Budget expenditure to provide core and ongoing responsibilities of the public sector that were previously funded by Development Partners or that have been identified through the SIPs exercise. Steps have been made towards this objective in 2004-05 with a number of activities and inputs being brought onto the State Budget, as shown by the following examples.

- Ministry of Health, the establishment of a forensic pathology laboratory
- Ministry of Agriculture, Forestry and Fishing, the establishment of an off-shore fishing and licensing regime, expanded agriculture extension services and the creation of a regional office network to better service the regions

- Ministry for Defense, taking over the logistics support outsourced contracts.
- Upgrading the Government's shared communication and information technology systems.
- The implementation of the Timor Leste identity card.
- Administration of the new investment laws.
- Meeting rising demands for Education and Health funding due to population and participation growth.

Further information on expenditure is contained in Part 6.

GENERAL BUDGET OF THE STATE EXPENDITURE EXECUTION

Though the Government wishes to increase service delivery and reduce poverty through State Budget expenditure as soon as possible, and expenditure is still below its estimated sustainable level, other constraints limit the increase in expenditure in 2005-06. It takes time to develop expenditure plans that will offer value for money and that will be executable. Importantly, execution rates on expenditure in 2004-05 are still much lower than desired, which suggests that good planning for further expenditure is essential to achieving good outcomes.

The current major constraint on growth in expenditure is the capacity of the civil service to execute projects and implement programmes. Much attention has been paid to this issue over the last year. Improved Budget execution will require a mixture of responses including: structural change; review and reform of processes; and improved knowledge of the system of procurement by all parties. The necessity to increase execution rates is shared by Government and Development Partners. Some measures have already been taken and others will be needed to improve budget execution in 2005-06 to a higher level than that in the current fiscal year. Some of the measures taken are as follows:

- The SIPs have developed expenditure programs with the objective of meeting targets established in the NDP. Work on refining and implementing these SIPs programs will be realised by Government and Development Partners in Sector Working Groups.
- Changes to the structure of Government such as the realignment of Ministries and the appointment of a number of additional Secretaries of State are a direct response to this issue.
- The Prime Minister established last year and has overseen a committee to examine and monitor budget execution by line ministries.
- Finalising reviews of the procurement processes within the Ministry of Planning and Finance (MOPF) which, amongst other things, have resulted in consideration of an increase to the threshold for purchase made directly by line ministries without having to engage central approval processes administered by MOPF. Consideration is also being given to a range of issues impacting on the administration of State Budget expenditures in the districts
- Further work is planned to better educate and inform Ministries on the procurement process and how to work within them.
- The Ministry of Education and Culture has assigned a senior staff member to liaise with the Ministry of Planning and Finance in order to improve execution rates in that Ministry. This practice has been successfully employed by the Ministry of Health for some time.
- Following the example of the Ministry of Health, the Ministries of Education and Culture, of Agriculture, Forests and Fisheries, and of Public Works have already nominated an employee to work directly with procurement to speed up the procurement processes and thus improve the levels of budgetary execution.

These measures will improve budget execution for the 2005-06 fiscal year. The Government is committed to the continuation of efforts to improve execution rates.

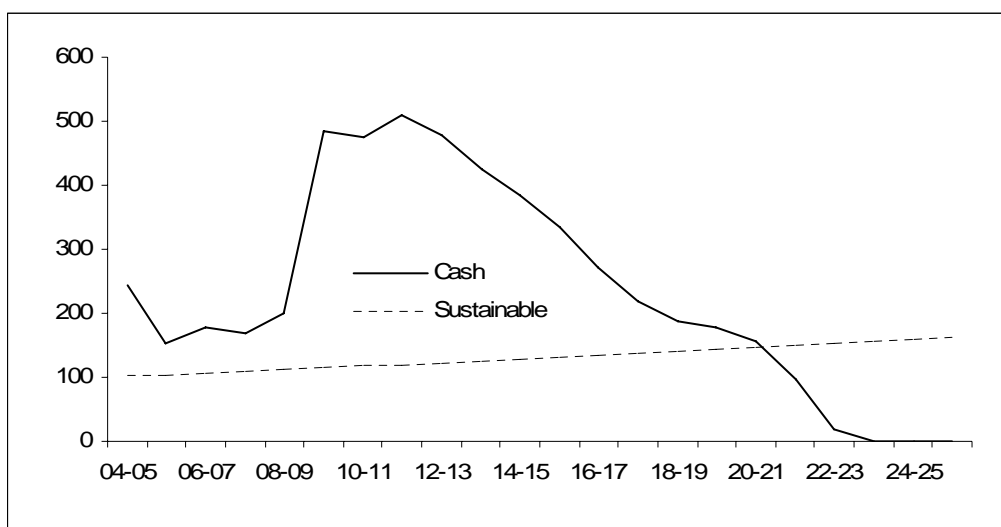
SAVINGS POLICY AND PETROLEUM FUND

Most resource-rich developing countries have suffered from the “resource curse”. One mistake that these countries have made is to spend all their revenue as it arrives, which leaves them with no saving for the future and with expenditure levels that fluctuate with commodity prices.

The Government is determined to avoid repeating the mistakes of other resource-rich countries. Instead, it has adopted a savings policy and is creating a Petroleum Fund to hold and manage its savings of petroleum revenues.

The key to the Timor-Leste savings policy is that actual expenditures should adjust over the medium-term to the sustainable level of expenditure. This sustainable level is based on estimated current and future petroleum revenues. It is the level of expenditure that can be sustained indefinitely, including increasing with inflation. Chart 1.2 compares petroleum revenue excluding interest to the level of sustainable expenditure from petroleum revenue.

Chart 1.2
Estimated Petroleum Revenue and Sustainable Expenditure from Petroleum Income



The Petroleum Fund will act to accumulate large levels of savings from petroleum revenues. It will also act as a buffer to fund expenditure should there be any temporary shortfall in petroleum revenues. In this way, withdrawals from the Petroleum Fund can fund stable and sustainable levels of expenditure even though petroleum revenues may fluctuate considerably.

The Government’s savings policy has the following advantages.

- The Petroleum Fund should accumulate significant levels of savings to benefit future generations of Timorese.
- The Petroleum Fund savings should generate significant interest income, particularly when petroleum revenues have ceased.
- Temporary fluctuations in world oil prices will have little effect on expenditure, as savings will fluctuate instead.
- Permanent changes in revenue will change the estimated sustainable level of expenditure, and this will result in adjustments of expenditure over the medium term, so as to minimize disruptive changes in expenditure plans.

The Government is establishing a Petroleum Fund to commence operations on 1 July 2005. In late 2004 it undertook public consultations in Dili and in all the headquarters of the remaining districts, and through the Government website on policy of establishing a Petroleum Fund. In 2005 the draft Act establishing the Petroleum Fund was posted on the Government website for comments and suggestions, and a similar process was directly undertaken in Dili. The draft Act has already been approved by the Council of Ministers.

The design of the Petroleum Fund and the corresponding draft Act is based on the following key principles:

- The Petroleum Fund shall be a tool that can contribute to the wise management of Timor-Leste's petroleum resources, for the benefit of both current and future generations.
- The Petroleum Fund builds on international best practice and reflects the circumstances of Timor-Leste with additional accountability, transparency and information features.
- The Petroleum Fund builds on the Constitutional requirement for the "establishment of mandatory financial reserves" as laid down in article 139, and giving to the Parliament and the Government the powers that correspond to their competencies.
- The Petroleum Fund allows for a strengthening of the responsibilities, powers and capacity of key public sector institutions, such as Parliament, the Government, the Ministry of Planning and Finance and the Central Bank, including an independent Consultative Council to advise Parliament and act as a "watchdog".
- The Petroleum Fund is to be a tool that contributes to sound fiscal policy, helping to strike the right balance between spending now and investing in financial assets.
- The Petroleum Fund is to be prudently managed, invested securely in low-risk financial assets abroad.
- The management of the Petroleum Fund shall be carried out with the highest standard of transparency and accountability, including a website as approved by the Prime Minister.

More information on the underlying principles and the operation of the Petroleum Fund is in Part 5.

SECTOR INVESTMENT PACKAGES (SIPS)

The starting point for the development of the SIPS was the priorities identified in the NDP, objectives of the Millennium Development Goals and the huge development needs of Timor-Leste. The magnitude of these development needs is illustrated by many indicators, including the low level GDP per capita, high death rates, high levels of illiteracy and low levels of public infrastructure.

The SIPS emerged from a broad ranging analysis of the policies and programs that Timor Leste needs to introduce in the next few years to meet those MDG targets: taking into account a realistic assessment of the available financial resources and speed with which new projects or programs can be implemented given the capacity of the Civil Service.

Accordingly, the 17 individual SIPS provide an opportunity to:

- focus on achieving the NDP and MDG targets;
- build and implement medium-term plans for the public sector in Timor Leste; and
- achieve better coordination between Development Partners and between Timor Leste and Development Partners.

The next step is to implement the policies and programs in the SIPS. Sector Working Groups (SWGs) are being established to provide a forum for Government and Development Partners to discuss the sectoral priorities and to develop plans to execute agreed programs and projects. For each category of sectors, a Sector Working Group is being set up under the leadership of the lead government agency in that sector. The Sector Working Groups are to be chaired by a senior Government Minister and are open to any donor who has an interest in the particular sector. They provide a forum for the Government and Development Partners to develop a common understanding of sectoral priorities and match donor interests with specific projects identified as priority by the Government. This mechanism provides an opportunity to strengthen the Government's leadership in mobilizing the necessary resources to carry out the SIP program and at the same time ensuring coordination of activities within the sector

Each Working Group and its Chairperson (normally the Minister of the leading sectoral ministry) are supported by a dedicated Secretariat. Each Secretariat will be composed of representatives from the lead and other relevant sectoral ministries, the Ministry of Planning and Finance, and interested Development Partners, and will provide organizational and administrative support to the smooth functioning of the Working Group. The Government plans to have all ten Sector Working Groups established and functioning by mid-2005.

Development Partners are invited to:

- participate in these SWGs and support their respective secretariats;
- mobilize resources for the SIPs projects; and
- adjust their bilateral and multilateral projects to meet the Government's priorities and programs, as outlined in the SIPs.

The SIPs will be monitored, reviewed and adjusted each year in the light of discussions, commitments and experience. Development Partners are invited to contribute to that process. More information on the policies contained in the SIPs is contained in Part 2.

CONSOLIDATION SUPPORT PROGRAM (CSP)

The Transition Support Program (TSP) was successful because it was an effective partnership mechanism between Government and Development Partners. It allowed Development Partners to contribute directly to the core responsibilities of the Government with both ideas and finances, including dealing with the practical opportunities and challenges that confront an administration that is still young and developing. It provided a regular policy and administration dialogue between Government and Development Partners that was focused on the agreed development needs of Timor-Leste and assisted the administration to better achieve Government policies.

Development Partners are invited to participate in the CSP, which will repeat this successful formula. Like the TSP, the CSP will involve an independent review that assists monitoring and evaluation, and which is the basis for finding solutions to problem. The focus will be on helping Government to increase its expenditure levels to cover core responsibilities of Government while making its administration more efficient and effective. It will:

- support the Government's overall planning and Budget processes;
- help build capacity in the Government's own systems;
- strengthen coordination between Development Partners and between Government and Development Partners;
- promote coverage of cross-cutting issues, such as oversight institutions, gender, transparency, etc; and
- promote a results oriented administration working to a specific timetable.

Given the changed fiscal environment of the General Budget of the State, but being mindful of the extra focus that comes with a financial contribution, Government is asking for a CSP of \$10m to \$15m per year for the next three years. This is less than ten per cent of the total contribution that Development Partners will make over this time, but is an opportunity for Development Partners to assist Government to wisely spend its own expenditure of over \$100m per year.

Following successful meetings on the CSP in early 2005, Government has drafted an action matrix, increased its expenditure levels accordingly and invites Development Partners to commit to the new programme – the CSP.

POLICIES TO INCREASE ECONOMIC GROWTH

contracted during 2002 and 2003. More recently, partial indicators have been mixed and it is likely that non-oil economic activity has now started to rise again. Non-oil GDP is expected to grow more quickly in 2005-06 and beyond, being fuelled by rising State Budget expenditure and by a modest increase in Development Partner programs under the SIPs.

Timor-Leste's preliminary National Account estimates show that real Non-oil GDP grew during 2001 but

The Government intends to employ a two-pronged approach aimed at promoting growth and investment. This is to achieve the level of economic growth required to absorb the rapidly-growing labour force and improve average income levels.

First, the main source of growth in a long run will be in the private sector, with private investment in commercial agriculture and non-farm private activity being very important. Government will promote this by creating a pro-business legal and regulatory environment, undertaking vigorous efforts to promote investment opportunities among domestic and international investors and by putting in place the public infrastructure that will attract business. This is a large task for a new country and it may take some years to develop and complete this agenda.

Second, the Government will aim to generate employment next year and in the medium term by increasing public construction activities. A wide range of public construction activities are contained in the SIPs. The purpose of this construction is to provide the infrastructure required to deliver services to meet the Millennium Development Goals and so assist the needs of the most vulnerable people in Timor-Leste. It will also help provide the public infrastructure that business needs. In both cases it will create employment in the private sector, including in the Districts where many of the needs for infrastructure are greatest.

The Mid Year Review and future Budgets are intended to contain further increases in State Budget expenditure, subject to financing from the Petroleum Fund and good expenditure proposals. Those further increases will lead to further increases in the forecasts of Non-oil GDP growth rates.

These Government strategies will offer direct employment opportunities in the private sector, while also building the level of public infrastructure required to both meet NDP and Millennium Development Goals and attract businesses and investment to Timor-Leste. They will also involve the creation of an attractive pro-business legal and regulatory environment. The assistance of Development Partners is requested in implementing these strategies. Further information on these issues is contained in the SIPs Papers, including the Overview.

**Table 1.5
Combined Sources Budget 2004-05 to 2008-09 (\$m)**

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Yrs
	Est	Est	Est	Est	Est	
Total Combined Sources Revenue	423	274	278	258	282	1,092
Whole of Government Revenue	284	205	236	234	275	951
Petroleum Revenue	243	159	186	181	219	744
Domestic Revenue	33	36	39	41	44	160
Autonomous Agency Revenue	8	10	12	12	13	47
Funding from Other Governments	139	68	42	24	7	141
Direct Budget Support	31	11	11	11	1	32
Non Budget Support	108	58	32	14	6	109
Total Combined Sources Expenditure	197	234	259	262	233	988
Whole of Government Expenditure	87	119	118	124	123	484
General Government	73	103	100	104	102	409
Non Financial Public Authorities	14	16	18	20	21	75
Bilateral and Multilateral Expenditure	108	58	32	14	6	109
Recurrent Expenditures	73	27	11	5	2	45
Capital Expenditures	35	30	20	9	5	64
Unfunded SIP Activities	2	57	110	124	104	395
Proposed Recurrent Expenditures	1	27	39	41	30	138
Proposed Capital Expenditures	1	30	71	83	74	258
Other Financial Transactions and Investments	228	97	129	120	153	499
Capitilisation of BPA	-	11	-	-	-	11
Net Accumulations to Petroleum Fund	49	86	129	120	153	488
Changes to CFET Reserves	179	-	-	-	-	-
Combined Sources Financing Gap	(2)	(57)	(110)	(124)	(104)	(395)

Table 1.6
Combined Sources Budget 2004-05 to 2008-09 (% of GDP)

	2004-05	2005-06	2006-07	2007-08	2008-09
	Est	Est	Est	Est	Est
Total Combined Sources Revenue	120.5	71.7	68.4	59.6	61.7
Whole of Government Revenue	80.9	53.9	58.0	54.0	60.1
Petroleum Revenue	69.1	41.6	45.7	41.8	47.8
Domestic Revenue	9.5	9.5	9.5	9.4	9.5
Autonomous Agency Revenue	2.3	2.7	2.8	2.8	2.8
Funding from Other Governments	39.6	17.9	10.4	5.6	1.5
Direct Budget Support	8.7	2.8	2.6	2.4	0.1
Non Budget Support	30.8	15.1	7.8	3.1	1.4
Total Combined Sources Expenditure	56.2	61.4	63.7	60.5	51.0
Whole of Government Expenditure	24.8	31.3	28.9	28.7	26.8
General Government	20.9	27.1	24.5	24.0	22.3
Non Financial Public Authorities	3.9	4.2	4.4	4.7	4.5
Bilateral and Multilateral Expenditure	30.8	15.1	7.8	3.1	1.4
Current Recurrent Expenditures	20.7	7.2	2.8	1.0	0.4
Current Capital Expenditures	10.1	7.9	5.0	2.1	1.0
Unfunded SIP Activities	0.5	15.0	27.0	28.7	22.8
Proposed Recurrent Expenditures	0.4	7.1	9.6	9.6	6.6
Proposed Capital Expenditures	0.2	7.8	17.4	19.1	16.2
Other Financial Transactions and Investments	64.9	25.3	31.7	27.8	33.5
Investments	-	2.8	-	-	-
Net Accumulations to Petroleum Fund	13.9	22.6	31.7	27.8	33.5
Changes to CFET Reserves	51.0	-	-	-	-
Combined Sources Financing Gap	(0.5)	(15.0)	(27.0)	(28.7)	(22.8)

PART 2 - KEY DEVELOPMENTS IN THE NATION

In its third year since the restoration of independence, Timor-Leste continued to make gradual yet steady progress in achieving some of the goals set in its National Development Plan, while realizing that it needs more assistance to achieve other goals. Poverty reduction and the promotion of rapid, equitable and sustainable economic growth to improve the well-being of all Timorese population remain the overriding goals of the country's development. During the fiscal year 2004-2005, Timor-Leste continued to steadily develop policies in this direction to attempt to overcome the very significant development challenges that remain, consolidating the progress made to date and tackling new challenges as it now enters a more advanced phase of its development – well beyond the post-conflict relief, rehabilitation and recovery stage, into the medium and longer-term development.

Timor-Leste, with technical and financial support from its Development Partners, continued its efforts in strengthening democratic institutions and the rule of law; delivering essential services to the Timorese people; and strengthening the foundations for generating employment and promoting economic growth. Progress and developments in the country during 2004-05 are summarized below.

GOVERNANCE

Legal Framework: During 2004-05, Timor-Leste continued to make tangible progress in strengthening its legal framework, and some key legislation was adopted by the National Parliament. These included, for example, the Law on the Council of State and the Organic Law of the Superior Council for Defense and Security, promulgated on 3 and 17 February 2005, respectively. The Council of Ministers approved Laws on Foreign and Domestic Investments on 9 February 2005, which has now been sent to the Parliament for review and approval. While legislative efforts continue, the Government has also set up a five-person Commission to review and harmonize all the relevant laws to ensure consistencies among them.

Suco Elections: Decentralization is an important means to ensure the sustained participation of Timorese people in political life at the local level. The local elections for Suco Chiefs and Suco Councils - the first elections held since independence and the first ever conducted by Timorese authorities - are being held in a phased manner. The elections were successfully conducted in the districts of Bobonaro and Oecussi in December 2004 and in the districts of Lautem, Baucau, and Manatuto in March 2005. It is important to note the initiative taken to promote women's participation, with the electoral law providing for a minimum of three women to be elected to each village council. The elections in the eight remaining districts are scheduled for April-June 2005. The Suco elections are an important step towards decentralization and democratic decision-making at the local level.

Civil Service Reform: At the core of good governance is a functioning civil service. Much work has been done in strengthening the legal and regulatory framework for the civil service. The Civil Service Act was promulgated on 8 June 2004, including the ethics code and a section on disciplinary procedures. The National Institute of Public Administration has begun training courses for civil servants to promote good understanding of the obligations under the Civil Service Act. Efforts are under way to prepare supplementary legislation, regulations, and procedures, necessary to put the Civil Service Act fully into operation. Effective human resources management is the backbone of the civil service system. Data collection and verification of personnel files were completed in January 2005 with an aim of creating a Personnel Management Information System. The next step is to develop a computerized system to maintain and manage these records.

Public Financial Management: The Government is proceeding with a number of measures designed to address the problem of budget execution. On the initiative of the Prime Minister, a committee was formed to oversee and improve budget execution. Other actions include: (i) preparation of agency procurement plans in 2004-05 in key sectors and reporting on progress; and (ii) assessment of funds release requirements through the negotiation of front-loaded Expenditure Authorization Notices in key sectors. It is hoped that these measures will lead to a significant improvement in budget execution in key sectors, without sacrificing the quality of spending. Another noteworthy activity is the work undertaken to prepare the 2005-06 National Budget on a combined sources basis.

Transparency & Accountability: Transparency and accountability are key to ensuring good governance. The Organic Law for the Office of the Provedor for Human Rights and Justice was approved by Parliament and promulgated by the President in May 2004. The Provedor is mandated to collect information on human rights abuses and administrative malpractices, including corruption, receive and respond to complaints from the public, and increase public awareness of citizens' rights and means of redress. The Provedor has now been elected by Parliament. The Inspector-General has been nominated, reporting directly to the Prime

Minister, and is pursuing measures to strengthen internal audits and controls, that would contribute to building an effective civil service free of corruption and nepotism.

Justice: Efforts continued during 2004-05 to train Timorese court officials and improve judicial service delivery. The evaluations of the national judges took place in 2004, and the prosecutors and public defenders are currently being evaluated. In January 2005, it was announced that all national judges had failed to pass the evaluations and would thus not be eligible for conversion of their appointment from probationary to career judges. International judges are maintaining the justice system while 40 nationals are currently pursuing full-time training, scheduled for completion in mid-2006, upon which they may choose to become prosecutors, defenders, or judges and enter a one-year probationary period during which they will work under the mentoring of an international professional. It is, therefore, hoped that by June 2007 a cadre of qualified national professionals will be in place to take over more of the functions currently carried out by the international legal professionals.

Law Enforcement: The Timor-Leste National Police (PNTL) took over the command of the policing function from the United Nations Mission of Support to East Timor (UNMISSET) on 20 May 2004. With support from multilateral and bilateral partners, much progress has been made in institutional strengthening and training of national police officers. It is important to note that training and other efforts have also contributed to greater mainstreaming of gender perspective in the work of the National Police. Efforts also focused on measures to increase the trust and confidence of the community. An independent review commission for police complaints has been established to monitor cases being investigated by the Professional Ethics Office.

Defense Force: The capacity of the Timorese defense force continued to be strengthened, through training and skills and knowledge transfer. 258 new personnel are scheduled to complete training in late March 2005, and the recruitment and training of an additional 70 soldiers are planned for the next six months. Work for developing a defense plan, "Defense 2020," made some progress, with a series of workshops held in December 2004, and will continue in the future. Special attention continued to be paid to building the capacity of the Border Control Unit.

Reconciliation: In an important step forward towards reconciliation, Timor-Leste and Indonesia agreed, on 14 December 2004, to establish a Truth and Friendship Commission to deal with the issues of the reported human rights violations in 1999 as well as other bilateral issues. The Terms of Reference for this Commission are currently being finalized. Within Timor-Leste, the Commission for Reception, Truth, and Reconciliation concluded its public hearings and research work and is in the process of preparing its final report before the end of its mandate on 7 July 2005. The report will provide the first independently researched account of human rights violations committed in Timor-Leste between 1974 and 1999.

Veterans: Also important for national reconciliation is the issue of veterans. A National Dialogue between veterans and State institutions was held on 21 August 2004 and a final declaration was issued outlining the commitments of the two sides. Based on the work of the Commission for Former Combatants Affairs and the Commission for Veterans Affairs, the Parliamentary Ad Hoc Committee on Veterans Affairs is finalizing its report, which is to include a set of recommendations regarding a future law on veterans. Furthermore, the President of the Republic has constituted the Commission for Resistance Cadre Affairs to identify civilian members of the resistance.

BASIC SOCIAL SERVICES

One of the key goals of the National Development Plan is to improve the health and education status of the population. The provision and effective use of basic social services is important to break the poverty cycle. Since independence in 2002, Timor-Leste has made great progress in enhancing its people's access to social services, including basic education, primary health care, clean water, and safe sanitation.

Education: Access to schooling improved considerably, with primary school enrolment rising steadily. The net primary enrolment rate is currently 76 percent for boys and 74 percent for girls. On the other hand, repetition and dropout rates remain high, at 20 percent and 10 percent, respectively. Given this, priority efforts are now focused on improving the internal efficiency of the schools system as well as quality of teaching. The Government is currently finalizing an education sector policy which sets out the priorities and strategies for the sector in the next five years. The Government has also spearheaded a curriculum reform process for primary education. The Curriculum Reform Plan for primary education has been endorsed by the Council of Ministers in 2004. The syllabi for primary education have also been approved and are being piloted in three regions for a one-year period, starting in March 2005. Training of teachers has already been delivered to 75 percent of pre-secondary education teachers and is continuing.

Health: The Government has made good progress in restoring the basic infrastructure for immunization, a key to reducing child mortality. In the second quarter of 2004-05, Timor-Leste achieved the 73 percent immunization rate both for diphtheria, pertussis and tetanus and for measles exceeding the year's targets of 72 and 70 percent, respectively. Improvement was also made in maternal and neonatal health, as shown by the fact that in the second quarter of 2004-05, 47.6 percent of deliveries were supervised by skilled health

staff, against the year's target of 50 percent. Access to and use of public health services, though still difficult, also improved, as out-patient visits were 2.2 per capita in December 2004, compared to the target of 2.35. The situation of safe water and sanitation, though still difficult, is improving especially in urban areas. It should, however, be noted that these performance indicators will be lower when the new census data is taken into account.

Demographic Data: Timor-Leste completed the first national Census in September 2004, and preliminary results have been subsequently released. These show a population increase of 17.4 percent, compared to the results of the 2001 suco survey. Data from the Demographic and Health Survey has also become available. It indicates that Timor-Leste has one of the highest population growth rates in the world – about 4 percent per annum, although it should be noted that some of this growth, perhaps accounting for up to 1% per annum, is due to the return of refugees from West Timor. This new demographic information has obvious implications in the sectors directly responsible for delivering basic social services to the population. The Government faces greater challenges in these sectors as it has to provide health and education services to a greater number of people.

Decentralization: In both education and health sectors, the Government is continuing with efforts to promote decentralized management, which will not only improve efficiency in channeling resources for service delivery, but also provide a framework for bottom-up accountability. In the health sector, micro-policy documents have been completed, which are intended to be disseminated to support district/hospital-level planning, priority-setting, and budgeting. District and hospital health plans, budgeting, and monitoring have been introduced. In education, a pilot scheme, where schools demonstrating good management capacity are provided with block grants, has been launched in January-February 2005. This is being piloted in seven schools, to each of which a grant of US\$3,000 per year has been provided. Parent and teacher associations and School Councils are to play a decisive role in the management of these grants.

PRODUCTION RELATED SECTORS

Private Sector Development: The private sector must increasingly become the primary source of growth in incomes and employment for Timor-Leste. The Government recognizes that a major effort is needed to stimulate private business and investment actively. Therefore, the Government continues to develop legal and regulatory frameworks for business and investment.

During 2004-05, the domestic and foreign investment laws were approved by the Council of Ministers. A decree law on Cooperatives was also approved by the Council of Ministers. The insurance law and its associated instructions were approved in general by the Council of Ministers and the Parliament, and are presently in the Commission of Economics and Finance of the Parliament for development of specific detailed provisions. A draft law on bankruptcy has been prepared. With regard to land and property, a decree law on the leasing of government property was approved by the Council of Ministers and was promulgated in December 2004. A draft law on the leasing between private parties is drafted and under discussion in the Parliament.

With the appointment of a Chief Executive, the Investment and Export Promotion Agency (IEPA) is expected to be fully operational by the end of 2005. The Banking and Payment Authority (BPA), which has been carrying out most of the functions of a central bank, is planned to be officially transformed into the central bank in the near future. The central bank law is being drafted.

The Government recognizes the need to develop entrepreneurship to underpin continued progress towards the objective of an economy driven primarily by the private sector. Four Business Development Centers have been providing training for self-employed workers. The first national Business-Government Dialogue Forum is planned to take place in the middle of April 2005.

Based on the contract concluded with a South Korean company in relation to the Emigrant Worker Program (EWP), the first batch of 100-200 workers, out of 1,000 targeted by the end of 2005, will depart to South Korea by the middle of 2005. The Government continues to explore similar arrangements with other countries.

Agriculture: Agriculture is the primary economic activity in Timor-Leste, accounting for about 26 percent of Gross Domestic Products (GDP) and employing 80 percent of the labor force. In September 2004, the Policy and Strategy Framework of the Ministry of Agriculture, Forestry and Fisheries was approved by the Council of Ministers. The Framework focuses on better food security through improving productivity of farm crops and nutritional quality as well as on the promotion of market oriented agriculture and agro-industry. In addition, the Food Security Policy, the Pesticides, Seeds, and Fertilizers laws and regulations, the Quarantine laws, and the Livestock laws and regulations are under preparation with external assistance. The National Water Resource Policy has been drafted.

In the field of food production, a program for seed and tuber multiplication and distribution is on-going for standardizing introduction, evaluation, distribution and quality assurance of new plants; two peanut, two

maize, and two sweet potato new varieties were distributed by the Ministry and are being multiplied by farmers in the districts. The Ministry has also commenced to develop a Timorese model for extension and service delivery through reviewing local and international experience with service delivery.

BASIC INFRASTRUCTURE

Infrastructure is an important sector that is critical for achieving the overarching goals of the National Development Plan - poverty reduction and sustainable and equitable economic growth. Improved infrastructure will be the foundation for private sector development, particularly in district areas. Public investment in infrastructure will also contribute to creating employment in the medium-term.

Power: In the power sector, significant progress has been made in the provision of electricity service in Dili. Electricity has become available for 24 hours a day in Dili. The replacement and/or rehabilitation of power generators in the Comoro power station are ongoing, and the power distribution network in Dili is being rehabilitated with external assistance. In addition, the successful introduction of pre-payment meters, with 22,000 already installed, has extensively improved cost recovery in electricity in Dili. Now the priorities in the power sector will be given to electricity service in districts, including district centers and 34 rural power systems rehabilitated, as well as to further improvement of collection efficiency in Dili.

Transportation: In the transportation sector, management of road network is a key issue. A study for road development and strategy is being undertaken, with external assistance, having commenced in February 2005. The output of this study will include the preparation of a detailed five-year development strategy and an indicative 10 year investment plan, as well as optimal levels of expenditure for road construction and maintenance. Community-based maintenance of roads has been continuously important from the point of view of job creation as well as road maintenance. It is reported that 517 and 451 actual jobs were created through community-based road maintenance in the 1st and 2nd quarters of 2004-05, respectively. The Government is planning to create 1,000 annualized jobs in the next year.

Water and Sanitation: In the water and sanitation sector, considerable investment is required to achieve targets in the National Millennium Development Goals on access to safe drinking water and sanitation in both urban and rural areas. The progress during 2004-05 included the periodic maintenance of the Water Treatment Plants, a series of maintenance of water supply facilities in district towns, and the development of water and sanitation facilities in rural areas. Based on the Water Service decree promulgated in February 2004, the Government has commenced to collect water user charges, mainly from big customers in the first instance.

CAPACITY BUILDING & INSTITUTIONAL DEVELOPMENT

The Capacity Development Coordination Unit (CDCU) aims to consolidate capacity building activities to achieve better service delivery through cross ministry training and economic growth through the establishment of targeted capacity building facilities. This will be achieved through establishing clear objectives of what is to be achieved and implementing capacity building activities through a strong leadership which has the ability and delegation to make decisions and operate flexibly.

A Capacity Development Training Needs Analysis (TNA) of the civil service has been conducted. This has been based upon recommendations in the Governance and Public Sector Management Strategy (GPSM) (2001), 'Priority Human Resource Needs for the East Timorese Government at Independence' (2001), and the Strategy Paper for Strengthening the Public Service (SSPS) of Timor Leste presented to the Development Partners meeting in 2003. The GoTL has expressed concern at the continuing heavy reliance on foreign advisors in key positions across ministries, which is indicative of the shortage of essential skills among local staff.

The TNA, which was based on the three pillars model of capacity building, was undertaken in the second half of 2004. Its main objective was to consolidate all capacity development initiatives related to the civil service with a view to maximising the results from the Development Partners financial contribution and to ensure that the capacity development to be implemented in the future would be appropriate and reflect the real needs of the civil service. The TNA took a bottom-up approach and reflects the stated training needs of 124 Divisions, within 10 Ministries, 4 Secretariats of State and 4 other State institutions, representing a total of 15,336 staff.

EXTERNAL ASSISTANCE PLANNING & COORDINATION

During 2004-05, the Government continued to strengthen its leadership role over planning the country's development priorities and mobilizing and coordinating external assistance to support them.

An important development in this regard is the development of the SIPs. The SIP process has allowed the Government to strengthen links between policy formulation, programs, and expenditures to achieve the national goals and objectives set out in the National Development Plan. It elaborates the Government's sector frameworks for the medium-term for the 17 key sectors and presents a menu of priority development projects that are essential to achieving these sector frameworks. The SIP process has allowed the Government to strengthen its leadership and ownership over setting its own sector strategies and priorities and mobilizing resources to achieve them. For donors, it provides clear guidance regarding priorities for assistance. The guiding principle is to marry the preferences of Development Partners for delivery mechanisms and project design to the Government's policy priorities.

Sector Working Groups, a primary vehicle for implementing the SIP under the leadership of the Government, have been already established for agriculture, basic infrastructure, and healthcare, and a group for education and training is in the pipeline. The groups for the remaining sectors will be established gradually by the end of this fiscal year.

The Government has also further strengthened its capacity to monitor its work and performance. Annual Action Plans and Quarterly Reporting Matrices are by now well integrated in each Ministry's planning process. The Transition Support Programs in the past three years have also made important contributions to enhancing the Government's performance management capacity and promoting its accountability. The TSP Action Matrix has become a key tool for comprehensive monitoring and reporting on progress in the Government's overall activities. The SIP process also highlighted the need for monitoring and evaluation of progress towards goals and objectives within each sector, and this will need to be further discussed within the framework of the respective Sector Working Groups. With the sector coordination framework now being put in place, there is now a good basis for initiating serious work on the detailed definition of the monitoring and evaluation framework for each sector.

TRENDS IN EXTERNAL ASSISTANCE

External Assistance has occupied a large part of the necessary funding for development of Timor-Leste in the past five years. The Combined Sources Budget for 2004-05 expected that approximately 82 percent of its financing would come from external assistance, including budget support, the Trust Fund for East Timor, bilateral/multilateral project support, and UN assessed posts.

At the Tokyo donor meeting in December 1999, Development Partners pledged US\$522 million for three years for reconstruction of Timor-Leste. At the Dili donor meeting in May 2002, US\$360 million, including US\$82 million for budget support, was pledged for development of Timor-Leste for another three years. The table below provides trends in external assistance to Timor-Leste on annual disbursement basis. The main point is that there is a steady downward trend in levels of external support.

Table 3.1
Trends in Assistance to Timor-Leste

	1999-00	2000-01	2001-02	2002-03	2003-04
Development & Technical Assistance off-budget	63	121	146	119	108
Development & Technical Assistance on-budget	27	34	33	37	26
UN Security Council Posts	0	0	0	14	8
Humanitarian Assistance	84	30	12	3	2
Budget & Commodity Support	27	45	32	31	33
Donor Administrative Expenses	1	7	6	5	5
Total	202	236	228	209	181

It should be noted that there are several characteristics in external assistance to Timor-Leste. First, all the external assistance to date are grants based on the government policy. Second, the Trust Fund for East Timor, which was established at the initial stage and has been administered by the World Bank and the Asian Development Bank, has played an important role for reconstruction and development of Timor-Leste, but its operation is scheduled to come to a close. Lastly, general budget support is a part of external assistance. The Transition Support Program was initiated in 2002-03 as a three-year program and now is planned to be transformed to the Consolidation Support Program for another three years starting from 2005-06. This mechanism not only provided the necessary financing to bridge the resource gap in the State

Budget but also contributed greatly to reinforcing the Government's internal performance management systems.

The "Development and Technical Assistance" type of external assistance during the period from 1999-00 to 2003-04 were allocated to governance (34.9% of the total program), basic services (28.8%), basic infrastructure and housing (21.1%), and production-related sectors (15.2%).

Major specific sectors supported by external assistance included education and training (17.9%), public sector management (14.9%), health (10.9%), agriculture, forestry and fisheries (9.9%), and water supply and sanitation (8.4%).

PART 3 – THE ECONOMY

Timor-Leste's preliminary National Account estimates show that real Non-oil GDP grew during 2001 but contracted during 2002 and 2003. More recently, partial indicators have been mixed and it is likely that non-oil economic activity has now started to rise again. Non-oil GDP is expected to grow more quickly in 2005-06 and beyond, being fuelled by rising State Budget expenditure and by a modest increase in Development Partner programs under the SIPs.

The future growth rates of economic activity that are forecast will lead to some increase in per capita income levels, as required under the NDP. However, the Government would like to see further reductions in poverty, through higher incomes to supplement the progress made in increasing Government services aimed to help the poorest levels of Timorese society.

Accordingly, the Government is committed to further work to develop and implement policies to increase the Non-Oil GDP growth rate, including through SWGs. The Government's objective is to obtain sustained Non-Oil GDP growth rates of 6 per cent within the next five years. Government policies include promoting long-term private sector growth through creating a pro-business regulatory environment, undertaking vigorous efforts to promote investment opportunities among domestic and international investors and providing public infrastructure. Its medium-term growth strategy is to increase public expenditure, especially in the construction sector, to create employment. However, the successful implementation of this agenda will also depend upon commitment by Development Partners to the level of expenditure contained in the SIPs and further increases in State Budget expenditure.

PAST DEVELOPMENTS

Timor-Leste's preliminary National Account estimates show that real GDP grew during 2001 but contracted during 2002 and 2003. Table 3.1 shows the levels of GDP in total and for the major components of GDP, which are: the Oil and Gas Mining sub-sector; Food, which includes the Farm Food Crops, Livestock and Fishery sub-sectors; the Government sub-sector; and the (remaining) Private sector.

Table 3.1
Major Components of GDP (\$m) 2000 to 2003

	2000	2001	2002	2003
Oil	77.5	50.4	47.8	51.9
Non-oil	316.2	368.4	343.9	322.5
Food	68.6	76.0	73.9	68.9
Govt	106.3	142.7	118.0	104.5
UN	83.4	91.5	60.3	38.6
Other	22.9	51.1	57.7	65.9
Private	141.3	149.7	152	149.1
Total	393.7	418.8	391.7	374.4

Table 3.1 shows that Non-Oil GDP is much larger than Oil GDP. It also shows that the Private sector is the largest part of GDP, followed by Government and the Food sector. The most important feature of the structure of GDP in Timor-Leste is the distinction between Oil GDP and Non-oil GDP.

Oil GDP is the Oil and Gas Mining sub sector of the Mining and Quarrying Sector. This production is derived entirely from Timor Sea activity and has very little interaction with economic activities in the rest of Timor-Leste. From 2000 to 2003, the only oil production was from the Elang Kakatua Kakatua North (EKKN) field. There has been a trend decline in production from this field, with declining output from 2000 to 2002 and a small increase in 2003.

Non-oil GDP has been subdivided into Food, Government and Private sectors. The Food sector includes subsistence agriculture, is heavily affected by the climate and is relatively unaffected by the rest of the economy. The Government sector includes the administrative services provided by UNTAET/UNMISSET (excluding peacekeeping operations), General Budget of the State, TFET, bilateral agencies, multilateral agencies and NGOs. This sector is further broken down into the UN sub sector, which has shown strong declines and the Other sub sector, which has shown strong increases. The Private sector includes all other production within GDP.

Table 3.2 shows the contributions that these sectors have made to GDP growth and the growth rates of these Sectors.

Table 3.2
Growth Rates and Contributions to GDP Growth (%) 2001-2003

	Contributions to GDP Growth			Growth Rates			
	2001	2002	2003	2001	2002	2003	average
Oil	-6.9	-0.6	1.0	-35.0	-5.2	8.6	-12.5
Non-oil	13.3	-5.9	-5.5	16.5	-6.7	-6.2	0.7
Food	1.9	-0.5	-1.3	10.8	-2.8	-6.8	0.1
Govt	9.2	-5.9	-3.4	34.2	-17.3	-11.4	-0.6
UN	2.1	-7.4	-5.5	9.7	-34.1	-36.0	-22.6
Other	7.2	1.6	2.1	123.1	12.9	14.2	42.2
Private	2.1	0.5	-0.7	5.9	1.5	-1.9	1.8
Total	6.4	-6.5	-4.4	6.4	-6.5	-4.4	-1.7

With declines in Non-oil GDP in 2002 and 2003, as shown in Table 3.2, average per capita incomes levels will have fallen in those years.

The following conclusions can be drawn from Table 3.2.

- While movements in the Oil sector can be large, they are largely independent of changes in Non-oil GDP.
- The Food Sector has made a significant contribution to the total change in GDP – moving in the same direction as total GDP in each year. On average, it has been broadly unchanged over this period.
- The Government sector has made the greatest contribution to changes in total GDP on a year-by-year basis. This sector has always moved in line with the change in total GDP and has accounted for the majority of the change in GDP in each year. However, it has declined on average over this period due to the decline in UN activities.
- The Private sector has been more stable than other sectors and has moved in the same direction as total GDP in the majority of years. It has grown significantly over this period, the only major component of GDP to have done so.

These features of the past economy of Timor-Leste are valuable guides to current and future developments in GDP.

PRESENT DEVELOPMENTS

The largest event to affect GDP in 2004-05 is the commencement of production in the Bayu Undan petroleum field. This new field is much larger than the EKKN field. It commenced production in the second half of 2003-04 and has been in full production for all of 2004-05. Accordingly, preliminary estimates indicate that the Oil sector will grow significantly in 2004-05 to be about twice the size of Non-oil GDP.

This growth in the Oil sector is likely to have little effect on Non-oil GDP. Instead, Non-oil GDP growth in 2004-05 can be analysed in terms of its component Food, Government and Private sectors.

While 2003 was a drought year with relatively low food production, indications are that 2004 and 2005 have seen a return to more normal rainfall patterns. Accordingly, Food production is expected to recover strongly from the previous low level and probably back to the trend growth path that has been occurring since the devastation of late 1999.

Overall, the Government sector will probably make little contribution to GDP growth in 2004-05. Total State Budget expenditure has been relatively stable with a small level of net recruitment in staff. Total expenditure on development and technical assistance by Development Partners, including UN Security Council funded posts, is also broadly unchanged. There are a range of partial indicators that provide information about recent developments in the Private sector.

Some are indicative of growth. Lending by the financial sector to businesses and households has increased rapidly, though from a low base. The recovery in food crops following the end of the drought will also have increased the spending power of many rural households. With some recovery in world coffee prices, coffee exports have been increasing, though from relatively modest production levels. In Dili there has also been a visible increase in small retail outlets.

Other developments suggest a contraction in the Private sector. Imports into Timor-Leste, including the largest component of imports through Dili port, are continuing to decline.

Continued falls in the inflation rate also indicate lower levels of domestic demand. The annual inflation rate in Dili was 2.1 per cent in the year to February 2005. This is much lower than the levels that had occurred in

some previous years. This low level of inflation helps contribute to a stable macroeconomic environment in which business can operate. However, it is also indicative of broadly unchanged levels of domestic demand.

Importantly, total spending by Development Partners has fallen in 2004-05, with estimated expenditure by the peacekeeping operations of UNMISSET falling from about \$90m in 2003-04 to less than \$20m in 2004-05. These operations do not contribute directly to GDP, but the spending of UNMISSET and UN personnel will have declined. While much of this decline in UN expenditure may contribute to falls in imports rather than GDP, if even a quarter of this expenditure affected domestic production then it would subtract about four or five percentage points from GDP growth in 2004-05.

Overall, the previous declines in Non-oil GDP have probably finished with 2004-05 representing a turning point. Non-oil GDP is estimated to have grown by 1 per cent in 2004-05.

FUTURE DEVELOPMENTS

Over the next four years there are expected to be some further increases in the Oil sector. The completion of the gas pipeline from the Bayu Undan field to Darwin will more than offset the end of the EKKN field and the decline in Bayu Undan reservoir pressures and liquid production in 2006-07 and 2007-08.

These estimates assume that weather conditions remain normal and that growth in food production is broadly in line with population growth.

Public expenditure is expected to make a positive contribution to GDP growth in 2005-06 and beyond. State Budget expenditure is expected to rise by over 35 per cent in 2005-06 and further increases are intended for the years beyond. Development Partner expenditure on development and technical assistance programs is expected to increase, though overall expenditure is expected to remain below the levels experienced on average in previous years. Donor programs will increase with commitments to SIPs and the establishment of Sector Working Groups to mobilize resources to meet NDP goals and MDG priorities. While there may be further declines in UN assistance, these will be less important than previously because UN spending is already at low levels, comprising about 15 per cent of total international assistance.

The Private sector is expected to grow and contribute to GDP growth. Initially this growth may be moderate and largely driven by the increases in public expenditure. However, if the right conditions for business investment are established, if the microeconomic foundations are conducive to private sector development and if markets are found for Timorese exports, such as coffee, tourism and other new products, then growth could be much stronger.

Table 3.3 contains estimates of real GDP growth rates, including for its oil and non-oil components. Table 3.4 contains the estimated levels of nominal GDP. While a great deal of uncertainties surrounds all these estimates, the estimates for Oil GDP are very preliminary.

Table 3.3
Growth Rates of Real GDP,

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Non-oil GDP	56%	0%	-7%	-3%	1%	6%	4%	4%	3%
Oil GDP	-20%	-23%	2%	37%	991%	-6%	14%	3%	-1%
Total GDP	36%	-3%	-6%	2%	174%	-2%	10%	3%	0%

Table 3.4
Levels of Nominal GDP

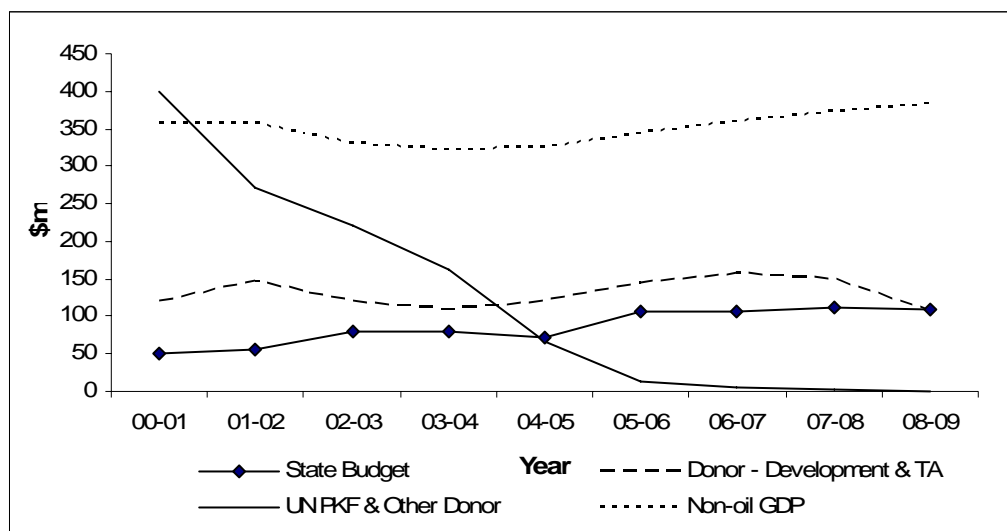
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Non-oil GDP	229	356	358	331	322	325	341	351	362	373
Oil GDP	80	64	49	50	68	745	703	799	820	813
Total GDP	309	420	407	381	390	1,070	1,044	1,150	1,182	1,186

While Table 3.3 shows large increases in Oil GDP, Oil GDP will have little direct effect on the wellbeing of the Timorese people. That is because few Timorese will be employed directly on the Bayu Undan field or sell to the petroleum sector. However, the Oil GDP will make a very large but indirect contribution to employment, income and poverty reduction in Timor-Leste because it provides large petroleum revenues to the State. The spending of those petroleum revenues will create jobs and provide incomes to the Timorese people. It is this indirect effect that will make a major contribution to poverty reduction.

The significant effect that the Government sector has on Non-oil GDP is shown in Chart 3.1, which is based on data in Table 14 of the SIP Overview Report, Volume 1. Chart 3.1 shows the levels of spending by Development Partners on development assistance and technical assistance; UN peacekeeping operations, and other international assistance and the State Budget and Non-oil GDP. It can be seen that State Budget

expenditure has been smaller than expenditure on development assistance or by the UN peacekeeping operations or Other International Assistance. It can also be seen that State Budget expenditure has been rising and will continue to rise, whereas the UN peacekeeping component of public expenditure has fallen and is expected to continue to fall. Finally, when public expenditure has fallen then there has also been a marked reduction in non-oil GDP growth. This could happen again if international assistance again falls significantly, as in 2008-09.

Chart 3.1
Expenditure by UN peacekeepers, Other International Assistance and State Budget, and Non-oil GDP.



IMPLICATIONS AND POLICIES

The future growth rates of economic activity that are forecast will lead to some increases in per capita income levels, as required under the NDP, following decreases in the past. However, the rate of job creation would likely be much slower than desired by the Government. The Government would like to see further reductions in poverty through higher income levels to supplement the progress made in increasing Government services aimed to help the poorest levels of Timorese society. This will require more substantial increases in per capita Non-oil GDP growth.

Accordingly, the Government is committed to further work to develop and implement policies to increase the Non-oil GDP growth rate, including through SWGs. The Government's objective is to obtain sustained Non-oil GDP growth rates of 6 per cent within the next five years. The SIP Overview Paper contains projections that show GDP growth increasing to 6 per cent in the long term.

The Government intends to employ a two-pronged approach aimed at promoting growth and investment. This is to achieve the level of economic growth required to absorb the rapidly-growing labour force and improve average income levels.

First, the main source of growth in a long run will be in the private sector, with private investment in commercial agriculture and non-farm private activity being very important. Government will promote this by creating a pro-business legal and regulatory environment, undertaking vigorous efforts to promote investment opportunities among domestic and international investors and by putting in place the public infrastructure that will attract business. This is a large task for a new country and it may take some years to develop and complete this agenda.

Second, the Government will aim to generate employment next year and in the medium term by increasing public construction activities. A wide range of public construction activities are contained in the SIPs. The purpose of this construction is partly to provide the infrastructure required to deliver services to meet the Millennium Development Goals and so assist the needs of the most vulnerable people in Timor-Leste. It will also help provide the public infrastructure that business needs. In both cases it will create employment in the private sector, including in the Districts where many of the needs for infrastructure are greatest.

The Mid Year Review and future Budgets are intended to contain further increases in State Budget expenditure, subject to financing from the Petroleum Fund and good expenditure proposals. Those further increases will lead to further increases in the Non-oil GDP growth rates.

These Government strategies will offer direct employment opportunities in the private sector, while also building the level of public infrastructure required to both meet Millennium Development Goals and attract

businesses and investment to Timor-Leste. They will also involve the creation of an attractive pro-business legal and regulatory environment. The assistance of Development Partners is requested in implementing these strategies. Further information on these issues is contained in the SIPs Papers, including the Overview Paper.

PART 4 – REVENUE

TOTAL REVENUE

Timor Leste Revenue estimates in the 05-06 Budget have increased significantly in comparison with 2004-05 Budget Estimates and the Mid Year Review.

Table 4.1
Total Estimated Timor Leste Revenue (\$m)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total
	Act	Est	Est	Est	Est	4 Yrs
Revenue						
Petroleum Revenue	242.6	158.7	185.7	181.2	218.5	744.1
Customs Duties	17.0	17.0	17.5	18.2	19.1	71.8
Other Taxes	10.1	9.9	10.2	10.6	11.1	41.8
User Fees and Charges	6.1	9.5	10.9	12.0	13.4	45.9
Non Financial Public Authorities	8.2	10.3	11.5	12.2	13.0	47.0
Total Revenue	284.0	205.4	235.9	234.2	275.2	950.7

The total in Timor Leste Revenue estimates for the next four years will reach \$950.7m, originating from the several components displayed above. However the most dramatic increase in Revenue Estimates over the next five years will be for Petroleum Revenue. Over the medium term (i.e. for the next four years) Timor Sea revenue estimates will reach \$744.1m.

Therefore estimates for total revenue for the 2005-06 General Budget of the State will be over \$200m each year, in comparison with total revenue estimated in mid 2004-05 which was under \$200m each year (and the original Budget 2004-05 had a total of less than \$100m each year). This shows a significant change in the total Revenue expected over the medium term, which arises from and highlights the volatility of petroleum revenue estimates.

PETROLEUM REVENUE

Box 4.1 Methodology and Assumptions

The petroleum revenue estimates cover revenues from the Elang Kakatua Kakatua North and Bayu Undan fields, as these are the only petroleum fields that have submitted Development Plans, have had those plans approved by the Timor Sea Designated Authority and are in operation. Other potential revenues could arise from future development of the Sunrise, Jahal Kuda Tasi or Pheonix fields. They could also arise from a settlement of maritime boundaries. However, no Development Plans have been submitted or approved for these new fields and so the timing and magnitude of any potential revenue is uncertain. Accordingly, no estimates for these potential new revenues are included.

The methodology used to generate estimates for the Timor Sea revenue estimates for the 2005-06 Budget over the next four years (2005-06 to 2008-09), was to meet with the project operator to get information about their production estimates, and to make assumptions about world oil prices and other important parameters. Officials from the Macroeconomic Unit, Timor Sea Designated Authority, Timor Sea Office and the Timor-Leste Revenue Service participated in meetings to analyse the available information and to generate the best possible estimates. Information given by the operator provided the base for estimates of Timor-Leste revenue.

The Timor Sea revenue estimates were updated using the latest information for Bayu Undan from the operator, including on;

- prices of petroleum products sold;
- upstream investment costs;
- LNG plant investment cost (including changing exchange rates);
- pipeline investment costs;
- production volumes;
- upstream operating costs;
- exchange rate on pipeline payment from Australia; and
- model refinements based on new data.

The Timor Sea revenue estimates are conservative. The world oil price assumption is based on market (NYMEX) prices, but discounted by \$5. Table 4.2 shows the world oil price assumptions used for West Texas Intermediate (WTI) oil in each calendar year.

Table 4.2
World Oil Price Assumptions (\$ per barrel)

2005	2006	2007	2008	2009	2010
40.62	37.72	36.02	35.02	34.39	33.99

The reservoir volumes are based on the conservative "proven" estimates of the Operator. A further 15 per cent discount is applied to revenues to account for other risks, such as production problems, bad weather, exchange rates, the timing of pipeline and LNG plant construction, the cost of downstream investments, the price of Bayu Undan specific products and other factors that cannot be quantified or identified.

As these petroleum revenue estimates are conservative, the actual outcomes are more likely to be higher than the estimates than lower than the estimates. Nevertheless, the risk that petroleum revenues will be lower than expected is very real. For example, unforeseen drilling problems in 2003 with the Bayu Undan field led to estimated increases in costs, delays in production and reductions in estimated revenue. While many of these problems were eventually resolved successfully and rising world oil prices have more than offset the remaining problems, the risk of future problems is still very real.

The risk that is easiest to identify and quantify is the risk to revenue caused by changing world oil prices. This risk is illustrated using scenario analysis of different world oil price assumptions. In the last ten years world oil prices have moved within a \$46 band, from \$10 to \$56, and in 2004 alone they moved within a \$24 band, from \$32 to \$56. Given these large historical movements, the \$15 difference between the High Case and the Low Case is modest. The High Case and Low Case do not reflect the maximum or minimum revenues possible, but rather indicate the likely fluctuations that could occur.

**Table 4.3
Estimated Petroleum Revenue (\$m)**

	2004-05	2005-06	2006-07	2007-08	2008-09	Total
	Act	Est	Est	Est	Est	4 Yrs
Taxes	193.8	112.0	135.0	127.3	113.0	487.3
FTP and Profit Oil/Gas	48.7	41.1	42.2	40.5	86.1	209.9
Other (incl EMRD)	0.1	1.0	0.0	0.0	0.0	1.0
Petroleum Fund Interest	0.0	4.6	8.5	13.4	19.4	45.9
Total	242.6	158.7	185.7	181.2	218.5	744.1

In the financial year 2005-06 Timor Leste revenue is expected to decrease in comparison with the previous financial year. In 2005-06 it is predicted that world oil prices will drop.

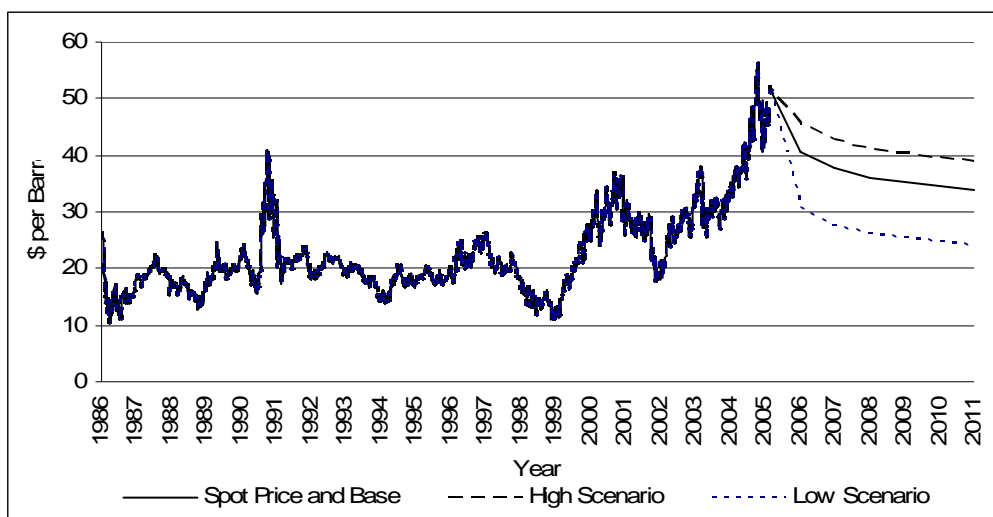
Petroleum Revenue is expected to experience a significant increase over the medium term. The increase in Timor Leste revenue is due to:

- An increase in world oil prices (NYMEX)
- Progress in the development process of the Bayu Undan Project and
- Sound Administrative Management.

However compared with the MYR 2004-05, Estimated Timor Sea Revenue started to indicate an upward shift due to an increase in world oil prices, as shown in Chart 4.1. This is positive for Timor Leste in designing and supporting a sustainable, sound development plan program. The increase in world oil prices is due to a number of factors;

- Oil stocks are decreasing in the world market
- Oil production in several oil producing countries is not yet running smoothly
- China is experiencing growth in the development of its economy.

**Chart 4.1
Changes in World Oil Prices – WTI basis (\$ per barrel)**

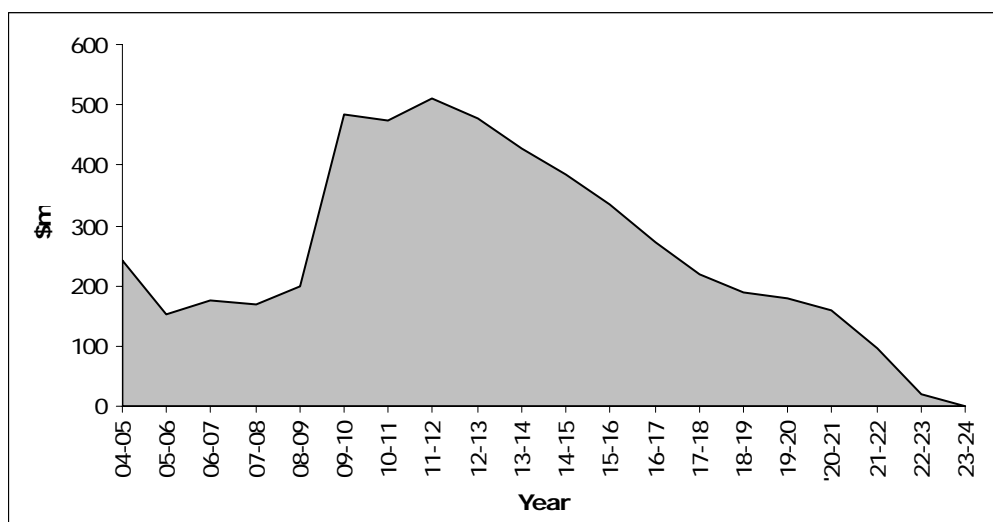


Therefore, estimated Petroleum Revenue for the medium term will be significant. It will amount to a total of \$744.1m, in comparison with the estimated revenue in the 2004-05 MYR of \$546.6m (and the original Budget 2004-05, which estimated a mere total of \$269.7m originating from the Timor Sea).

In the following years, estimated Timor Sea Revenue is expected to increase, including when LNG production and Profit Oil payments will start.

Chart 4.2 shows the long term estimate of petroleum revenue over the next twenty years.

**Chart 4.2
Timor-Leste Petroleum Revenue 2004-05 to 2022-23**



Risks

World oil prices are the key risk for oil producing countries. Currently oil producing countries are currently delighted with the receipt of revenue in excess of predicted targets due to high oil prices which will continue in the medium term.

However these estimates can be uncertain as world oil prices are always in a state of fluctuation. With a sustained increase in oil prices over each subsequent year then these countries can undertake development in sectors prioritized by their government and significant amounts of money can be placed in savings for the next generation. If world oil prices decrease to a low level, then oil producing countries will face difficulty in planning development in their respective countries.

Currently the Government of Timor Leste is preparing Estimates on Timor Sea Revenue through the use of three scenarios;

- Base Case Scenario,
- High Case Scenario and
- Low Case Scenario

These scenarios are based on oil prices in the world market (NYMEX) with estimates for the Base Case \$5 lower than NYMEX prices. The High Case is \$5 higher than the Base Case and the Low Case is \$10 lower than the Base Case. From these scenarios, the Base Case scenario is used each year in the Government Budget. However, the Base Case scenario used by the Government of Timor Leste still contains a discount of 15%, to provide security for the planning of the annual Government Budget of the State.

**Table 4.4
Scenarios for Timor Sea Revenue (\$m)**

	2004-05	2005-06	2006-07	2007-08	2008-09	4 Year total
Base Case	243	153	177	168	199	697
Low Case	214	82	89	75	77	324
High Case	256	185	211	197	351	944

There are two scenarios from the table above that will have significant implications for Timor Leste Revenue. The High Case Scenario indicates that an increase in oil prices will have a large impact on Timor Sea Revenue and the Government will be able to place significant savings in the Petroleum Fund account for the next generation. Whereas the Low Case Scenario shows low revenues so the Government will not have any surplus to place in savings as revenues would be lower than expenditure.

NON-PETROLEUM REVENUE

Timor Leste Domestic Revenue for the financial year 2005-06, is expected to decrease slightly from the MYR 2004-05. Overall estimates for the medium term will increase from year to year although this will only be a minor increase.

Table 4.5
Non-Petroleum Revenue (\$m)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total
	Act	Est	Est	Est	Est	4 Yrs
Customs Duties	17.0	17.0	17.5	18.2	19.1	71.8
Other Taxes	10.1	9.9	10.2	10.6	11.1	41.8
User Fees and Charges and Interest	6.1	9.5	10.9	12.0	13.4	45.9
Total	33.2	36.4	38.6	40.8	43.7	159.5

However for the financial year 2005-06 there will be some movement within estimates of Domestic Revenue caused by several factors:

- The withdrawal of UNMISSET who will depart in 2005, which will cause a minor decline in some tax receipts in Timor Leste
- The withdrawal of UNMISSET will also result in associated businesses reducing their activities,
- The Customs Directorate is still centralising its ASYCUDA System which will provide an increased ability to combat evasion, it is still not completely installed in all main merchandise entry and exit points of the country
- The tsunami which struck several Asian countries may disrupt regional trade
- Despite these aforementioned problems, it appears that Domestic Small Businesses are developing in all Districts, especially in Dili, where numerous kiosks and restaurants are active. These are mostly relatively small taxpayers.

An additional risk to revenue is the possibility that the implementation of the Investment Law in Timor Leste will improve economic activities and increase revenue by more or less than the relative costs of the fiscal incentives.

Estimates of fees, user charges and other revenue for the 2005-06 Budget shows an overall increase over the next 4 years with a decline in a few areas, as shown in table 4.4.

Table 4.6
Fees, User Charges and Other Revenue (\$m)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total
	Act	Est	Est	Est	Est	4 Yrs
Visa Fees	1.6	1.4	1.4	1.5	1.5	5.8
Land and Property Income	1.4	1.1	1.2	1.3	1.4	5.0
University Fees	0.4	0.5	0.6	0.8	1.0	2.8
Passport Fees	0.2	0.3	0.4	0.5	0.6	1.8
Land Transport	0.5	0.6	0.7	0.7	0.7	2.7
Business Registration	0.3	0.2	0.2	0.2	0.2	0.8
Postal Charges	0.1	0.1	0.1	0.1	0.1	0.5
Other	0.3	0.3	0.3	0.3	0.3	1.2
Interest	1.3	5.0	6.0	6.6	7.6	25.2
Total	6.1	9.5	10.9	12.0	13.4	45.9

- Visa revenue is expected to decline in the 2005-06 Budget if compared with estimates made in the 2004-05 review because in accordance with regulations in force Timorese citizens whose spouses are foreigners and foreigners who work in humanitarian sector in Timor Leste. are exempt from the payment of visa fees.
- Land and property revenue is expected to decline in the 2005-06 Budget. This is due to government policy not to continue to rent houses or government buildings in *Farol* area. After that, over the next three years revenue is expected to increase because many people in occupied houses or government buildings will be identified and are expected

to pay rent. A mobile office will set up next year in order to actively get people registered who occupied government houses or buildings.

- The University of Timor Leste over the next four years (2005 - 2008) is expected to experience an increase in revenue for each year because many high school graduates will continue their studies and more students will pay fees.
- Civil registration is expected to increase revenue during the next four years (2005 – 2008). Currently most of these revenues are from the issue of passports. New revenue will be received from other services such as: birth certificates, marriage certificates, divorce certificates, and certificate of citizenship and identity cards.
- Land transport revenue estimates in 2005-06 expected to increase each year as various new systems are implemented for fines, transfer or registration.
- Business registration revenue estimates for the year 2005-06 are expected to decline. This decrease is as a result of the slow down in business activities arising from the contraction of the United Nations Mission in the country. However, with the projected better performance of the economy in the coming years coupled with the government commitment to provide the required incentives and environment for increased private sector participation more revenue will be generated as a result of the registration of new business.
- Postal revenue will be relatively stable over the next four years.
- Other revenue is relatively stable.
- Interest receipts outside the Petroleum Fund, will depend upon world interest rates and a future decision as to how much to transfer to the Petroleum Fund on 1 July, 2005.

NON-FINANCIAL PUBLIC AUTHORITY REVENUE

Table 4.7
Non-financial Public Authority Revenue (\$m)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total
	Act	Est	Est	Est	Est	4 Yrs
Aviation	0.9	0.8	0.9	0.9	1.1	3.7
Port	1.3	1.2	1.3	1.4	1.4	5.3
Electricity	6.0	8.3	9.3	9.9	10.5	38.0
Total	8.2	10.3	11.5	12.2	13.0	47.0

In the financial year 05-06, total Estimated Agency Revenue is expected to increase in comparison with Estimates from the MYR 04-05.

However it is apparent from the sub Agencies that the Aviation Agency and Port Agency will experience a slight decline in 05-06. This decline will be due to the withdrawal of the UN from Timor Leste which will have a slight impact on the number of passengers entering or departing in order to take holidays in neighbouring countries.

In addition to this, the entrance of goods through the ports was reduced as more importers start to use the port of *Nusa Tenggara Timur* (West Timor) and to import merchandise through the land transport system.

PART 5 – PETROLEUM FUND

Many resource-rich developing countries have suffered from the “resource curse” where resources hinder rather than promote economic development. One mistake that these countries have made is to spend all their revenue as it arrives, which leaves them with no saving for the future and with expenditure levels that fluctuate with commodity prices.

The Government is determined to avoid repeating the mistakes of other resource-rich countries. Instead, it has adopted a savings policy and is creating a Petroleum Fund to hold and manage its savings of petroleum revenues.

BACKGROUND AND CONSULTATIONS

Timor-Leste commenced saving First Tranche Petroleum (FTP) revenues in 2000. These savings, which are estimated to total \$63m with accumulated interest by 1 July 2005, are still unspent.

In 2002, the Government asked for advice from the IMF on the establishment of a Petroleum Fund, it received a report in early 2003, and announced its intention to establish a Petroleum Fund for Timor Leste in mid 2003. A discussion paper on the key policy issues was released in October 2004, followed by broad public consultations. Building on the discussion paper and the comments made during the public consultations, a draft Petroleum Fund Act was prepared and released for public consultations in February 2005.

The Government has revised the draft law in light of comments and suggestions made by civil society and the public at large. The Council of Ministers has already approved the Petroleum Fund law, and submitted it to Parliament. It is then expected that after approval by the National Parliament and promulgation by the President of the Republic that it can be implemented from 1 July 2005, the beginning of the 2005-06 fiscal year.

KEY DESIGN PRINCIPLES

The design of the Petroleum Fund and the corresponding draft Act is based on the following key principles:

- The Petroleum Fund shall be a tool that can contribute to the wise management of Timor-Leste’s petroleum resources, for the benefit of both current and future generations.
- The Petroleum Fund builds on international best practice and reflects the circumstances of Timor-Leste. It is based on the petroleum fund used in Norway, one of the few models internationally that is generally seen to function well and contributing to a wise management of the petroleum wealth. The proposed model for Timor-Leste is currently referred to as the “Norway Plus” model, reflecting additional accountability, transparency and information features that are judged appropriate for Timor-Leste’s circumstances.
- The Petroleum Fund builds on the Constitution. The Petroleum Fund Act lays down the key parameters for the operation and management of the Fund which seeks to meet with the constitutional requirement laid down in article 139 in the Constitution. According to this provision, petroleum resources “shall be owned by the State, shall be used in a fair and equitable manner in accordance with national interests, and the petroleum extraction should lead to the establishment of mandatory financial reserves”. The proposed Petroleum Fund builds on the constitutional framework, giving to the Parliament and the Government the powers that correspond to their competencies.
- The Petroleum Fund allows for a strengthening of the responsibilities, powers and capacity of key public sector institutions, such as Parliament, the Government, nominally the Ministry of Planning and Finance and the Central Bank. There will be an Investment Advisory Board advising the the Minister of the Finance portfolio to enhance the quality of advice preceding decision-making. There will also be an independent Petroleum Fund Consultative Council to advise Parliament on the operations of the Fund.
- The Petroleum Fund is to be a tool that contributes to sound fiscal policy, and thereby help deliver on a sustainable basis strong economic growth and improved public services. The design of the Petroleum Fund acknowledges that good planning and execution of public sector budgets is a key to avoiding the resource curse found in so many petroleum producing countries. The Petroleum Fund is to be coherently integrated

into the budget process, supporting a fiscal policy framework that strikes the right balance between current consumption, investing in physical assets (infrastructure and human development) and investing in financial assets.

- The Petroleum Fund is to be prudently managed, invested securely in low-risk financial assets abroad.
- The management of the Petroleum Fund shall be carried out with the highest standard of transparency and accountability. This is a key element in building public confidence and support for a wise strategy of managing the petroleum resources. This can allow Timor-Leste to avoid the negative experiences found in so many petroleum producing countries, where petroleum has proved to be a curse instead of a blessing.

KEY FEATURES OF THE PETROLEUM FUND

On the basis of the principles described above, the draft law which establishes a Petroleum Fund, and which has been approved by the Council of Ministers, has the following important features.

- The Petroleum Fund's income: all revenues emanating directly or indirectly from Timor-Leste's petroleum resources will flow into the Fund, as well as the return on the Fund's investments (net of management expenses). All the income of the Fund shall flow into an 'earmarked receipts account'. The Government's intention is that the Fund's opening balance on 1 July 2005 will include all the accumulated First Tranche Petroleum payments and increased by such amounts as are to be determined by the Government.
- The Petroleum Fund's expenditure: transfers from the Fund can only be made to a designated State Budget account, and the sum of all transfers in a fiscal year can not exceed a ceiling set by Parliament when approving the State Budget. This ceiling will as a general rule correspond to the amount necessary to finance the deficit on the State Budget excluding petroleum revenues.
- The Government has separately adopted a savings/expenditure policy of maintaining the real value of the petroleum wealth, which will serve as a reference to determine the amount of money that should flow out of the Fund over time. This policy translates to spending the estimated sustainable income from petroleum, which is the amount that can be spent each year forever establishing a good balance between the interests of current and future generations. On current calculations, this policy allows for a significant increase in Government spending in the medium term. The estimated sustainable income from the petroleum wealth is now calculated to be over \$100m as described below.
- Specific reporting requirements are imposed on the Government and the Consultative Council if the State Budget proposes to withdraw from the Petroleum Fund more than the estimated sustainable income from petroleum. While there at times may be good reasons to spend more than the estimated sustainable income, the provisions in the Act should contribute to making sure that such decisions are transparent and well informed. This Budget is proposing to withdraw from the Petroleum Fund less than the estimated sustainable income.
- The management of the Petroleum Fund: The Government has responsibility for the overall management of the Fund, and the head of the Ministry of Planning and Finance will exercise key functions and competencies. The operational management will be delegated to the Central Bank in accordance with a management agreement.
- The Investment Advisory Board is composed of five people, between which the Director of the Treasury, the head of the Central Bank and specialists in investment management will advise the head of the Ministry of Planning and Finance on material relative to the management of the Petroleum Fund.
- The investment of the Petroleum Fund: The Fund's savings will from the beginning be invested securely in low risk financial assets abroad. In the 2005-06 fiscal year, the management agreement will make clear that all of the Fund's investment will in practice mean investments mostly in government bonds, which means that the financial risk is seen to be limited and the expected investment return moderate. The investment

strategy in the Act shall be reviewed within five years, when a larger Fund and improved institutional capacity may suggest a different asset allocation.

- External independent audits will be carried out by an internationally recognized accounting firm, contracted through a competitive process internationally to bolster confidence that money going to, from or remaining in the Petroleum Fund are not misappropriated.
- The mandate of the Petroleum Fund Consultative Council will be to advise Parliament on the operations of the Fund, observing the operations and contributing to an informed public and the sound management of the petroleum wealth.
- There are accountability, transparency and information features to contribute to a sensible management of petroleum wealth. There will be a high degree of transparency in operations including accessible and all-inclusive reporting – both on the management of the Fund and on whether the spending of petroleum revenues is consistent with long-term considerations. There are also information requirements on payments made by companies’ Petroleum Fund receipts, which is a core element of the Extractive Industries Transparency Initiative. The Government has also established a separate transparency website, which includes a large number of documents relating to the petroleum sector, the Petroleum Fund and the State Budget.

An illustration of how the Petroleum Fund is envisaged to operate is shown at Diagram 5.1 and Table 5.1, and Chart 5.1 shows the expected growth in the Petroleum Fund.

Diagram 5.1
How the petroleum fund of Timor-Leste is envisaged to operate

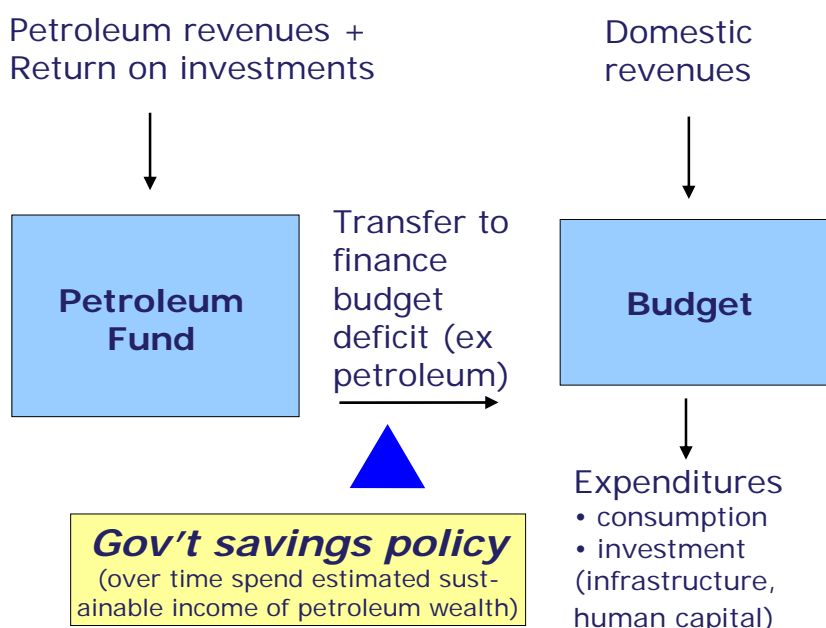


Table 5.1
The Petroleum Fund

	2004-05	2005-06	2006-07	2007-08	2008-09
Balance (start of year)	14	63	153	291	424
+ FTP/Petroleum Revenue	49	159	186	181	219
- Withdraw als	0	73	57	61	65
+ Interest	0	5	9	13	19
= Balance (end of year)	63	153	291	424	597

SAVINGS POLICY

The Petroleum Fund does not guarantee wise management of the petroleum wealth, but it can be a useful tool – provided it goes hand in hand with a fiscal policy framework that strikes the right balance between spending now and saving in financial assets. The Government has adopted such a fiscal framework in its savings policy.

The key to the Timor-Leste savings policy is that expenditure levels will not fluctuate with revenues. Instead, expenditures should adjust over the medium-term to the sustainable level of expenditure. This sustainable level is based on estimated current and future petroleum revenues, and the current level of savings. It is the level of expenditure that can be sustained indefinitely, including increasing with inflation.

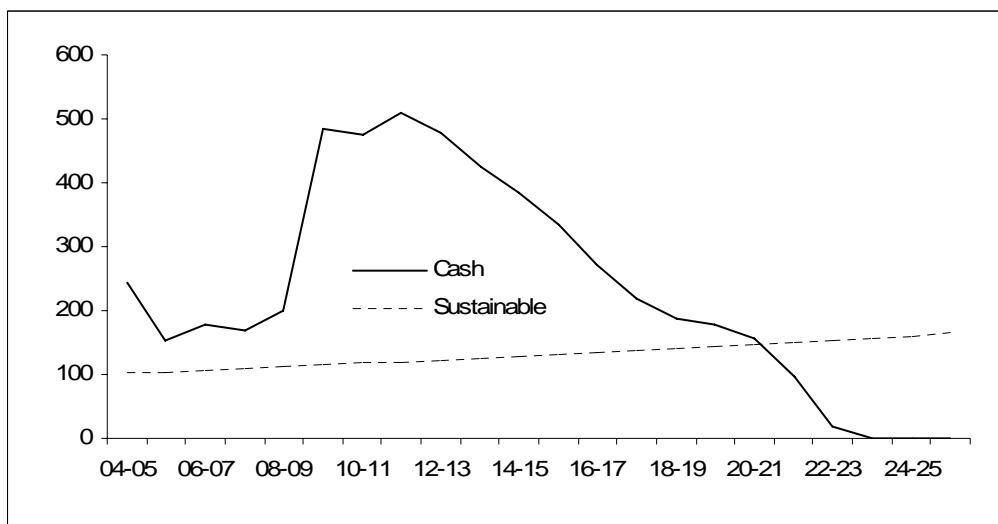
Any difference between total revenue and total expenditure will affect the balance of the Petroleum Fund. When revenues exceed expenditure then the surplus will be saved in the Petroleum Fund. When expenditures exceed revenues, as might happen if there is a temporary shortfall in revenue, then the required funding will be withdrawn from the Petroleum Fund so as to maintain expenditure at its sustainable level. Therefore, the Petroleum Fund will still play a useful role even when expenditure is at its long-term sustainable level.

This savings policy has the following advantages.

- The Petroleum Fund should accumulate significant levels of savings for the benefit of future generations of Timorese.
- The Petroleum Fund savings should generate significant interest income, including when petroleum revenues have ceased.
- Temporary fluctuations in world oil prices will have little effect on expenditure, as savings will be fluctuate instead.
- Permanent changes in revenue and the sustainable level of expenditure will result in adjustments of expenditure over the medium term, so as to minimize disruptive changes in expenditure plans.

Chart 5.1 shows the estimated petroleum revenue for Timor-Leste, excluding interest. It also shows the estimated sustainable expenditure from this petroleum revenue. The savings policy is for the budgeted level of expenditure to adjust to non-petroleum revenues plus this estimated sustainable petroleum income level over the medium term.

Chart 5.1
Estimated Petroleum Revenue and Sustainable Expenditure from Petroleum Income



CALCULATING THE ESTIMATED SUSTAINABLE EXPENDITURE LEVEL

The estimated sustainable income from the petroleum wealth is important for two purposes. First, the draft Petroleum Fund Act has specific reporting requirements imposed on the Government and the Consultative Council if the State Budget proposes to withdraw from the Petroleum Fund more than the estimated sustainable income from petroleum. Second, the Government's savings/expenditure policy of maintaining the real value of the petroleum wealth translates to spending non-petroleum income plus the estimated

sustainable income from petroleum, which means that the outflow from the Petroleum Fund over time should be close to the estimated sustainable petroleum income.

The concept of the sustainable level of expenditure can be thought of in different, but equivalent, ways.

- It is the expenditure level that can be continued indefinitely (indexed for inflation) given previous savings and estimated future revenues.
- The estimated sustainable expenditure for a fiscal year is equal to non-petroleum income plus the maximum amount that can be appropriated from the Petroleum Fund in that fiscal year and leave sufficient resources in the Petroleum Fund for an amount of equal value (indexed for inflation) to be withdrawn in all later fiscal years.
- The sustainable level of expenditure will maintain the real value of the petroleum wealth of Timor-Leste, where this real value takes account of savings already in the Petroleum Fund and estimated future petroleum revenues.

The calculation of the sustainable expenditure level derives from the following formula. It uses estimates of current non-petroleum revenues and the estimated sustainable income from petroleum revenues.

Estimated Sustainable Expenditure
 = Non-Petroleum Revenues
 + Estimated Sustainable Income from Petroleum Revenues

The estimated sustainable income from petroleum revenues is equal to three per cent of the value of petroleum wealth, where the value of petroleum wealth is the current balance of the Petroleum Fund plus the Net Present Value (NPV) of estimated future petroleum revenues. The definition of the estimated sustainable income from petroleum revenues is included in the draft Petroleum Fund Law, as shown in Diagram 5.1.

Diagram 5.2 Calculating the Estimated Sustainable Income from Petroleum Revenues

Estimated sustainable income for a fiscal year is calculated according to the following formula:

$$r \times \text{petroleum wealth}$$

where *r* is the estimated average real rate of return, or real interest rate, on Petroleum Fund investments in the future and, for the purposes of these calculations, shall be 3.0%.

Petroleum wealth is calculated according to the following formula:

$$V + \text{present value } (R_0, R_1, \dots, R_n) = V + \sum_{t=0}^n \frac{R_t}{(1+i)^t}$$

where:

V is the estimated value of the Petroleum Fund at the end of the prior fiscal year

R0, R1, etc. are the published budget projections for expected annual Petroleum Fund receipts for that fiscal year (*R0*) and future fiscal years (*R1*, etc.)

i is the estimated nominal yield on a U.S. government security, averaged over the years in which Petroleum Fund receipts are expected

n is the number of years until no further Petroleum Fund receipts are projected to be received.

For 2005-06, the estimated sustainable expenditure level is about \$150m. This comprises non-petroleum revenues of \$47m plus estimated sustainable income from petroleum revenues of \$103m. The estimated sustainable petroleum income is equal to three per cent of petroleum wealth, where estimated petroleum wealth is \$3.4 billion.

Table 5.2 shows the steps involved in calculating petroleum wealth. It shows the petroleum revenues (excluding interest) for each year. It also shows the value of those revenues after discounting future revenues by 5.5 per cent for every year in which they lie in the future. Table 5.2 also shows the totals. The total of the discounted revenues is the value of the petroleum wealth of Timor-Leste.

Table 5.2
Discounted Petroleum Revenue

Year	Nominal	Discount	Discounted
05-06	154	0%	154
06-07	177	-5%	168
07-08	168	-10%	151
08-09	199	-15%	170
09-10	484	-19%	390
10-11	475	-23%	363
11-12	509	-27%	369
12-13	479	-31%	329
13-14	426	-35%	278
14-15	384	-38%	237
15-16	335	-41%	196
16-17	272	-45%	151
17-18	218	-47%	115
18-19	189	-50%	94
19-20	179	-53%	84
20-21	158	-55%	71
21-22	96	-58%	41
22-23	20	-60%	8
23-24	-	-62%	-
Total	4,922		3,369

PART 6 – EXPENSES²

Combined Sources expenditure (State Budget, TFET and bilateral/multilateral) is expected at the time of printing to be some \$234 million in 2005-06. This compares with forecast expenditure for 2004-05 of around \$197 million (refer table 1.5).

Total State expenditure, including self funded agencies, is budgeted to be \$129million, an increase of \$42 million over the 2004-05 Budget of \$87 million (refer table 1.4). This increase reflects a healthy growth in estimated Timor Sea Revenues and two key Government policies:

- Savings Policy – the Government will place all Petroleum revenues in the soon to be established Petroleum Fund and plans to utilise only the sustainable level of income from that fund for its annual budget; and
- Expenditure Policy – despite the significant rise in funding available from the estimated sustainable income of the Petroleum Fund, the Government will seek to maintain the quality of its expenditure – that is, through the annual Budget it will ensure that funds are only allocated for those purposes that are fully consistent with the National Development Plan and Sector Investment Programs and where the capacity to execute the Budget exists.

The increase in State Budget expenditure also reflects the movement onto the Government's Budget of a number of expenditures which are core and ongoing government activities and which would otherwise have been funded off-Budget. This move reflects the Government's desire to commence a move gradually to reflect all Government activity on-Budget and under national control. This is consistent with the approach discussed with Development Partners in framing the Consolidation Support Program (CSP), the successor to the highly successful TSP arrangements. It is hoped that the CSP will contribute \$30 million to State Budget revenue over the next three years.

At the time of preparation of this document, no decision has been taken by the UN Security Council on the continuation of support of UN Assessed assistance. No estimate has been included in the 2005-06 Combined Sources Budget estimates at this stage due to the uncertainty surrounding the UN's eventual decision. Readers should note that this may slightly affect comparisons of the 2004-05 Budget with 2004-05 figures throughout this document.

STATE BUDGET AND COMBINED SOURCES SECTORAL SHARES

Through the Sector Investment Programming process seventeen sectors have been identified, with fifteen programs having been approved by Government at this time. These are listed in table 6.2 along with the Organs of State that fall within each. These take into account key structural changes made by Government for the 2005-06 year.

² "In Part 6 – Expenses, SIPs expenditures are drawn from the individual SIP reports. See also footnotes in Part 1 – Overview."

Table 6.1
2005-06 Combined Sources Budget (\$'000)

Organ of State	General Budget of the State			Funded SIP Activities			Unfunded SIP Activities			Total		
	Recurrent	Capital	Total	Recurrent	Capital	Total	Recurrent	Capital	Total	Recurrent	Capital	Total
A-1 Office of the President of the Republic	595	-	595	-	-	-	300	150	450	895	150	1,045
B-1 National Parliament	1,198	113	1,311	528	-	528	400	-	400	2,126	113	2,239
C-1 Office of the Prime Minister and CoM	3,448	2,000	5,448	793	-	793	955	-	955	5,196	2,000	7,196
D-1 Ministry of Defence	8,177	1,600	9,777	-	-	-	-	11,800	11,800	8,177	13,400	21,577
E-1 Secretariat of State for the Council of Ministers	393	-	393	-	-	-	-	-	-	393	-	393
F-1 Ministry of State Administration	3,172	935	4,107	3,830	374	4,203	3,856	2,325	6,181	10,857	3,634	14,491
G-1 Ministry of the Interior	1,366	90	1,456	-	-	-	600	-	600	1,966	90	2,056
G-4 National Police of Timor-Leste	8,437	406	8,843	5,769	-	5,769	-	3,250	3,250	14,206	3,656	17,862
H-1 Ministry for Development	404	-	404	-	-	-	5,509	791	6,300	5,913	791	6,704
S-1 Secretariat of State for Tourism and Environment	177	-	177	-	-	-	1,070	-	1,070	1,247	-	1,247
I-1 Ministry of Justice	4,176	1,465	5,641	1,498	-	1,498	2,945	795	3,740	8,619	2,260	10,879
J-1 Ministry of Agriculture, Forestry and Fisheries	3,880	570	4,450	3,357	1,860	5,218	3,060	540	3,600	10,297	2,970	13,268
K-1 Ministry of Education and Culture	16,597	1,612	18,209	4,118	1,385	5,504	6,232	9,118	15,350	26,947	12,115	39,063
L-1 Ministry of Health	10,305	4,000	14,305	7,750	1,445	9,196	6,205	3,325	9,530	24,260	8,770	33,030
M-1 Ministry of Labour and Community Reintegration	607	253	860	607	253	860	1,500	-	1,500	2,714	506	3,220
N-1 Ministry of Foreign Affairs and Cooperation	2,678	-	2,678	-	2,000	2,000	970	307	1,277	3,648	2,307	5,955
O-1 Ministry of Planning and Finance	6,716	1,640	8,356	414	187	601	10,820	250	11,070	17,950	2,077	20,027
P-1 Ministry of Transport and Communications	1,636	981	2,617	950	2,017	2,967	950	2,017	2,967	3,536	5,015	8,551
R-1 Ministry of Natural Resources, Minerals and Energy Policy	6,214	1,768	7,982	1,681	7,651	9,332	3,173	7,651	10,824	11,068	17,070	28,139
Q-1 Ministry of Public Works	805	6,545	7,350	250	9,953	10,203	2,039	4,000	6,039	3,094	20,498	23,592
T-1 Secretariat of State for Youth and Sport	247	183	430	-	-	-	320	-	320	567	183	750
U-1 Judiciary	503	-	503	-	-	-	1,961	99	2,060	2,464	99	2,563
V-1 Banking and Payments Authority	240	10,500	10,740	-	-	-	250	-	250	490	10,500	10,990
Y-1 Provider of Human Rights	83	-	83	490	-	490	625	-	625	1,198	-	1,198
X-1 Timor-Leste Broadcasting	826	-	826	-	-	-	186	904	1,090	1,012	904	1,916
Total (Excluding Autonomous Agencies)	82,880	34,661	117,541	32,036	27,126	59,162	53,925	47,322	101,247	168,841	109,109	277,950
Autonomous Agencies	9,802	2,044	11,846							9,802	2,044	11,846
Total (Including Autonomous Agencies)	92,682	36,705	129,387	32,036	27,126	59,162	53,925	47,322	101,247	178,643	111,153	289,796

Table 6.2
Grouping of Ministries within the NDP/SIP Sectors

Basic Services Sector	Production Related Sector	Basic Infrastructure Sector	Governance Related Sectors
<u>Education and Training</u> Ministry of Education and Culture	<u>Agriculture, Forests and Fisheries</u> Ministry of Agriculture Forests and Fisheries	<u>Communications</u> Minister of Transport and Communications	<u>Public Sector Management</u> Ministry of Planning and Finance Ministry of State Administration
<u>Health Care</u> Ministry of Health	<u>Natural Resources and Environment</u> Ministry of Natural Resources, Minerals and Energy Policy	<u>Power</u> Ministry of Natural Resources, Minerals and Energy Policy	<u>Local Government</u> Ministry of State Administration
<u>Protection and Civil Society</u> Ministry of Labour and Solidarity Office of the Prime Minister and Presidency of the Council of Ministers	<u>Private Sector Development</u> Ministry of Development Secretary of State for Tourism and the Environment	<u>Transportation</u> Minister of Transport and Communications	<u>Rights, Equality and Justice</u> Ministry of Justice Tribunals Office of the Adviser to the Prime Minister on the promotion of Equality
		<u>Water Supply and Sanitation</u> Ministry of Natural Resources, Minerals and Energy Policy	<u>Security, Peace building and Reconciliation</u> Ministry of Defense National Police of Timor-Leste
		<u>Housing and Urban Development</u> Ministry of Public Works	<u>External Relations and Cooperation</u> Ministry of Foreign Affairs and Cooperation
			<u>Other Pillars of State</u> Office of the President of the Republic National Parliament Banking and Payments Authority Office of the Prime Minister

The share of combined sources allocations between sectors is similar to that in previous years. Table 6.1 shows that Infrastructure, Education and, Health remain the largest sectors in terms of the money anticipated to be spent in 2004-05. These are the same sectors that predominated last year demonstrating the Government's continued focus on poverty reduction through effort to improve education, health and infrastructure development outcomes.

The key difference this year is that the State Budget share of this total budget is increased in 2004-05. Last years Budget estimate (refer December's Supplementary Budget) showed the General Budget of the State shouldering around 44% of the Combined Sources expenditure. This has risen to around 51% in 2005-06 (Refer table 1.1).

Table 6.1 also highlights the heavy reliance of Government on development partner financing if Timor Leste is to make further progress towards the targets established NDP and MDG's. Clearly shown also is the large gap that exists between total desired expenditure and total committed financing. Of the \$160 million which the SIP's identify as desirable development partner funded project disbursements in 2005-06, \$101 million is so far not committed. This reflects the heavy emphasis placed by the Government over the past year on completing the SIP exercise and has diverted attention from the task of mobilising funds. The "new partnership" now sought by the Government will focus through SWG's on the mobilization of the required funding.

JAPANESE NON-PROJECT AID

The Government of Timor Leste has now entered into two agreements for the provision of aid in the form of goods procured by the Japanese Government on behalf of the Government of Timor-Leste. The value of these is:

- First agreement 300 million yen (approximately US\$2.4 million)
- Second agreement 500 million yen (approximately US\$4.5 million)

Purchases from the first grant are now largely realised. The Government of Timor-Leste has taken delivery of shipments of petroleum fuel, for electricity generation, and asphalt and cement for roads maintenance. Tenders have just been finalised for the supply of 4 electricity generators to be installed in Lautém (Los Palos) and Cova Lima (Suai) to replace aging generators in those districts.

The government is still negotiating a package of purchases from the second grant.

A requirement of this aid program is for the GOTL to establish a Counterpart Fund within which is set aside funds equal to at least 50% of the Free On Board value of goods received. These funds will be applied for the purposes of social/economic development. Funds will be set aside within CFET balances progressively as goods are received. This accumulation will be financed by reductions to individual Ministry budgets as the goods are made available to them.

GENERAL BUDGET OF THE STATE EXPENDITURES AND KEY NEW MEASURES

OVERVIEW

Table 6.3 provides a summary of 2005-06 State Budget expenditure by Ministry and by category of expenditure.

Table 6.3
General Budget of the State Total Allocations 2005-06

Organ of State		Recurrent Expenditure					Capital and Development	Total Expenditure
		Salaries	Goods and Services	Minor Capital	Total Recurrent			
A-1	Office of the President of the Republic	150	294	151	595	-	595	
B-1	National Parliament	610	542	46	1,198	113	1,311	
C-1	Office of the Prime Minister	361	2,986	101	3,448	2,000	5,448	
D-1	Ministry of Defence	1,784	5,868	525	8,177	1,600	9,777	
E-1	Secretariat of State for the Council of Ministers	59	293	41	393	-	393	
F-1	Ministry of State Administration	834	2,111	227	3,172	935	4,107	
G-1	Ministry of the Interior	740	607	19	1,366	90	1,456	
G-4	National Police of Timor-Leste	4,242	3,580	615	8,437	406	8,843	
H-1	Ministry for Development	123	252	29	404	-	404	
I-1	Secretariat of State for Tourism and Environment	70	97	10	177	-	177	
J-1	Ministry of Justice	905	3,146	125	4,176	1,465	5,641	
K-1	Ministry of Agriculture, Forestry and Fisheries	691	2,054	1,135	3,880	570	4,450	
L-1	Ministry of Education, Culture, Youth and Sports	11,921	4,225	451	16,597	1,612	18,209	
M-1	Ministry of Health	3,025	6,730	550	10,305	4,000	14,305	
N-1	Secretariat of State for Labour and Solidarity	232	373	2	607	253	860	
O-1	Ministry of Foreign Affairs and Cooperation	221	2,417	40	2,678	-	2,678	
P-1	Ministry of Planning and Finance	1,002	5,594	120	6,716	1,640	8,356	
Q-1	Ministry of Transport and Communications	367	891	378	1,636	981	2,617	
R-1	Ministry of Natural Resources, Minerals and Energy Policy	707	5,300	207	6,214	1,768	7,982	
S-1	Ministry of Public Works	231	445	129	805	6,545	7,350	
T-1	Secretariat of State for Youth and Sport	80	161	6	247	183	430	
U-1	Judiciary	227	209	67	503	-	503	
V-1	Banking and Payments Authority	-	240	-	240	10,500	10,740	
W-1	Provedor of Human Rights	53	20	10	83	-	83	
X-1	Broadcasting Service of Timor-Leste	310	516	-	826	-	826	
Total (Excluding Autonomous Agencies)		28,945	48,951	4,984	82,880	34,661	117,541	
R-8.1	Electricidade de Timor-Leste	36	7,496	197	7,729	1,000	8,729	
Q-10.1	Civil Aviation	143	618	120	881	944	1,825	
Q-11.1	Maritime	94	653	65	812	100	912	
Q-4.1	Equipment Management	71	209	100	380	-	380	
Total (Autonomous Agencies)		344	8,976	482	9,802	2,044	11,846	
Total Including Autonomous Agencies		29,289	57,927	5,466	92,682	36,705	129,387	

Table 6.4
Key Measures of the 2005-06 Budget of the State 2005-06 to 2008-09

	2005-06	2006-07	2007-08	2008-09	Total
Total New Measures (Including Autonomous Agencies)	28,406	19,339	23,459	13,094	84,298
Salaries	121	203	230	257	811
Ministry of Agriculture, Forestry and Fisheries					-
<i>New Staff for Fisheries Inspections and Regional Agricultural Centres</i>	121	203	230	257	811
Ministry of Education and Culture					
<i>Transfer of Regional Agricultural College Staff</i>	-121	-121	-121	-121	- 484
Goods and Services and Minor Capital	11,421	6,150	4,852	3,266	25,689
President of the Republic					-
<i>New Security Cars for the President of the Republic</i>	151	-	-	-	151
Office of the Prime Minister and the Presidency of the Council of Ministers					
<i>Solidarity Fund</i>	1,500	-	-	-	1,500
<i>Operations of the Commission on Truth and Friendship</i>	500	500	-	-	1,000
National Parliament					-
<i>Increase the per diem paid to Deputies of the National Parliament from \$2.50 to \$5.00</i>	52	52	52	52	208
<i>Establishment of a Council of Advisors on Petroleum Fund Issues</i>	100	100	100	100	400
Ministry of State Administration					
<i>Election Costs for Chefe de Suco and Suco Council</i>	40				40
<i>Local Government Programme (UNDP)</i>	29	87	87	87	290
<i>Personnel Information Management System</i>	300	-	-	-	300
Secretary of State for Defence (FDTL)					-
<i>Equipment for Integrated Communications Systems</i>	400	-	-	-	400
<i>Operational Costs of the FDTL Previously Funded by Development Partners</i>	1,561	500	500	500	3,061
Ministry of the Interior Including (PNTL)					-
<i>Additional funds for National Security - catering</i>	60	60	60	60	240
<i>Upgrading Patrol car fleet</i>	217	100	25	0	342
<i>Increased operational costs of the Police Academy</i>	111	32	14	19	176
Ministry of Agriculture, Forestry and Fisheries					-
<i>Increased operational costs previously financed via TFET</i>	2,051	1,774	1,732		5,557
<i>Establishment of 3 Regional Centres</i>	226	299	337	349	1,211
Ministry of Foreign Affairs and Cooperation					-
<i>Opening of Consulates in Kupang and Denpasar</i>	159	123	131	136	549
Ministry of Health					-
<i>New Forensic Pathology Department at the Dili National Hospital</i>	47	21	29	31	128
<i>Additional financial support for SAMES (medical store)</i>	205	239	243	243	930
<i>Specialist training for midwives, health analysts and hospital management training</i>	340	340	340	340	1,360
Ministry of Justice					-
<i>Increase in operational costs</i>	312	295	257	244	1,108
Ministry of Planning and Finance					
<i>Counterpart Funds</i>	1,000	750	-	-	1,750
<i>Provision for Fuel</i>	1,000	-	-	-	1,000
<i>Provision for tax expenditures associated with TFET</i>	100	-	-	-	100
<i>Provision for tax refunds</i>	100	100	100	100	400
Ministry of Transport and Communications					
<i>Technical Planning Assistance</i>	198	-	-	-	198
<i>Acquisition of Meteorological Equipment</i>	100	128	150	200	578
Broadcasting Services of Timor-Leste					
<i>Operational Costs previously funded by development partners</i>	446	523	587	709	2,265
Tribunals					
<i>Increased operational costs</i>	116	127	108	96	447

Capital and Development	13,364	9,486	14,877	9,571	47,298
Office of the Prime Minister and the Presidency of the Council of Ministers					
<i>Construction of a new Conference Centre for Government</i>	2,000	-	-	-	2,000
National Parliament					
<i>Capital works within Parliamentary Complex</i>					
Ministry of State Administration					
<i>State Administration Offices in 5 Sub Districts</i>	300	-	-	-	300
<i>Office for National Printing</i>	400	-	-	-	400
<i>Local Government Development Programme (UNDP)</i>	192	526	526	526	1,770
Secretary of State for Defence (FDTL)					
<i>Integrated Communication System for Government</i>	1,600	-	-	-	1,600
Ministry of the Interior Including (PNTL)					
<i>Rehabilitation of PNTL building in Dili</i>	31	0	0	0	31
<i>Rehabilitation of 4 District buildings</i>	130	270	0	0	400
<i>Rehabilitation of Shooting range for Training Academy</i>	20	20	0	0	40
<i>Construction of Border Posts</i>	225	375	0	0	500
Ministry of Education and Culture					
<i>Rehabilitation of Ministry Office</i>	250	0	0	0	250
<i>University of Timor-Leste Future Works</i>	-	500	600	700	1,800
<i>Construction of Office for the Sports Division</i>	103	-	-	-	103
Ministry of Agriculture, Forestry and Fisheries					
<i>Rehabilitation of Agricultural Schools</i>	100	200	250	250	800
<i>Rehabilitation of Research Laboratory</i>	-	180	250	-	430
Ministry of Health					
<i>Baucau Reference Hospital construction - TFET counterpart funds</i>	-	-	4,000	-	4,000
<i>Saui Reference Hospital Construction - TFET counterpart funds</i>		2,000	-	-	2,000
<i>Dili National Hospital rehabilitation - TFET counterpart funds</i>	3,500	-	-	-	3,500
Ministry of Justice					
<i>Construction of an Office for the Public Notary</i>	650	-	-	-	650
<i>Construction of an Office for the Land and Property Directorate</i>	315	-	-	-	315
Ministry of Planning and Finance					
<i>Warehouses for Apprehended Customs Goods</i>					
Ministry of Labour and Community Reintegration					
<i>Garden/Memorial to the Victims of War</i>	253	-	-	-	253
Ministry of Public Works					
<i>Post Office Warehouses</i>	300	400	500	535	1,735
<i>Further Construction of Mini Markets</i>	50	100	285	450	885
<i>Building for Licencing and Registration</i>	100	-	-	-	100
<i>Additional funds for Water and Sanitation Development</i>	500	400	500	500	1,900
<i>Rehabilitation of bus terminals through Timor-Leste</i>	-	1,208	3,206	1,700	6,114
<i>Additional funding for selected road improvements</i>	200	150	150	-	500
<i>Additional funding for Bridge Rehabilitation</i>		1,350	1,500	1,500	4,350
<i>Additional funding for periodical road maintenance</i>	328	-	-	-	328
<i>Public Safety Campaign (Street Signs etc)</i>	100	100	150	200	550
<i>Rehabilitation and Construction of Various Buildings</i>	278	322	600	700	1,900
<i>Information Technology Rollout</i>	300	200	250	400	1,150
Autonomous Agencies					
<i>Increased Capital Improvements in Electricidade de Timor-Leste</i>	750	1300	1800	1800	5650
<i>Civil Aviation - Widening of Runway at Nicolau Lobato International Airport Dili</i>	864	10	60	60	994
<i>Increased capital works at Dili Port</i>	0	250	250	250	750
Investments	10,500	-	-	-	10,500
Banking Payments Authority					
<i>Capital Injection for the BPA</i>	10,500	-	-	-	10,500

Table 6.4 documents the key new measures that will be implemented through the 2005-06 Budget.

The 2005-06 General Budget of the State is one which sees significant growth in State expenditure. Total State expenditure, including by self funded agencies, is estimated to be \$136 million, an increase of \$43 million over the 2004-05 Revised Budget of \$93 million (refer table 1.4). This increase reflects a healthy rise in estimated Timor Sea Revenues and two key Government policies:

- Savings Policy – the Government will place all Petroleum revenues in the newly established Petroleum Fund and plans to withdraw up to the sustainable level of income from that fund for its annual budget; and
- Expenditure Policy – despite the significant rise in funding available from the estimated sustainable income of the Petroleum Fund, the Government will seek to maintain the quality of its expenditure – that is, through the annual Budget it will ensure that funds are only allocated for those purposes that are fully consistent with the National Development Plan and Sector Investment Programs and where the capacity to execute the Budget exists.

The increase in State Budget expenditure also reflects the movement onto the Government's Budget of a number of expenditures which are core and ongoing government purposes and which would otherwise have been funded off-Budget. This move reflects the Government's desire to commence a move gradually to reflect all Government activity on-Budget and under national control. This is consistent with the approach discussed with Development Partners in framing the Consolidation Support Program (CSP), the successor to the highly successful TSP arrangements.

The large increase in the 2005-05 budget arises from a number of factors:

- Funding to allow for population growth impacts on the Ministries of Health and Education;
- The need to meet payments for core service delivery costs that were previously met by donors off-budget. These include Defense logistics contracts, the Forensic Pathology laboratory and a range of previously TFET and donor funded activities in the Ministry of Agriculture, Forests and Fisheries
- Funding to allow for the necessary expansion of services in key areas. For example, primary education where both the population in the target age group is increasing and the participation rate, the establishment of a new fisheries licensing regime;
- An acceleration of investment spending in the Capital and Development category to undertake more essential infrastructure work from within the State Budget; and
- Increases to reflect input cost increases particularly the price of fuel both for electricity generation and for vehicles (\$1 million). All spending categories have increased in the 2005-06 Budget as illustrated in Table 6.5.

Table 6.5
General Budget of the State (General Government) Aggregate Figures

	2004-05 Est	2005-06 Est	2006-07 Est	2007-08 Est	2008-09 Est	Total 4 Years
Salaries	28.2	28.9	31.3	32.3	33.6	126.1
Goods and Services	39.6	49.0	49.5	50.1	50.7	199.2
Minor Capital	2.2	5.0	4.1	3.9	4.4	17.4
Major Capital	8.7	34.7	19.3	23.2	18.4	95.5
Total Expenditure	78.7	117.5	104.1	109.5	107.1	438.3

Salaries have increased to fund the full approved staffing profile of the Government. The 2004-05 figure is an estimated actual and reflects the fact that staffing levels have been slightly below the approved levels for much of 2004-05. Future year estimates allow for small increases in salary levels and assume no increase in the staffing profile. The Government will examine the current staffing profile of 17,200 during the year with a view to determining how the profile should be managed over the next 4 years to take account of the increasing number of core activities being undertaken through the State Budget.

Goods and services allocations have grown significantly due to a number of factors. These include:

- Increased running costs particularly for fuel for electricity generation and motor vehicle operation;
- Larger allocations for professional services to allow the contracting of expert advice and support for Government programs. For example, the introduction for the Petroleum Fund will require expert advisers to advise the National Parliament and also the head of the Ministry for Planning and Finance in their roles of oversight and governance of the Fund. A provisional allocation of \$200,000 has been provided to these agencies for this purpose;
- The assumption of costs previously borne by Development Partners, such as the logistics support contracts for the defense forces (\$1.56 million), the establishment of a forensic pathology laboratory by the Ministry of Health (\$0.1 million) to replace the facility previously provided by the UN, and subsidisation of the Public Broadcasting Service (\$0.8 million).
- The creation of a Solidarity Fund to be used by Government to provide humanitarian aid to the population in times of hunger, disaster, and other adversity (\$1.5 million).
- Meeting the operating expenses of new activities (e.g. the facilitation of an off-shore fishing and licensing regime - \$0.1 million) and the required expansion of activities (new primary schools and additional students).

Minor Capital expenditure has increased largely due to expenditure aimed at equipping the Civil Service to take more of its core and ongoing expenditure on-Budget. That is, much of the equipment to be purchased would otherwise have been provided off-budget by Development Partners. Examples include:

- New and replacement vehicle purchases for the police, agriculture, and a various other institutions are allocated \$1.5 million.
- New communications equipment to better link regional the operations of Ministries and security forces across the country are allocated some \$0.75 million.
- Equipment purchases for new laboratory installations in the Ministries of Health and Agriculture, Forestry and Fishing contribute to the increase in minor capital purchases, as do equipment purchases by the Ministry of Public Works.

Capital and development spending has grown significantly is compared with 2004-05. This increase is important for two reasons. First, infrastructure development is a particular priority for the Government at this time in the nation's development. It is important that this priority be reflected in the Government's own budget rather than largely left to off-budget activities funded by Development Partners.

Secondly, the maintenance of a relatively high proportion of expenditure in one-off capital investments retains strong flexibility in the medium term budget position of the Government. Given Timor Leste's heavy reliance on a single revenue producing commodity (Timor Sea Oil reserves), and the inherent volatility of prices in market prices, it is important that the State Budget retains the ability to respond to medium term downturns in the oil revenues. Recurrent expenses, that is, Salaries and Goods and Services, usually involve the funding of local employees and the delivery of much needed services to the population generally. They are therefore, very difficult to reduce once established without significant disruption. Conversely, new capital and development projects can be rescheduled in such an event without major disruption.

The total Capital and Development program for 2005-06 comprises \$10.2 million in new project expenditure, \$8.5 million in ongoing projects approved in prior Budgets and the investment of \$10.5 million in the capitalization of the BPA. Key new investments include:

- Capital Injection to the central bank to raise its capital adequacy. \$10.5 million is to be provided in 2005-06.
- Construction of a new Government conference centre in Dili (\$2.0 million)
- Installation of a new integrated communications system for government to be used by the military, police, emergency services and other ministries as required (\$1.6 million)
- Finishing off of the construction of the garden to the victims of the War in Metinaro (\$0.25 million)
- Increased funding for the development of water and sanitation facilities (\$0.5 million)
- Increased funding for the maintenance and improvement of roads and for road safety initiatives (\$0.62 million)

- Upgrading IT infrastructure across Government (\$0.3 million)
- Capital grants to local governments under the UNDP local government program (\$0.2 million, rising to \$0.5 million per annum in the out years)
- \$2.9 million has been provided for the rehabilitation of government buildings, including \$0.3 million for the rehabilitation of district administration buildings.
- Budget Decisions that do not impact on expenditures in 2005-06 but which will impact from 2006-07 include: \$1.8 million for building and construction works for the new University of Timor Leste location over the next four years; \$6.1 million for the rehabilitation of bus terminals over four years; and a further increase in funding for the rehabilitation of bridges over of around \$4.4 million, These forward commitments will assist the relevant Government agencies in planning to better execute their future Capital and Development Budget.

It should be noted that these new approvals build on the existing program for which approvals were made in previous years. For example, increased funding for water and sanitation (\$500,000 per annum) is in addition to existing allocations for development projects and emergency response averaging \$1.5 million per annum. In Education, new funding averaging \$0.6 million has been allocated for works at the University of Timor Leste, in addition to on-going annual allocations averaging \$1.6 million for the construction and rehabilitation of schools.

Further detail on the Capital and Development projects, both ongoing and new, funded through the budget are contained in Annexe 3. Readers will note that projects listed in the appendix provide additional detail this year compared to previous years. Where possible, capital projects are listed in accordance with the regions/districts in which they fall. This presentation will add transparency to the Capital and Development Budget and provide a tool for the new Secretaries of State for each region to drive implementation of projects in their region.

Budget Execution - The increase in the State Budget will put significant pressure on the Civil Service to lift its rate of Budget execution. Much attention has been paid to this issue over the last year. Improved Budget execution will require a mixture of responses including: structural change; review and reform of processes; and improved knowledge of the system of procurement by all parties; to name but a few. Specific initiatives in place, or planned, include:

- Changes to the structure of Government such as the realignment of Ministries and the appointment of a number of additional Secretaries of State are a direct response to this issue. (See following paragraph).
- More complete documentation of budget plans, particularly in relation to capital projects which are reported now on a specific project and geographical basis so execution can be more effectively monitored.
- The Prime Minister, last year, established and oversees a committee to examine and monitor budget Execution by line ministries.
- Reviews of the procurement processes within MOPF have resulted in consideration of an increase to the threshold for purchase made directly by line ministries without having to engage central approval processes administered by MOPF. Consideration is also being given to a range of issues impacting of the administration of Budget expenditures in the Districts.
- Further work is planned to better educate Ministries on the Procurement process and how to work within them;
- Following the example of the Ministry of Health t, the Ministry of the Education, Culture, Youth and Sport, the Ministry of Public works and the Ministry of the Agriculture, Forests and Fisheries have nominated a senior staff member to work directly with Procurement to follow up and to speed up the processes improving the budgetary execution in these Ministries

These measures are for the 2005-06 fiscal year and follow the continued efforts of the Government to continually improve budgetary execution.

This commitment is well demonstrated by the recently announced changes to administrative arrangements in Government. These include:

- The creation of five new positions, being four Secretaries of State for Regional co-ordination and one Secretary of State resident in Oe-Cusse. These positions will have responsibility for ensuring that Government services and infrastructure in each region are appropriately targeted and delivered in a timely manner. Their responsibility will be to work with District administrators and other local leaders. They will report to the Prime Minister. Their role will

also be to ensure that planning and resource allocation processes of Government in future will be well informed about, and driven by, the needs of the regions, a key requirement to avoid the Government's decision processes from becoming Dili-centric.

- A new Ministry of Public Works will be established to focus attention more clearly on infrastructure investment and to drive budget execution in this area. The separation of Public Works from the very large and complex Ministry of Communications, Transport and Public Works will ensure that management focus on public works investment is not diluted by a focus on the other important areas of the Ministry.

The Ministry of Education, Youth, Culture and Sport will also be split to form the Ministry of Education and Culture with the Youth and Sport activities allocated to a new Secretary of State. The current Ministry has struggled with budget execution in the past. This split should allow more focused attention on the delivery (and therefore budget execution) of education services throughout the country.

CONSOLIDATION SUPPORT PROGRAM (CSP)

The CSP replaces the highly successful Transition Support Program (TSP) which has been a vehicle for direct budget support by Development Partners and also for a regular policy dialogue between the Government and Development Partners.

Underlying the CSP is the Government's desire to begin to grow its State Budget so that, over time, it moves towards the ultimate objective of conducting all core and on-going Government activities under that control of its consolidated budget. Small steps have been made towards this objective in 2005-06 with a number of activities and inputs being brought on-budget. Most of these are expenditures that have previously been met off-budget, by Development Partners, or are indicated in the SIP reports as future Development Partner contributions. In selecting activities to be newly included in the Budget the Government has been mindful of the need to ensure that new State Budget expenditure can in fact be executed. The Budget Review Committee took pains to explore this avenue whenever new spending was being considered for inclusion in the Budget. In some cases, activities were rejected because the BRC could not be convinced regarding executability.

Examples of the inclusion of these expenditure in the budget are:

- Ministry of Health, the establishment of a forensic pathology laboratory (\$0.1 million)
- Ministry of Agriculture, Forestry and Fishing, the establishment of an off-shore fishing and licensing regime, expanded agriculture extension services and the creation of a regional office network to better service the regions (\$2.2 million) Ministry of Defense, taking over the logistics support outsourced contracts (\$1.5 million).
- Upgrading the Government's shared communication and information technology systems (\$2.0 million).
- The implementation of the Timor Leste identity card (\$1.9 million).

Table 6.6
Achievements against TSP Targets 2005-06 TO 2008-09 (%)

	2005-06	2006-07	2007-08	2008-09	Total
Education and Health as % of Total Expenditure	32.5%	36.8%	38.7%	38.2%	36.6%
Primary Education as % of Education	45.9%	45.5%	45.4%	45.2%	45.4%
Hospitals Expenditure as % of Health	38.3%	39.5%	36.8%	39.1%	38.4%
Security Expenditure as % of Total Expenditure	20.1%	19.3%	19.7%	19.4%	19.6%
Agriculture Expenditure as % of Total Expenditure	4.7%	4.5%	4.5%	4.8%	4.6%

The - General Budget of the State continues the commitment of the Government's vision to the reduction of poverty. Some of the TSP parameters will suffer a decline, namely:

- Education and Health recurrent expenditure as a percentage of total recurrent State Budget expenditure has a target of greater than 35%. Due to a number of compositional changes in the 2005-06 which see many new services funded from State Budget for the first time (refer comment regarding CSP Program), the percentage of total Budget for these Ministries has declined from 36.4% in 2004-05 to around 32% this year. This shift is also contributed to by the fact that for the 2005-06 Budget neither Ministry has been allocated significant growth in funding.
- However, the forward projections show that the target will be achieved in 2006-07 and beyond as programmed growth funding, particularly for Education, will again lift the share. Growth funding is based on SIP forecasts for school age population growth and participation rates

The Budget proposed for hospitals is 38.3 % of the total recurrent Health Budget, well within the target of less than 40%.

The recurrent spending of the defence security forces (FDTL and PNTL) comprise in aggregate 19.6 % of the total recurrent Budget, well below Government policy to keep these expenditures below 25% of the total Budget.

STAFFING NUMBERS AND ISSUES

Public sector staff numbers are coming under pressure as the Government expands the range of activities it undertakes through the State Budget. For 2005-06, staff numbers will remain broadly within the agreed staffing profile of 17,200. Table 6.7 sets out these figures in some detail.

In considering the submissions for the 2005-06 Budget the Budget Review Committee (BRC) recognised that the ceiling of 17,200 will need to be reviewed. A number of line ministries made requests for increased staff numbers in order to extend the range of their activities. In considering this situation, BRC was mindful of the Government's position that the Civil Service should remain "lean and efficient". It has therefore undertaken to review the position after the budget has been completed with a view to establishing guidelines for the 2006-07 Budget.

It is clear that some increases will be necessary; however, these need to be considered in the light of current under employment by most ministries, and the availability of alternate strategies such as contracting out services rather than direct employment and service delivery.

Table 6.7
Total Staffing 2005-06

	L1	L2	L3	L4	L5	L6	L7	Total
Official Civil Servants	642	991	6,504	3,419	629	248	21	12,454
Permanent	615	918	6,352	3,344	607	221	20	12,082
Temporary	27	73	152	70	22	27	1	372
Non Civil Service Government Staff	605	3,153	599	419	229	44	33	5,082
Permanent	575	3,114	536	386	69	4	2	4,686
Temporary	30	39	63	33	160	40	31	396
Autonomous Agency Staff	79	178	163	121	50	21	12	624
Permanent	52	166	145	64	27	10	2	466
Temporary	27	12	18	57	23	11	10	158
Total	1,326	4,322	7,266	3,959	908	313	66	18,160
Permanent	1,242	4,198	7,033	3,799	703	235	24	17,234
Temporary	84	124	233	160	205	78	42	926

FUNDING OVERVIEW AND MEASURES BY MINISTRY AND SECRETARY OF STATE

Office of the President

Table 6.8
Funding and Staffing Overview Office of the President (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	140	150	155	160	165	630
Goods and Services	220	294	288	288	288	1,158
Minor Capital	20	151	38	38	38	265
Total Recurrent Expenses	380	595	481	486	491	2,053
<i>Growth on Previous Year</i>		56.6%	-19.2%	1.0%	1.0%	-17.5%
Total Capital and Development	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Total General Budget of the State	380	595	481	486	491	2,053
<i>Growth on Previous Year</i>		56.6%	-19.2%	1.0%	1.0%	-17.5%
Confirmed Funds From Other Sources						
Recurrent Expenses	-	-	-	-	-	-
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sources	-	-	-	-	-	-
<i>Growth on Previous Year</i>						
Combined Sources Budget						
Recurrent Expenses	380	595	481	486	491	2,053
<i>Growth on Previous Year</i>		56.6%	-19.2%	1.0%	1.0%	-17.5%
Capital Expenses	-	-	-	-	-	-
<i>Growth on Previous Year</i>						
Total Combined Sources Budget	380	595	481	486	491	2,053
<i>Growth on Previous Year</i>		56.6%	-19.2%	1.0%	1.0%	-17.5%
Further Funding Required						
Recurrent Expenses	-	300	1,300	300	300	2,200
Capital Expenses	-	150	-	-	-	150
Total	-	450	1,300	300	300	2,350

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	14	8	15	8	9	6	4	64
Temporary	3	5	2	0	0	0	0	10
Total	17	13	17	8	9	6	4	74

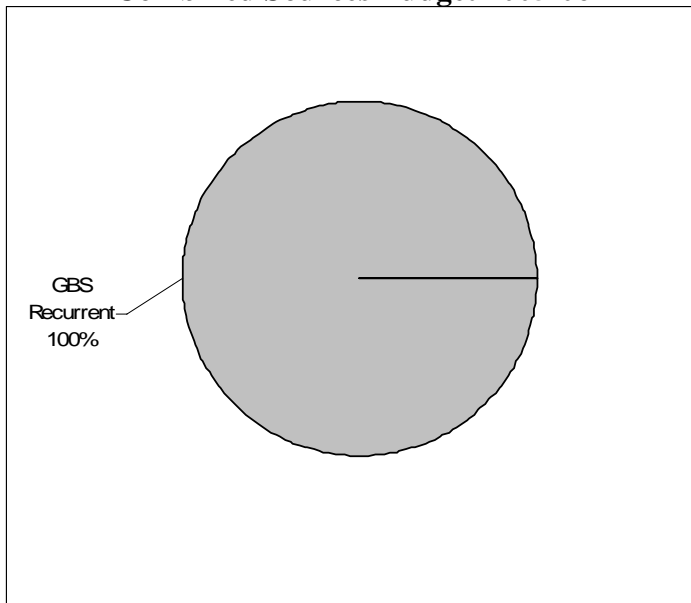
THE ROLE OF THE OFFICE OF THE PRESIDENT AND INTEGRATION WITH THE SIPS

The role of the Office of the President is to support the President of the Republic to achieve an efficient democracy that allows the active participation of the population in national development. Activities of the Office of the President are contained in the "Pillars of State" SIP.

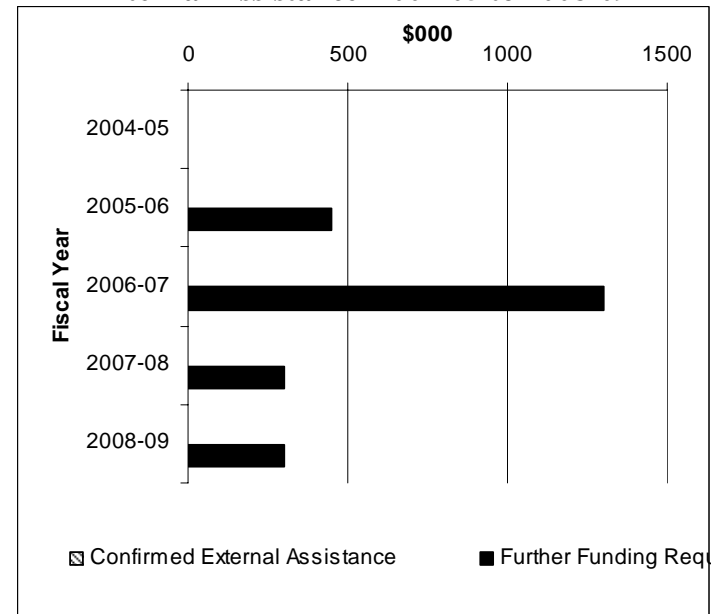
GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

The Office of the President will spend \$151,000 to acquire new security cars for the President of the Republic to replace the current fleet which are inadequate for the many visits the President is required to make in exercising his functions. Additional funding was provided because of the many official functions which involve the president in his consultations with communities in Dili and the districts.

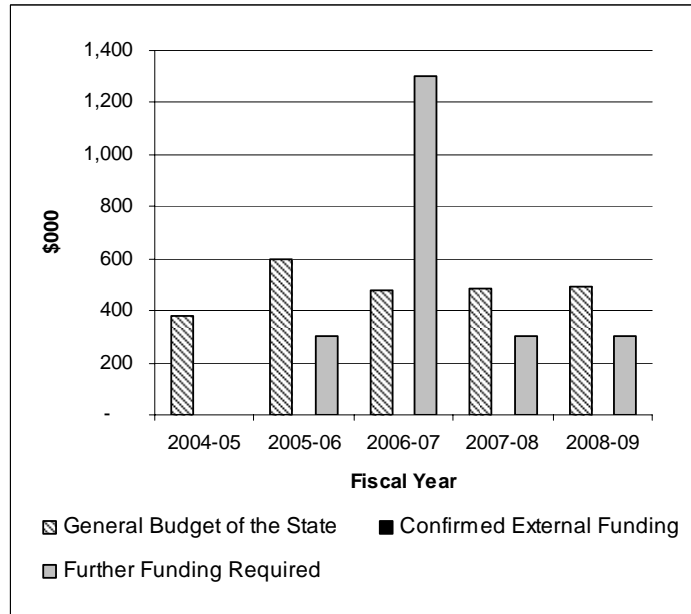
Combined Sources Budget 2005-06



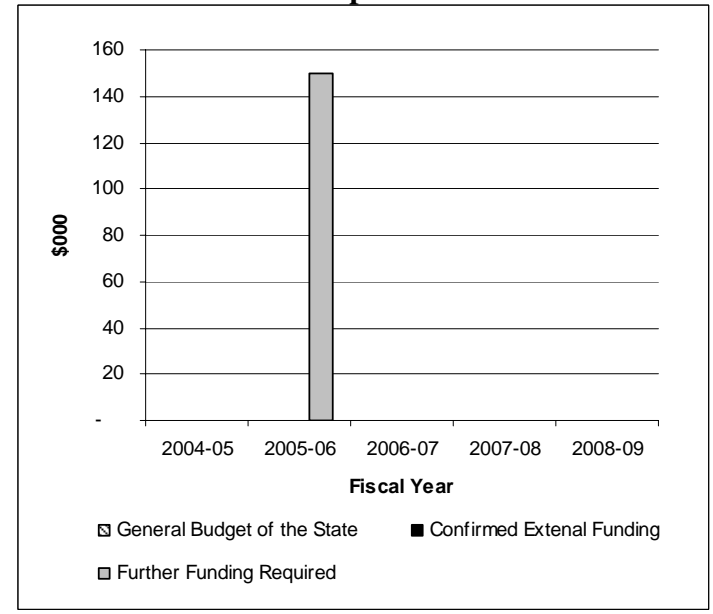
External Assistance 2004-05 to 2008-09



**Chart 6.3
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.4
Combined Sources Capital 2004-05 to 2008-09**



National Parliament

Table 6.9
Funding and Staffing Overview National Parliament (\$'000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	579	610	649	665	684	2,608
Goods and Services	338	542	648	676	710	2,576
Minor Capital	13	46	40	50	60	196
Total Recurrent Expenses	930	1,198	1,337	1,391	1,454	5,380
<i>Growth on Previous Year</i>		28.8%	11.6%	4.0%	4.5%	21.4%
Total Capital and Development	-	113	-	-	-	113
<i>Growth on Previous Year</i>		na	-100.0%	na	na	
Total General Budget of the State	930	1,311	1,337	1,391	1,454	5,493
<i>Growth on Previous Year</i>		41.0%	2.0%	4.0%	4.5%	10.9%
Confirmed Funds From Other Sources						
Recurrent Expenses	528	528	-	-	-	528
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sources	528	528	-	-	-	528
<i>Growth on Previous Year</i>						
Combined Sources Budget						
Recurrent Expenses	1,458	1,726	1,337	1,391	1,454	5,908
<i>Growth on Previous Year</i>		18.4%	-22.5%	4.0%	4.5%	-15.8%
Capital Expenses	-	113	-	-	-	113
<i>Growth on Previous Year</i>		na	-100.0%	na	na	-100.0%
Total Combined Sources Budget	1,458	1,839	1,337	1,391	1,454	6,021
<i>Growth on Previous Year</i>		26.1%	-27.3%	4.0%	4.5%	-20.9%
Further Funding Required						
Recurrent Expenses	-	400	2,900	400	400	4,100
Capital Expenses	-	-	-	-	-	-
Total	-	400	2,900	400	400	4,100

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	5	11	12	5	8	1	1	43
Temporary	7	0	2	0	0	3	0	12
Total	12	11	14	5	8	4		54

THE ROLE OF THE NATIONAL PARLIAMENT AND INTEGRATION WITH THE SIPS

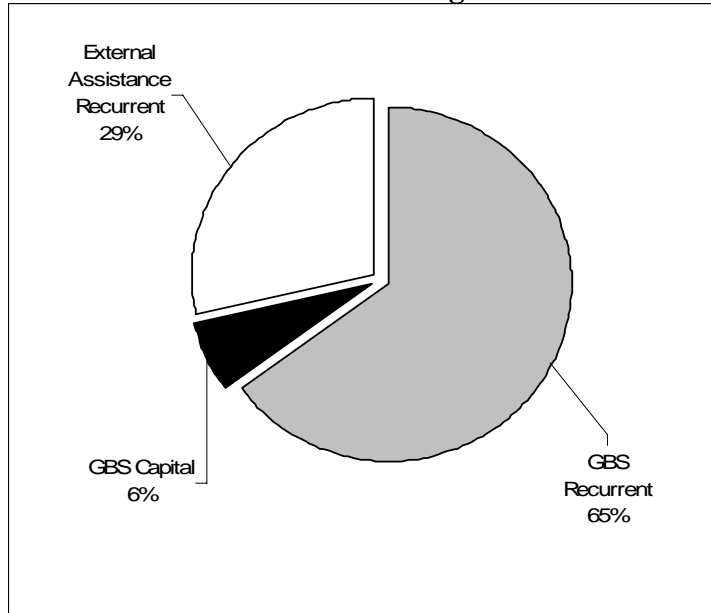
The role of the National Parliament is to develop and foster the debate of ideas which contributes appropriately formulated legislation responding to the national priorities of Timor-Leste. Activities of the National Parliament are contained within the "Pillars of State" SIP.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

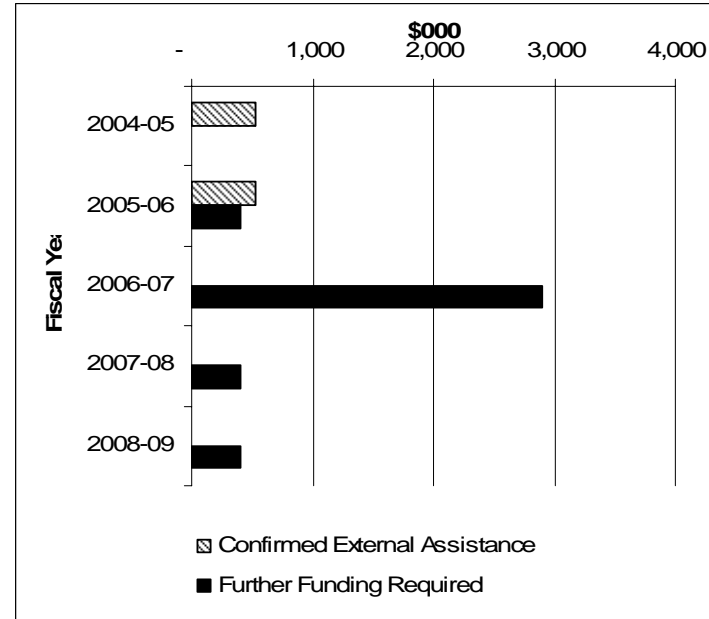
Additional budget funding has been provided to the National Parliament to fund:

- an increase in the daily rate of per diem paid to the Deputies of the National Parliament from \$2.50 to \$5;
- rehabilitative works in the Parliamentary complex, particularly the canteen and the Office of the President of the Parliament; and
- a new advisory council will be established to advise Deputies of the National Parliament on the good governance of the new Petroleum Fund.

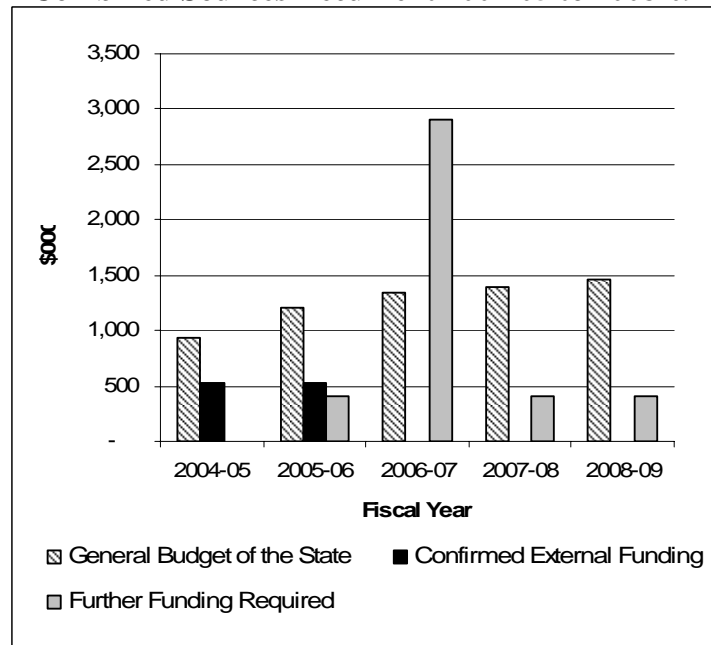
**Chart 6.5
Combined Sources Budget 2005-06**



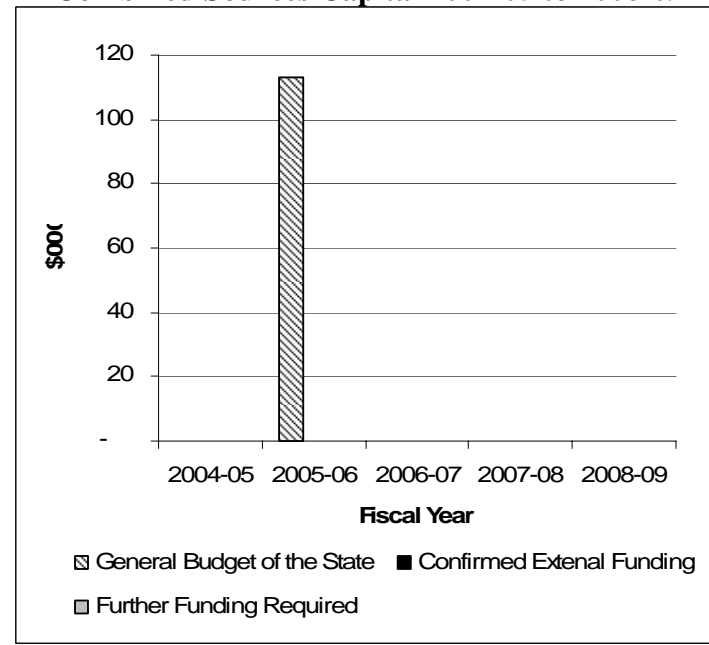
**Chart 6.6
External Assistance 2004-05 to 2008-09**



**Chart 6.7
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.8
Combined Sources Capital 2004-05 to 2008-09**



Office of the Prime Minister & Presidency of the Council of Ministers

Table 6.10
Funding and Staffing Overview Office of the Prime Minister & Presidency of Council of Ministers (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	227	361	373	383	396	1,513
Goods and Services	709	2,986	2,899	2,438	2,494	10,817
Minor Capital	15	101	40	44	53	238
Total Recurrent Expenses	951	3,448	3,312	2,865	2,943	12,568
<i>Growth on Previous Year</i>		262.6%	-3.9%	-13.5%	2.7%	-14.6%
Total Capital and Development	-	2,000	-	-	-	2,000
<i>Growth on Previous Year</i>		na	-100.0%	na	na	-100.0%
Total General Budget of the State	951	5,448	3,312	2,865	2,943	14,568
<i>Growth on Previous Year</i>		472.9%	-39.2%	-13.5%	2.7%	-46.0%
Confirmed Funds From Other Sources						
Recurrent Expenses	1,758	793	184	81	2,816	3,874
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sources	1758	793	184	81	2816	3,874
<i>Growth on Previous Year</i>		-54.9%	-76.8%	-56.0%	3376.5%	255.1%
Combined Sources Budget						
Recurrent Expenses	2,709	4,241	3,496	2,946	5,759	16,442
<i>Growth on Previous Year</i>		56.6%	-17.6%	-15.7%	95.5%	35.8%
Capital Expenses	-	2,000	-	-	-	2,000
<i>Growth on Previous Year</i>		na	-100.0%	na	na	-100.0%
Total Combined Sources Budget	2,709	6,241	3,496	2,946	5,759	18,442
<i>Growth on Previous Year</i>		130.4%	-44.0%	-15.7%	95.5%	-7.7%
Further Funding Required						
Recurrent Expenses	410	955	1,075	900	850	3,780
Capital Expenses	-	-	-	-	-	-
Total	410	955	1,075	900	850	3,780

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent		4	15	12	15	7		53
Temporary	5	4	3	3	4		1	20
Total	5	8	18	15	19	7	1	73

THE ROLE OF THE OFFICE OF THE PRIME MINISTER & PRESIDENCY OF THE COUNCIL OF MINISTERS AND INTEGRATION WITH THE SIPS

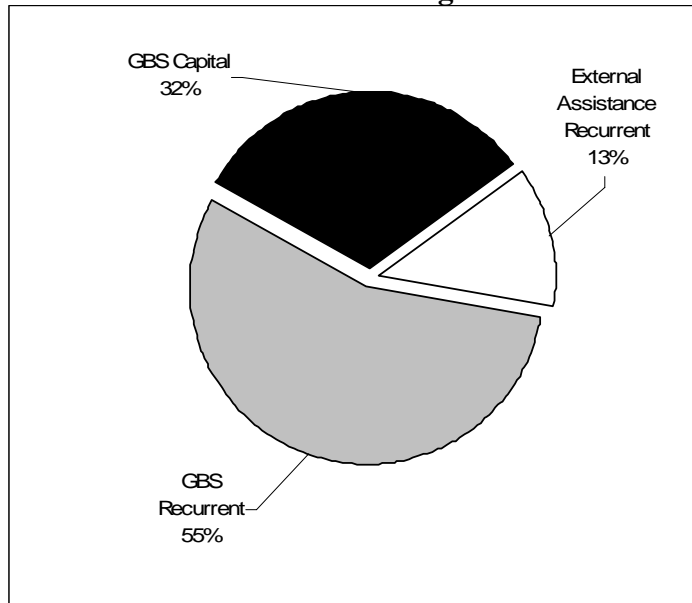
This entity comprises a number of roles over which the Prime Minister exercises direct oversight. Included among these are the Council of Ministers and Parliamentary Affairs, the Office of the Inspector General, National Security, Capacity Development and the Timor Sea Office. The activities of the Office of the Prime Minister and the Presidency of the Council of Ministers are spread amongst a number of sectors, these include: "Public Sector Management"; "Rights Equality and Justice"; "Pillars of State" and "Natural Resources and Development".

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

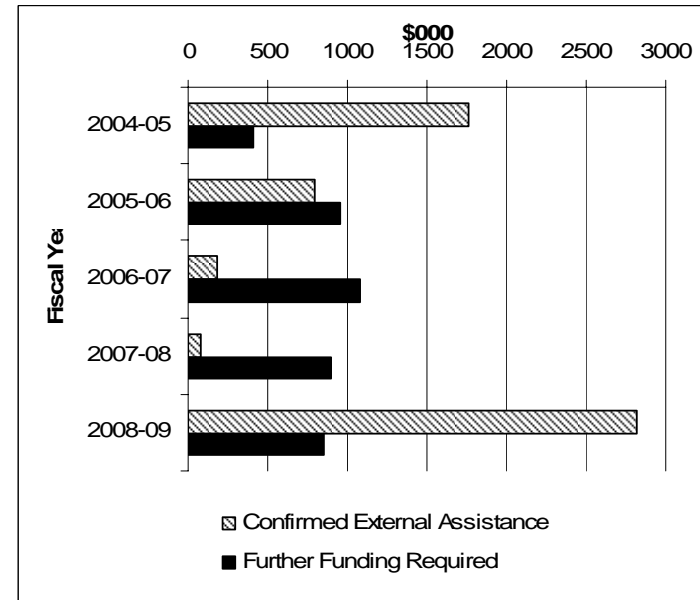
Additional budget funding has been provided to the Office of the Prime Minister and the Presidency of the Council of Ministers to fund:

- the construction of a Government conference centre in Caicoli, Dili;
- rehabilitative works on the official residence of the Prime Minister;
- additional official vehicles;
- increased provision of public information from the Office of the Prime Minister;
- the joint Timor-Leste/Indonesian Commission for Truth and Friendship; and
- a solidarity fund of \$1.5 million for natural disaster relief and victims of violence

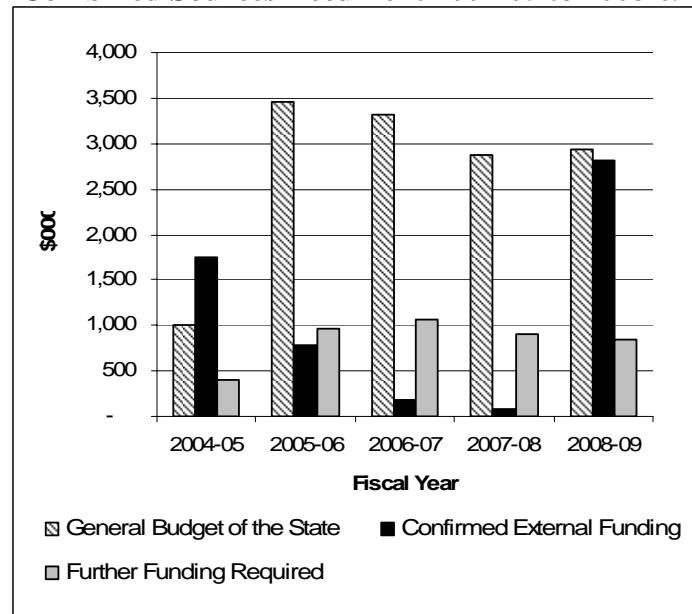
**Chart 6.9
Combined Sources Budget 2005-06**



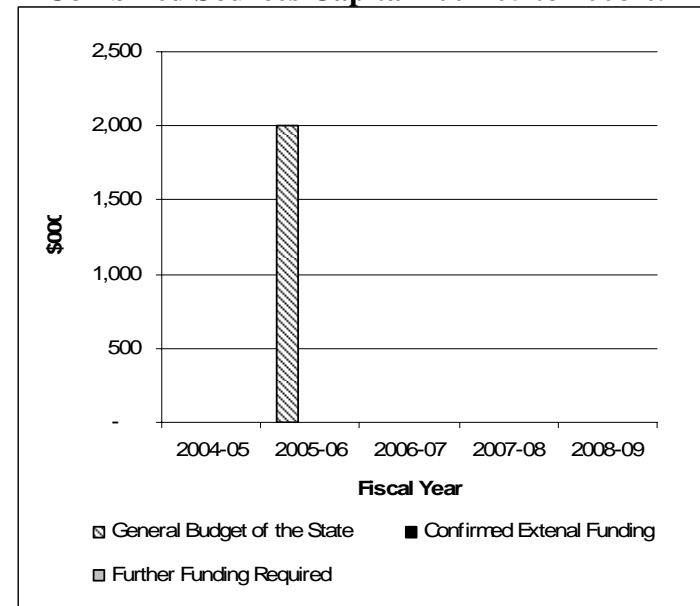
**Chart 6.10
External Assistance 2004-05 to 2008-09**



**Chart 6.11
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.12
Combined Sources Capital 2004-05 to 2008-09**



Ministry of Defence

Table 6.11
Funding and Staffing Overview Ministry of Defence (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	1,712	1,784	1,794	1,795	1,794	7,167
Goods and Services	4,229	5,868	5,917	5,921	5,927	23,633
Minor Capital	53	525	37	37	37	636
Total Recurrent Expenses	5,994	8,177	7,748	7,753	7,758	31,436
<i>Growth on Previous Year</i>		36.4%	-5.2%	0.1%	0.1%	-5.1%
Total Capital and Development	-	1,600	-	-	-	1,600
<i>Growth on Previous Year</i>		na	-100.0%	na	na	-100.0%
Total General Budget of the State	5,994	9,777	7,748	7,753	7,758	39,030
<i>Growth on Previous Year</i>		63.1%	-20.8%	0.1%	0.1%	-20.7%
Confirmed Funds From Other Sources						
Recurrent Expenses	-	-	-	-	-	-
Capital Expenses	942	-	-	-	-	-
Total Confirmed Funds from Other Sources	942	0	0	0	0	-
<i>Growth on Previous Year</i>		-100.0%	na	na	na	na
Combined Sources Budget						
Recurrent Expenses	5,994	8,177	7,748	7,753	7,758	31,436
<i>Growth on Previous Year</i>		36.4%	-5.2%	0.1%	0.1%	-5.1%
Capital Expenses	942	1,600	-	-	-	1,600
<i>Growth on Previous Year</i>		69.9%	-100.0%	na	na	na
Total Combined Sources Budget	6,936	9,777	7,748	7,753	7,758	33,036
<i>Growth on Previous Year</i>		41.0%	-20.8%	0.1%	0.1%	-20.7%
Further Funding Required						
Recurrent Expenses	-	-	-	-	-	-
Capital Expenses	400	11,800	6,500	-	-	18,300
Total	400	11,800	6,500	-	-	18,300

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	576	327	396	123	33	4	4	1463
Temporary	0	0	0	0	0	0	0	0
Total	576	327	396	123	33	4	4	1463

THE ROLE OF THE MINISTRY OF DEFENCE AND INTEGRATION WITH THE SIPS

The Role of the Ministry Secretariat is to oversee the development of the nation's defense forces, the FDTL. The activities of the Ministry of Defence are contained in the "Security, Peace building and Reconciliation" SIP.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

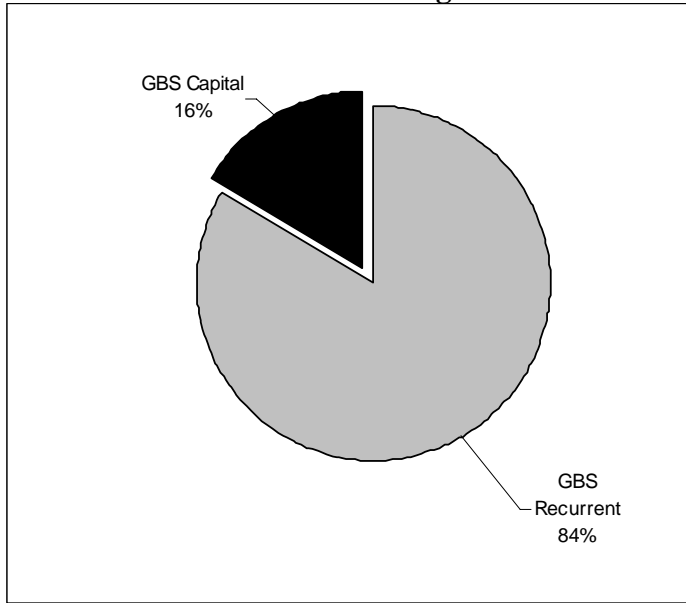
The budget for Minor Capital and Capital and Development has increased considerably, from a \$53,000 in 2004-05 to a total of \$2.125 million in 2005-06. This funding is principally to establish a new communications system for the defence forces. An amount of \$1.6 million has been allocated in Capital and Development for the construction of a communications tower and \$400,000 is provided in the Minor Capital budget for the purchase of communications equipment.

By 2005-06, there will be 1,435 military personnel. In the Supplementary Budget for 2004-05, an additional \$303,000 was provided for Good and Services for cleaning and catering services and fuel. For Capital and Development, \$343,000 was provided to complete the construction of the barracks at Baucau military base.

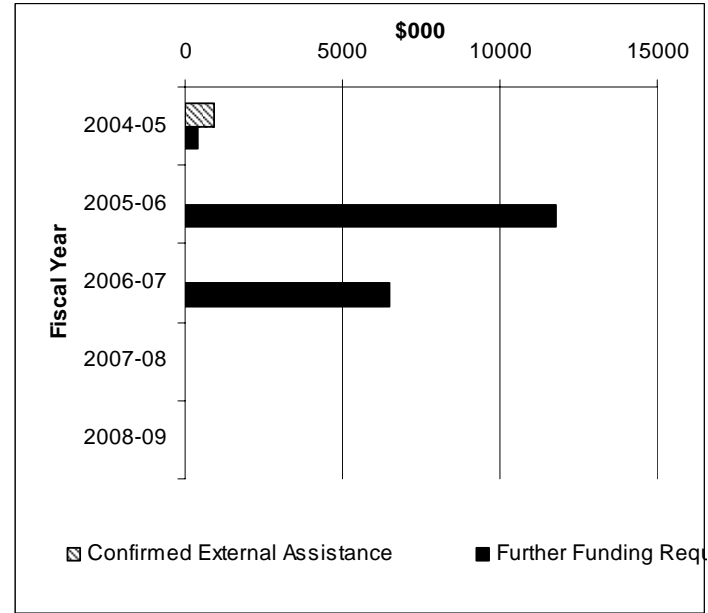
Additional funding of \$967,000 is required in 2005-06 to meet the ongoing costs of cleaning and catering contracts that have previously been met by donors.

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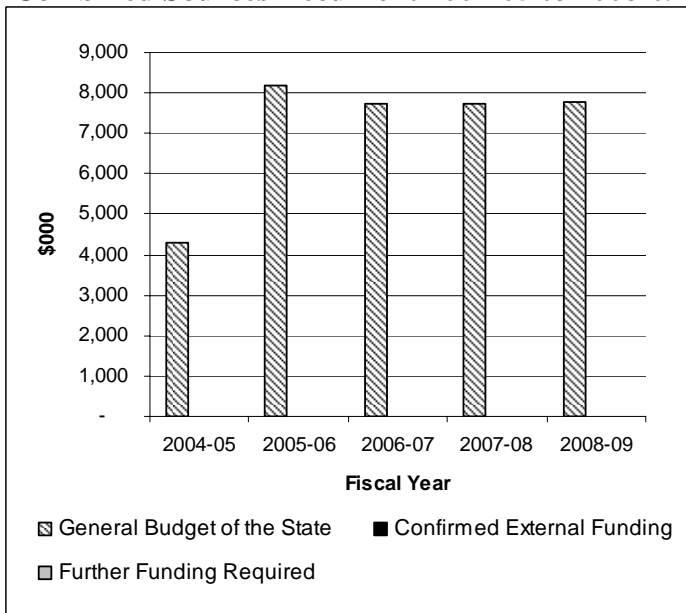
**Chart 6.13
Combined Sources Budget 2005-06**



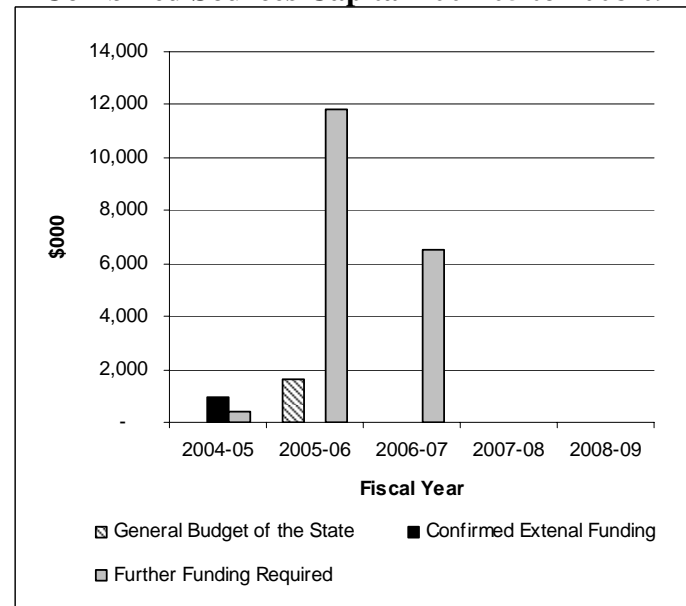
**Chart 6.14
External Assistance 2004-05 to 2008-09**



**Chart 6.15
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.16
Combined Sources Capital 2004-05 to 2008-09**



Secretary of State of the Council of Ministers

Table 6.12
Funding and Staffing Overview Secretary of State of the Council of Ministers (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	59	59	60	61	61	241
Goods and Services	280	293	297	305	305	1,200
Minor Capital	41	41	41	41	41	164
Total Recurrent Expenses	380	393	398	407	407	1,605
<i>Growth on Previous Year</i>		3.4%	1.3%	2.3%	0.0%	3.6%
Total Capital and Development	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Total General Budget of the State	380	393	398	407	407	1,605
<i>Growth on Previous Year</i>		3.4%	1.3%	2.3%	0.0%	3.6%
Confirmed Funds From Other Sources						
Recurrent Expenses	-	-	-	-	-	-
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sources	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	#DIV/0!
Combined Sources Budget						
Recurrent Expenses	380	393	398	407	407	1,605
<i>Growth on Previous Year</i>		3.4%	1.3%	2.3%	0.0%	3.6%
Capital Expenses	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Total Combined Sources Budget	380	393	398	407	407	1,605
<i>Growth on Previous Year</i>		3.4%	1.3%	2.3%	0.0%	3.6%
Further Funding Required						
Recurrent Expenses	-	-	-	-	-	-
Capital Expenses	-	-	-	-	-	-
Total	-	-	-	-	-	-

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	0	3	4	6	8	2	1	24
Temporary	0	0	0	0	0	0	0	0
Total	0	3	4	6	8	2	1	24

THE ROLE OF THE SECRETARIAT OF STATE FOR THE COUNCIL OF MINISTERS AND INTEGRATION WITH THE SIPS

The role of the Secretariat of State for the Council of Ministers is to support the efficient and effective functioning of the Council; and to provide translation services. The activities of the Secretariat of State for the Council of Ministers is contained in the SIP on "Other Pillars of the State"

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

There are no additional initiatives in 2005-06

Chart 6.17
Combined Sources Budget 2005-06

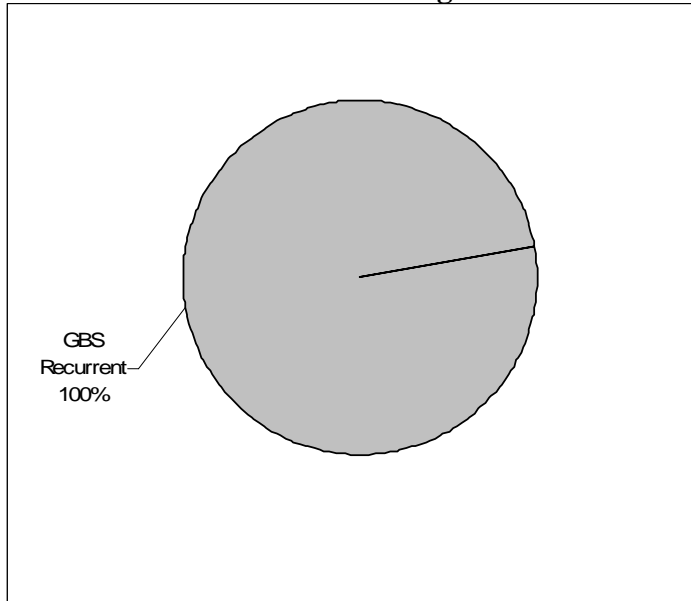


Chart 6.18
External Assistance 2004-05 to 2008-09

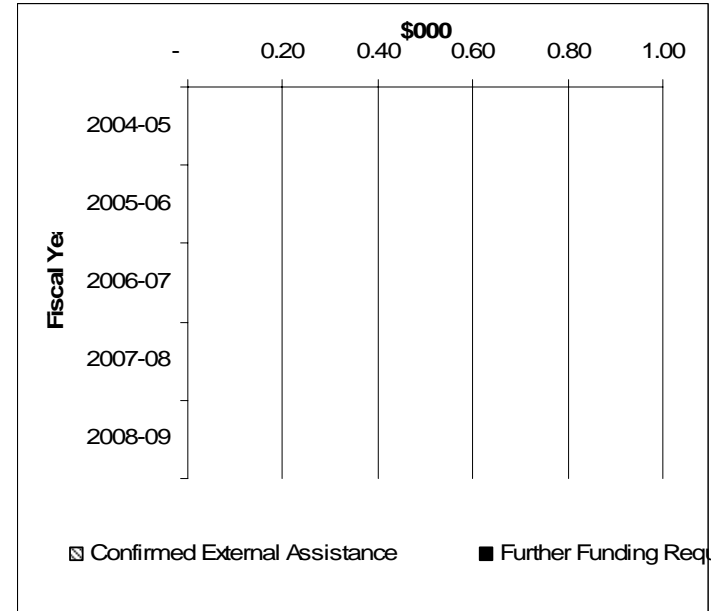


Chart 6.19
Combined Sources Recurrent 2004-05 to 2008-09

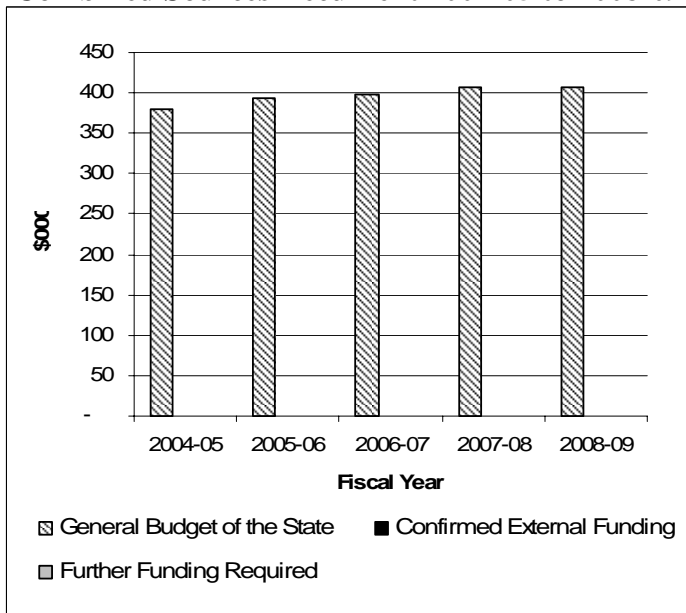
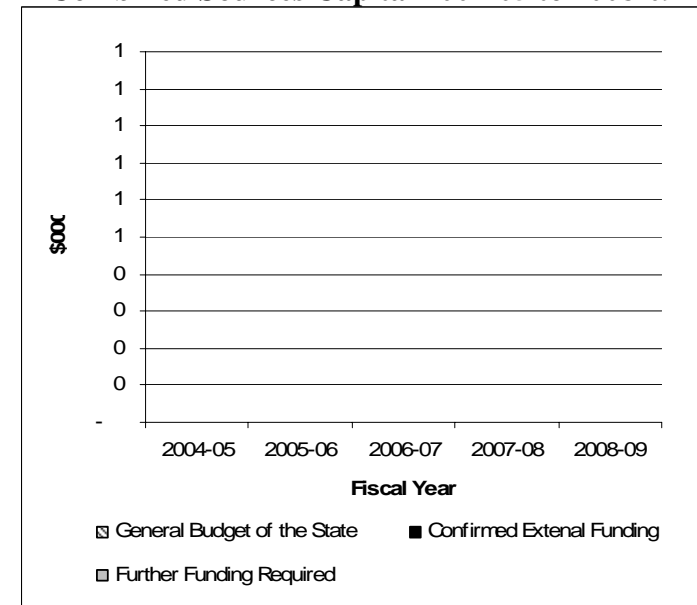


Chart 6.20
Combined Sources Capital 2004-05 to 2008-09



Ministry of State Administration

Table 6.13
Funding and Staffing Overview Ministry of State Administration (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	776	834	844	855	865	3,398
Goods and Services	1,611	2,111	2,017	2,058	2,128	8,314
Minor Capital	34	175	110	69	47	401
Total Recurrent Expenses	2,421	3,120	2,971	2,982	3,040	12,113
<i>Growth on Previous Year</i>		28.9%	-4.8%	0.4%	1.9%	-2.6%
Total Capital and Development	300	935	626	646	656	2,863
<i>Growth on Previous Year</i>		211.7%	-33.0%	3.2%	1.5%	-29.8%
Total General Budget of the State	2,721	4,055	3,597	3,628	3,696	14,976
<i>Growth on Previous Year</i>		49.0%	-11.3%	0.9%	1.9%	-8.9%
Confirmed Funds From Other Sources						
Recurrent Expenses	12,787	3,830	225	175	85	4,313
Capital Expenses	2,337	374	20	20	9	422
Total Confirmed Funds from Other Sources	15,124	4,203	244	194	94	4,735
<i>Growth on Previous Year</i>		-72.2%	-94.2%	-20.5%	-51.5%	-97.8%
Combined Sources Budget						
Recurrent Expenses	15,408	4,503	345	295	94	16,426
<i>Growth on Previous Year</i>		-70.8%	-92.3%	-14.5%	-68.2%	-97.9%
Capital Expenses	2,637	1,309	646	666	665	3,285
<i>Growth on Previous Year</i>		-50.4%	-50.7%	3.1%	0.0%	-49.1%
Total Combined Sources Budget	18,045	5,811	991	961	759	19,711
<i>Growth on Previous Year</i>		-67.8%	-82.9%	-3.0%	-21.0%	-86.9%
Further Funding Required						
Recurrent Expenses	1,102	3,856	10,271	6,056	4,431	24,613
Capital Expenses	315	2,325	3,915	3,375	2,500	12,115
Total	1,417	6,181	14,186	9,431	6,931	36,728

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	17	46	177	65	112	23	1	441
Temporary	0	0	0	0	1	0	0	1
Total	17	46	177	65	113	23	1	442

THE ROLE OF THE MINISTRY OF STATE ADMINISTRATION AND SIPS

The Ministry's roles are to develop a political and legal framework for a professional public service; to support the development of effective local administration; to provide a national archive and printing service; and technical electoral administration to support a transparent democracy. The activities of the Ministry are contained in the SIPs on "Public Sector Management" and "Local Government".

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

Funding for the *Ministry of State Administration* in 2005-06 will increase by approximately 2%, compared with the 2004-05 Supplementary Budget. Compared with the initial Budget for 2004-05, funding will be around 50% higher, mostly associated with an increase in Capital and Development project funding, from \$300,000 to \$937,000, an increase of \$166,000 in Minor Capital (for funding office equipment, furniture and fittings and communications equipment, and higher spending across a range of Goods and Services.

The majority of funding within the Ministry (approximately 43%) is provided for the *National Directorate of Territorial Administration*. Capital and development funding of \$300,000 has been provided in 2005-2006 for a programme to rehabilitate the Bobonaro district and 11 sub-district administrative offices.

The Supplementary Budget for 2004-05 provided \$253,000 to the Ministry for vehicle maintenance and fuel, and for wages for polling staff for the Suco elections.

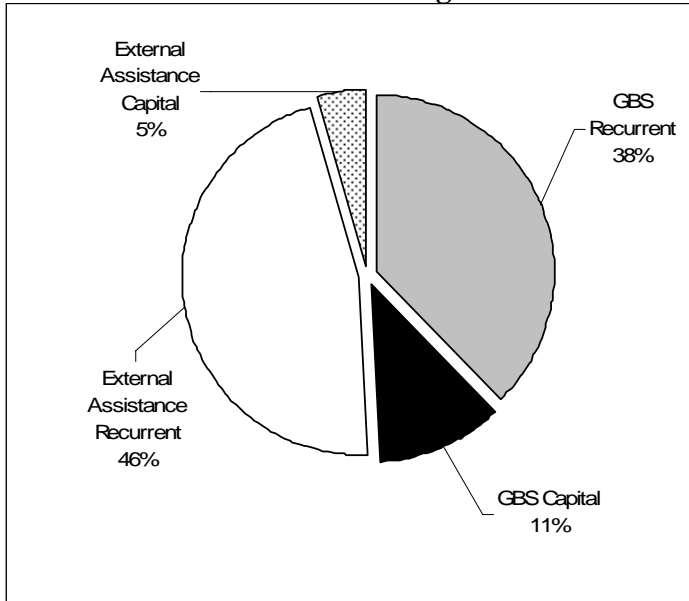
To ensure the efficient and effective implementation of the upcoming Suco Chief elections, \$40,000 has been allocated in 2005-2006. It is expected that additional Bilateral / Multilateral support will be necessary to ensure the successful completion of this activity.

To complete the construction of its administrative office, the Ministry is to be provided with \$45,000. In addition, \$400,000 will be provided for *National Printing Office* to support a project to rehabilitate an administrative office and repair and relocate its printing press.

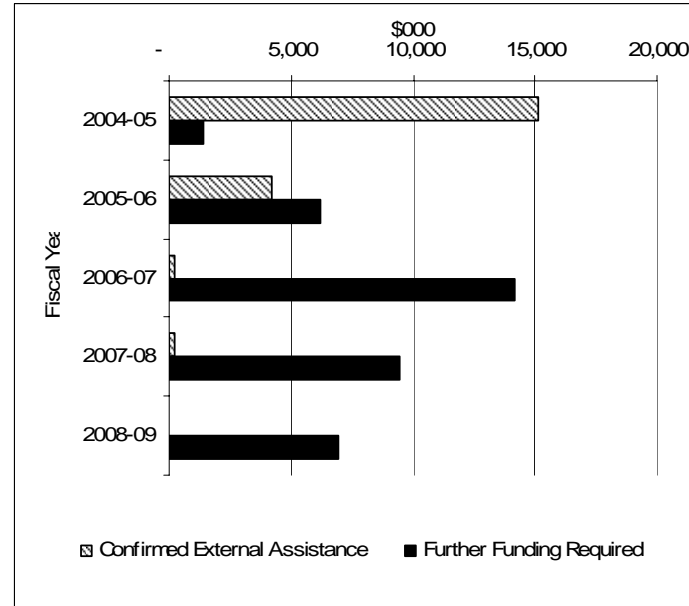
The Ministry has created a new program - *Local Development Program (LDP)*. This program is a three years pilot cooperation between the Government of RTTL and UNDP. The budget provides for Capital and Development funding of \$192,000 and Goods and Services funding of \$29,000. This project will commence with rehabilitation works in the Bobonaro District in 2005-2006 and the Covalima and Viqueque Districts in 2006-2007.

Another new program is the *Personnel Management Information System*. In 2005-2006 the Government will provide \$275,000 for the implementation of a computerized Personal Management Information System (PMIS) by the National Directorate of Public Service. . The total cost of the project is estimated at \$550,000. An amount of \$275,000 is being provided in the Budget, funding of \$141,000 has already been secured from donors and the remaining cost of \$134,000 will also be sought from donors.

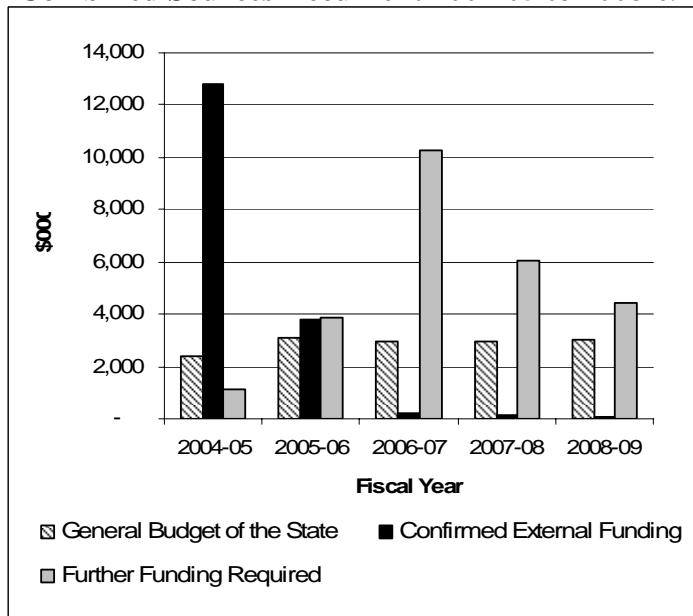
**Chart 6.21
Combined Sources Budget 2005-06**



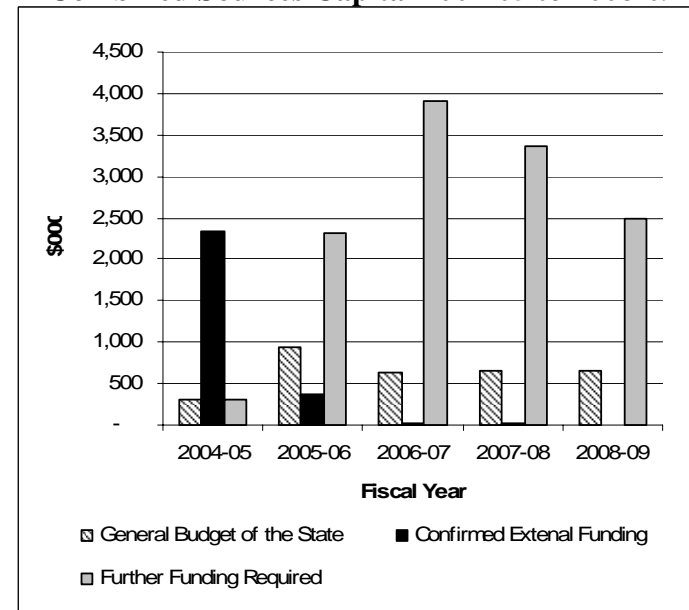
**Chart 6.22
External Assistance 2004-05 to 2008-09**



**Chart 6.23
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.24
Combined Sources Capital 2004-05 to 2008-09**



Ministry of the Interior (Excluding the PNTL)

Table 6.14
Funding and Staffing Overview Ministry of Interior (Excluding the PNTL) (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	722	740	948	1,037	1,078	3,803
Goods and Services	560	607	661	690	723	2,681
Minor Capital	5	19	30	41	44	134
Total Recurrent Expenses	1,287	1,366	1,639	1,768	1,845	6,618
<i>Growth on Previous Year</i>		6.1%	20.0%	7.9%	4.4%	35.1%
Total Capital and Development	40	80	20	20	20	140
<i>Growth on Previous Year</i>		100.0%	-75.0%	0.0%	0.0%	-75.0%
Total General Budget of the State	1,327	1,446	1,659	1,788	1,865	6,758
<i>Growth on Previous Year</i>		9.0%	14.7%	7.8%	4.3%	29.0%
Confirmed Funds From Other Sources						
Recurrent Expenses	-	-	-	-	-	-
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sources	-	-	-	-	-	-
<i>Growth on Previous Year</i>	0	na	na	na	na	na
Combined Sources Budget						
Recurrent Expenses	1,287	1,366	1,639	1,768	1,845	6,618
<i>Growth on Previous Year</i>		6.1%	20.0%	7.9%	4.4%	35.1%
Capital Expenses	40	80	20	20	20	140
<i>Growth on Previous Year</i>		100.0%	-75.0%	0.0%	0.0%	-75.0%
Total Combined Sources Budget	1,327	1,446	1,659	1,788	1,865	6,758
<i>Growth on Previous Year</i>		9.0%	14.7%	7.8%	4.3%	29.0%
Further Funding Required						
Recurrent Expenses	500	600	500	300	50	1,450
Capital Expenses	-	-	-	-	-	-
Total	500	600	500	300	50	1,450

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	440	113	38	14	9	3	1	618
Temporary	0	0	0	0	0	0	0	0
Total	440	113	38	14	9	3	1	618

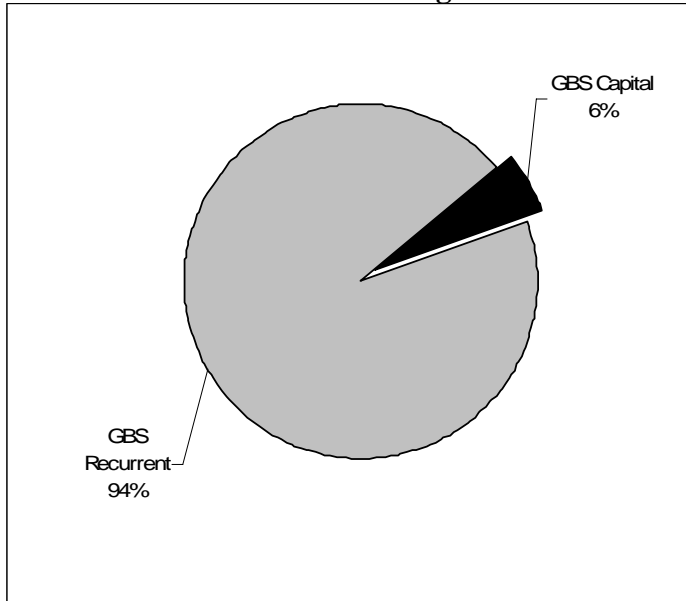
THE ROLE OF THE MINISTRY OF THE INTERIOR AND INTEGRATION WITH THE SIPS

The Ministry's roles are to protect people, property, security of government buildings, provision of fire brigade services, and support during natural disasters. The activities of the Ministry are contained in the SIP on "Security, Peace building and Reconciliation".

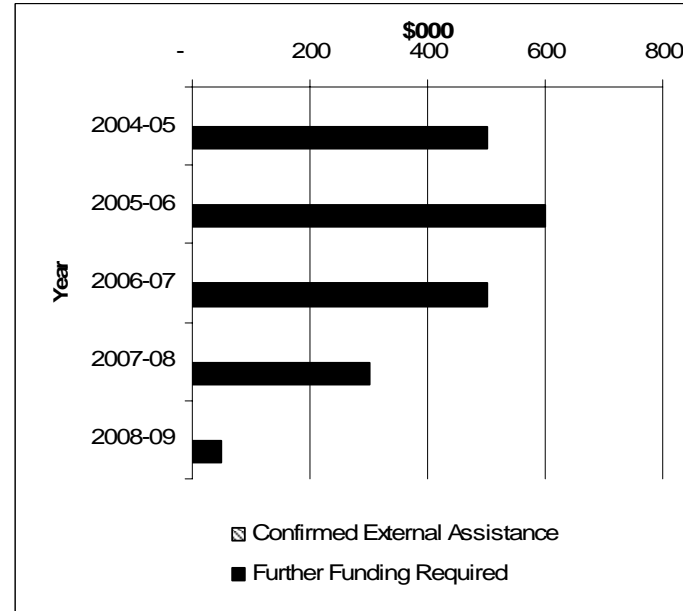
GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

The Ministry has restructured a number of its Directorates to strengthen administration in those areas. These include, expansion of the Inspectorate Directorate, merger of the Emergency and National Disaster Directorates, and Civil Protection, and upgrading the Building Accreditation Division to a Directorate. Two buildings will be rehabilitated, these are the Dili Civil Security building, and the Civil Protection building (Bombeiros).

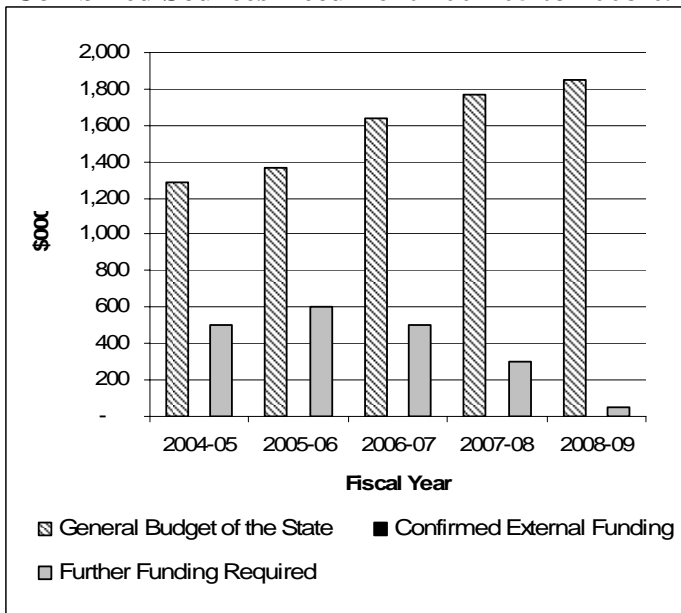
**Chart 6.25
Combined Sources Budget 2005-06**



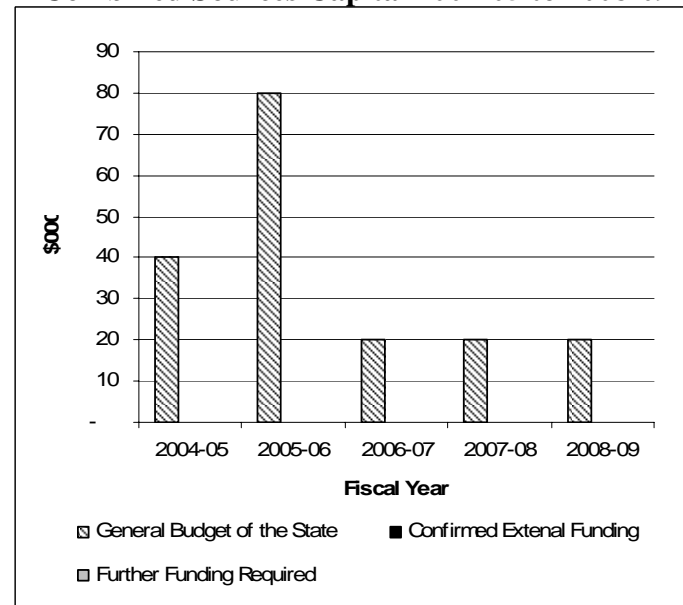
**Chart 6.26
External Assistance 2004-05 to 2008-09**



**Chart 6.27
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.28
Combined Sources Capital 2004-05 to 2008-09**



National Police of Timor-Leste

Table 6.17
Funding and Staffing Overview of National Police of Timor-Leste (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	4,154	4,242	4,328	4,401	4,478	17,449
Goods and Services	3,524	3,580	4,012	4,609	4,728	16,929
Minor Capital	311	615	330	222	205	1,372
Total Recurrent Expenses	7,989	8,437	8,670	9,232	9,411	35,750
<i>Growth on Previous Year</i>		5.6%	2.8%	6.5%	1.9%	11.5%
Total Capital and Development	-	181	305	15	-	501
<i>Growth on Previous Year</i>			68.5%	-95.1%	-100.0%	-100.0%
Total General Budget of the State	7,989	8,618	8,975	9,247	9,411	36,251
<i>Growth on Previous Year</i>		7.9%	4.1%	3.0%	1.8%	9.2%
Confirmed Funds From Other Sources						
Recurrent Expenses	5714	5769.11	5308	4608	4608	20,293
Capital Expenses	0	0	0	0	0	-
Total Confirmed Funds from Other Sources	5714	5769.11	5308	4608	4608	20,293
<i>Growth on Previous Year</i>		1.0%	-8.0%	-13.2%	0.0%	-20.1%
Combined Sources Budget						
Recurrent Expenses	13,703	14,206	13,978	13,840	14,019	56,043
<i>Growth on Previous Year</i>		3.7%	-1.6%	-1.0%	1.3%	-1.3%
Capital Expenses	-	181	305	15	-	501
<i>Growth on Previous Year</i>			68.5%	-95.1%	-100.0%	-100.0%
Total Combined Sources Budget	13,703	14,387	14,283	13,855	14,019	56,544
<i>Growth on Previous Year</i>		5.0%	-0.7%	-3.0%	1.2%	-2.6%
Further Funding Required						
Recurrent Expenses	-	-	-	-	-	-
Capital Expenses	500	3,250	2,750	500	-	6,500
Total	500	3,250	2,750	500	-	6,500

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	0	2,793	141	270	43	3	1	3,251
Temporary	0	0	0	0	0	0	0	0
Total	0	2,793	141	270	43	3	1	3,251

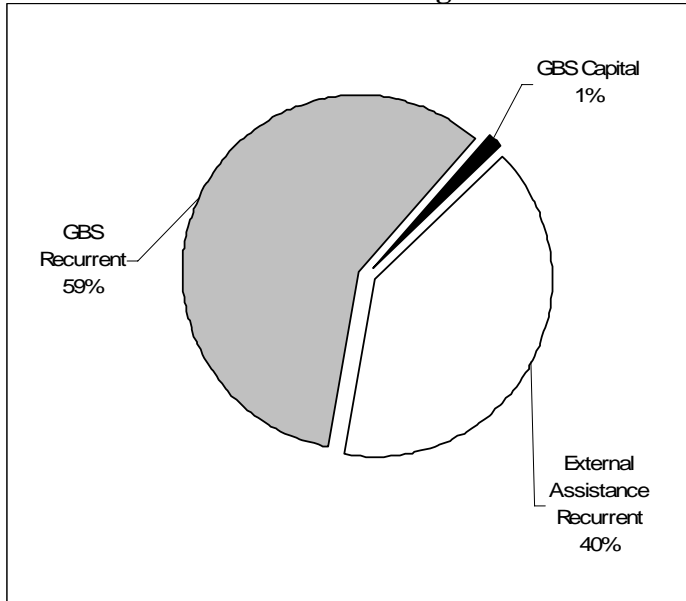
THE ROLE NATIONAL POLICE OF TIMOR-LESTE AND INTEGRATION WITH THE SIPS

The role of the National Police of Timor-Leste is to maintain the internal security of Timor-Leste, covering the protection of lives and property, crime prevention, detention of offenders, and preserving public order in the community. The PNTL also operates the Immigration service. The activities of the National Police of Timor Leste are contained in the SIP on "Security, Peace building and Reconciliation".

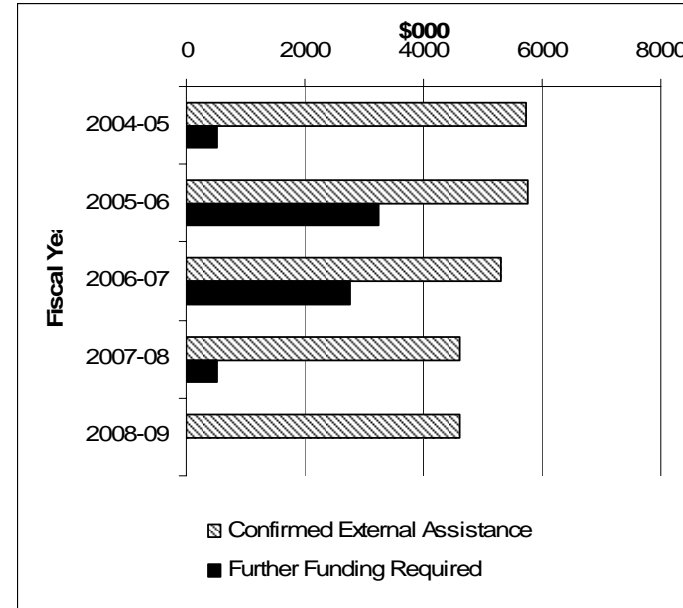
GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

The vehicle fleet is being upgraded by acquiring new patrol vehicles. A number of buildings are being rehabilitated in some districts (Dili, Ermera, Aileu and Manatuto), as well as the shooting range at the Police Academy. Additional funds are also being provided to improve meal allowances for the National Security Directorate. All training funds are being transferred from the Directorates to the Police Academy to improve the efficiency of police training.

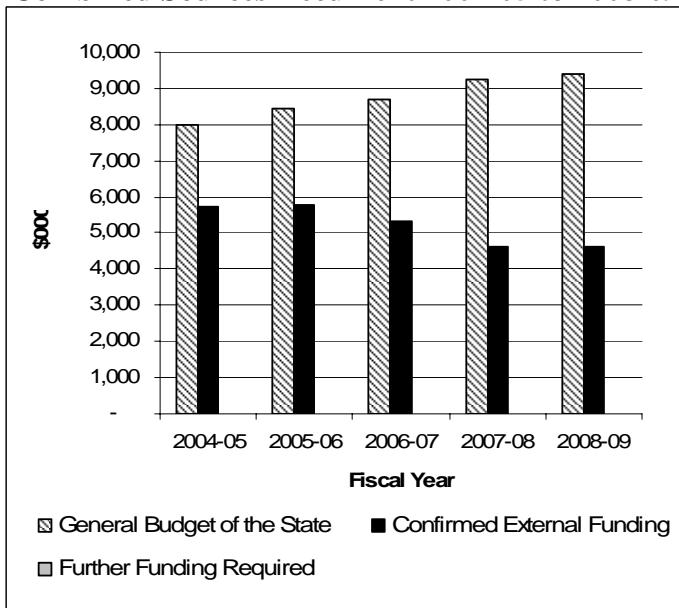
**Chart 6.29
Combined Sources Budget 2005-06**



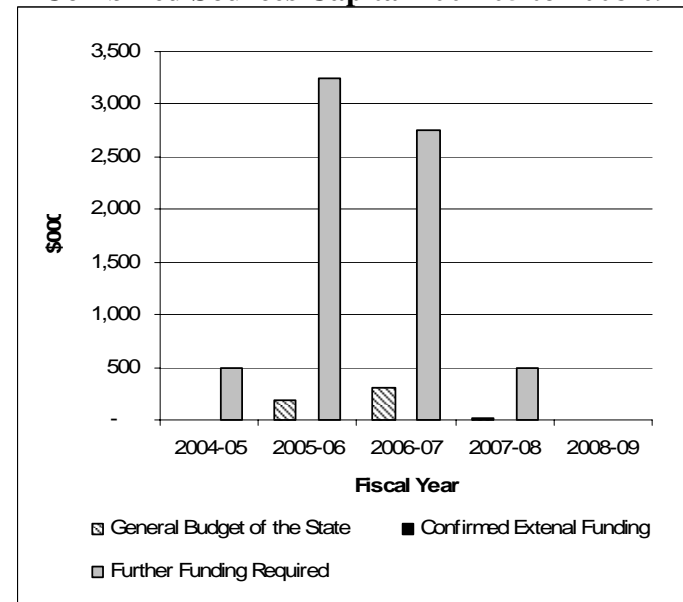
**Chart 6.30
External Assistance 2004-05 to 2008-09**



**Chart 6.31
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.32
Combined Sources Capital 2004-05 to 2008-09**



Ministry of Development

Table 6.18
Funding and Staffing Overview Ministry of Development (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	142	187	202	206	211	674
Goods and Services	236	292	348	355	364	1,149
Minor Capital	32	26	58	58	59	180
Total Recurrent Expenses	253	404	503	519	577	2,003
<i>Growth on Previous Year</i>		59.7%	24.5%	3.2%	11.2%	42.8%
Total Capital and Development	-	-	-	-	-	-
<i>Growth on Previous Year</i>	0	na	na	na	na	na
Total General Budget of the State	253	404	503	519	577	2,003
<i>Growth on Previous Year</i>		59.7%	24.5%	3.2%	11.2%	42.8%
Confirmed Funds From Other Sources						
Recurrent Expenses	-	-	-	-	-	-
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sources	-	-	-	-	-	-
<i>Growth on Previous Year</i>	0	na	na	na	na	na
Combined Sources Budget						
Recurrent Expenses	253	404	503	519	577	2,003
<i>Growth on Previous Year</i>		59.7%	24.5%	3.2%	11.2%	42.8%
Capital Expenses	-	-	-	-	-	-
<i>Growth on Previous Year</i>	0	na	na	na	na	na
Total Combined Sources Budget	253	404	503	519	577	2,003
<i>Growth on Previous Year</i>		59.7%	24.5%	3.2%	11.2%	42.8%
Further Funding Required						
Recurrent Expenses	3,395	5,509	4,722	3,574	2,010	15,815
Capital Expenses	380	791	728	726	990	3,235
Total	3,775	6,300	5,450	4,300	3,000	19,050

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	0	0	16	29	6	7	1	59
Temporary	1	3	3	1	1	0	0	9
Total	1	3	19	30	7	7		67

THE ROLE OF THE MINISTRY OF DEVELOPMENT AND INTEGRATION WITH THE SIPS

The role of the Ministry of Development is to further the economic development of Timor Leste through the fostering of private investment both industrial and commercial; and the development of entrepreneurial skills within the country. The activities of the Ministry of Development are contained within "Private Sector Development" SIPS.

Given the importance of promoting private sector led growth in employment and incomes, the Government attaches great importance to more aggressive programs for private sector development in the coming four years and looks to development partners for additional support in this important area.

The various agencies of government responsible for private sector development have established a clear set of priorities for the proposed program. This level of new commitment for private sector development is significantly higher than in any previous year reflecting the importance the Government attaches to accelerating the development of the business sector and an aggressive program aimed at creating new job opportunities throughout the country.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

Major administrative reforms to strengthen this newly created Ministry will be implemented in 2005-06.

Ministry of Justice

Table 6.19
Funding and Staffing Overview Ministry of Justice (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	876	905	920	934	944	3,703
Goods and Services	891	3,146	1,283	1,298	1,321	7,048
Minor Capital	15	125	28	24	26	203
Total Recurrent Expenses	1,782	4,176	2,231	2,256	2,291	10,954
<i>Growth on Previous Year</i>		134.3%	-46.6%	1.1%	1.6%	-45.1%
Total Capital and Development	-	1,465	-	-	-	1,465
<i>Growth on Previous Year</i>	0	na	-100.0%	na	na	-100.0%
Total General Budget of the State	1,782	5,641	2,231	2,256	2,291	14,201
<i>Growth on Previous Year</i>		216.6%	%	1.1%	1.6%	-59.4%
Confirmed Funds From Other Sources						
Recurrent Expenses	996	1,498	1,198	973	-	3,669
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sources	996	1,498	1,198	973	-	3,669
<i>Growth on Previous Year</i>		50.4%	-20.1%	-18.7%	-100.0%	-100.0%
Combined Sources Budget						
Recurrent Expenses	2,778	5,674	3,429	3,229	2,291	14,623
<i>Growth on Previous Year</i>		104.3%	-39.6%	-5.8%	-29.0%	-59.6%
Capital Expenses	-	1,465	-	-	-	1,465
<i>Growth on Previous Year</i>	0	#DIV/0!	-100.0%	#DIV/0!	#DIV/0!	-100.0%
Total Combined Sources Budget	2,778	7,139	3,429	3,229	2,291	16,088
<i>Growth on Previous Year</i>		157.0%	-52.0%	-5.8%	-29.0%	-67.9%
Further Funding Required						
Recurrent Expenses	1,935	2,945	2,050	1,572	503	7,070
Capital Expenses	175	795	425	180	45	1,445
Total	2,110	3,740	2,475	1,752	547	8,515

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	23	224	121	67	43	27	1	506
Temporary	0	0	0	0	0	17	0	17
Total	23	224	121	67	43	44	1	523

THE ROLE OF THE MINISTRY OF JUSTICE AND INTEGRATION WITH THE SIPS

The role of the Ministry of Justice is to provide support to the justice system through development and assessment of justice; provision of public defenders and public prosecutors; provision of a civil registry and notary services; providing land titles and national cartography services; promoting awareness of the rights of Timorese citizens; and running prisons and social reintegration.

Activities of the Ministry of Justice are contained within the "Rights, Equality and Justice" SIP. Within the SIP the Government has clearly determined its primary goal as the creation of a judicial system which is able to guarantee the rule of law, respect the rights of citizens as well as contributing to an atmosphere of stability that facilitates investment and future development in Timor-Leste. Three core strategies are being implemented in order to achieve these goals. The first concerns the strengthening of the capacity of the formal justice system. The second is the promotion of gender equality and equal rights and duties ensuring non-discrimination between men and women. The third is the strengthening of the institutional capacity of the bodies responsible for the good administration of justice and for security.

Approximately \$14 million, close to half of the \$30.5 million which has been spent on rights, equality, and justice programs were allocated to legal and judicial programs over the five-year period ending 2003/04, with development partners accounting for about 70% of the total. A crucial point to note is that within the area of legal and judicial services, less than \$1.0 m is clearly identifiable as training for national staff. Donor support for prisons programs was minimal with most of the funding coming from the budget. Given importance of

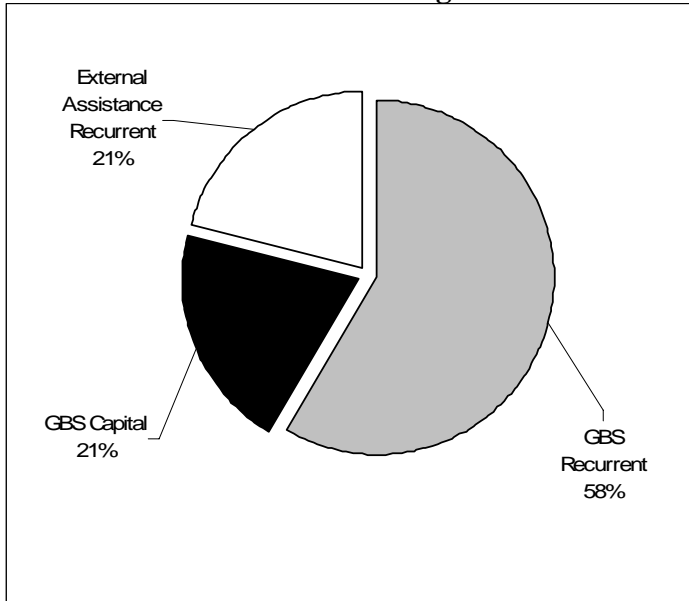
having a fair, stable and efficient judicial system, the Government accords a high priority to judicial programs in 2004-05 with fundin requests of almost \$15m.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

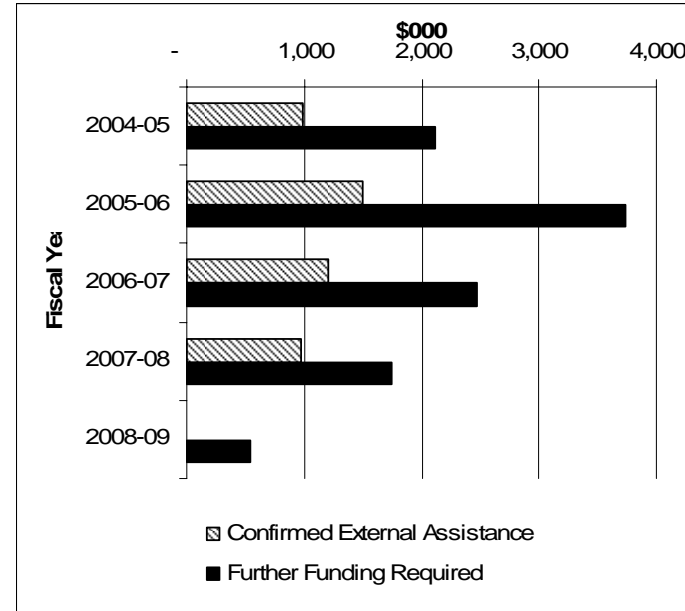
Additional budget funding has been provided to the Ministry of Justice to fund:

- the creation and distribution of identity cards to Timorese citizens, replacing the current ones which were issued by the United Nations;
- rehabilitation of the Office of the Public Notary Office and Civil Registration;
- completion of the construction of the building housing the Land and Property Division;
- intensive training of guards in jails through training courses run in Timor-Leste;
- further training of judges and lawyers; and
- wide promotion of citizens rights to all people in the districts.

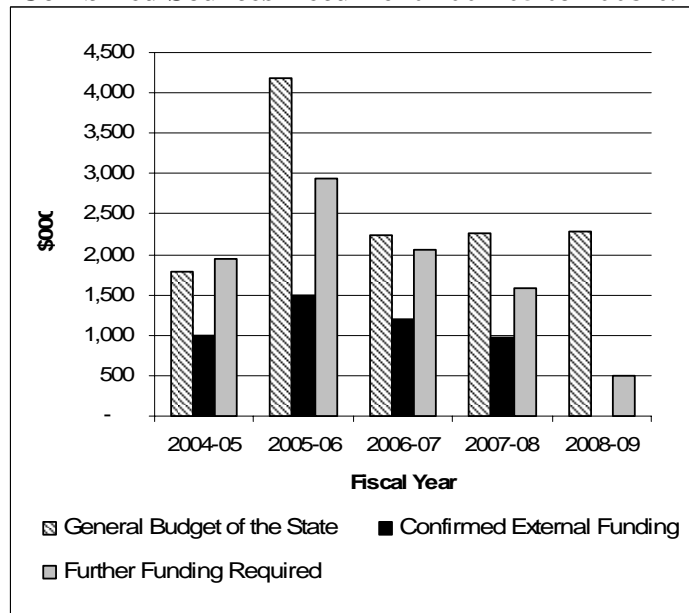
**Chart 6.37
Combined Sources Budget 2005-06**



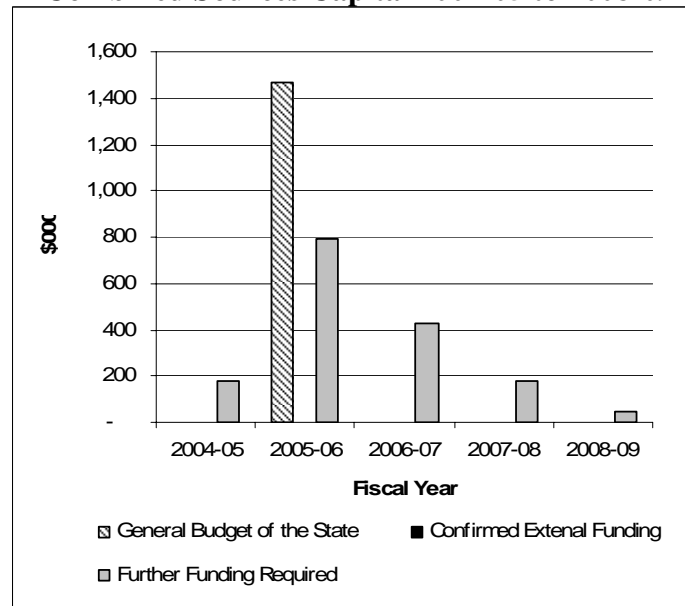
**Chart 6.38
External Assistance 2004-05 to 2008-09**



**Chart 6.39
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.40
Combined Sources Capital 2004-05 to 2008-09**



Ministry of Agriculture, Forests and Fisheries

Table 6.20
Funding and Staffing Overview Ministry of Agriculture, Forests and Fisheries(\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	519	691	804	852	896	3,243
Goods and Services	918	2,054	2,610	2,837	3,081	10,582
Minor Capital	29	1,135	396	180	258	1,969
Total Recurrent Expenses	1,466	3,880	3,810	3,869	4,235	15,794
<i>Growth on Previous Year</i>		165%	-2%	2%	9%	9.1%
Total Capital and Development	138	570	820	805	910	3,105
<i>Growth on Previous Year</i>		313%	44%	-2%	13%	59.6%
Total General Budget of the State	1,604	4,450	4,630	4,674	5,145	18,899
<i>Growth on Previous Year</i>		177%	4%	1%	10%	15.6%
Confirmed Funds From Other Sources						
Recurrent Expenses	6,248	3,357	1,138	68	-	4,563
Capital Expenses	2,023	1,860	835	12	-	2,707
Total Confirmed Funds from Other Sources	8,271	5,218	1,973	80	-	7,270
<i>Growth on Previous Year</i>		-37%	-62%	-96%	-100%	-100.0%
Combined Sources Budget						
Recurrent Expenses	7,714	7,237	4,948	3,937	4,235	20,357
<i>Growth on Previous Year</i>		-6%	-32%	-20%	8%	-41.5%
Capital Expenses	2,161	2,430	1,655	817	910	5,812
<i>Growth on Previous Year</i>		12%	-32%	-51%	11%	-62.6%
Total Combined Sources Budget	9,875	9,668	6,603	4,754	5,145	26,169
<i>Growth on Previous Year</i>		-2%	-32%	-28%	8%	-46.8%
Further Funding Required						
Recurrent Expenses	-	3,060	5,797	8,479	6,753	24,089
Capital Expenses	-	540	1,023	1,496	1,192	4,251
Total	-	3,600	6,820	9,975	7,945	28,340

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	5	32	75	123	60	17	4	316
Temporary	1	7	6	9	3	0	0	26
Total	6	39	81	132	63	17	4	342

The role of the Ministry for Agriculture, Forests and Fisheries is to attain food security and generate economic growth through improved production of food and commercial crops and livestock and fisheries. This will be achieved through good planning and research; improved primary production techniques; training primary producers; reducing disease in animals and crops; rehabilitating community irrigation schemes; providing primary producers with better access to markets; and providing quarantine services. The activities of the Ministry of Agriculture, Forests and Fisheries are contained within the "Agriculture, Forests and Fisheries" SIP.

The programmes within the "Agriculture, Forests and Fisheries" SIP are designed to support the implementation of Ministry's new policy and strategic framework. The agriculture and livestock sub-sector places particular emphasis on improving the livelihood of rural communities in upland and dryland areas, the integration of land and forest management in a watershed management approach, and the gradual expansion and better coordination of service delivery. The fisheries and forestry sub sector establishes the basic building blocks for sustainable resource management and will have as an immediate priority, for example, the development of resource inventories.

In the period from 1999/00 to 2003/04, a total of \$72.5 million was spent by donors and Government on programs within the sector, with the agriculture and livestock sector accounting for \$66 million of this total. Donors funded 92% of the total program. The proposed program for the five-year period ending FY2008/09 amounts to \$67 million, \$42 million of which would go to the agriculture and livestock sub-sector. Under the proposed program annual expenditures in agriculture, forestry and fisheries would decrease from about \$19

million in FY 2003/04 to about \$5.5 million from FY2007/08. This decrease can be attributed mainly to the end of a major donor project in the coffee industry and scaling-down of investment in irrigation. Expenditures in the forestry and fisheries sectors would double in the same period.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

The Ministry has created a new division to manage the agricultural schools which are aimed specifically to educate senior high school students who intend to seek employment in agriculture. Responsibility for these schools has been transferred from the Ministry of Education and Culture.

In accordance with the Ministry's Organic Law from next year the work of the Ministry will be decentralised into three regions to better serve districts. Newly created regional offices will work closely with people in rural areas, staff from various Directorates will relocate to the Regions, thus giving more focussed management to activities performed in the districts, the regional offices are:

- Region 1 will serve Baucau, Manatuto, Lospalos and Viqueque;
- Region 2 will serve Same, Ainaro, Aileu and Suai; and
- Region 3 will serve Maliana, Liquica and Ermera.

A new fisheries licensing system will be established to regulate the commercial exploitation of Timor Leste's fisheries for the benefit of the people. When this system is implemented, significant additional income will be generated.

The Ministry will expand its Research capabilities with the building of a testing laboratory, and develop new maize cultivars that are well adopted in the environmental conditions of Timor -Leste.

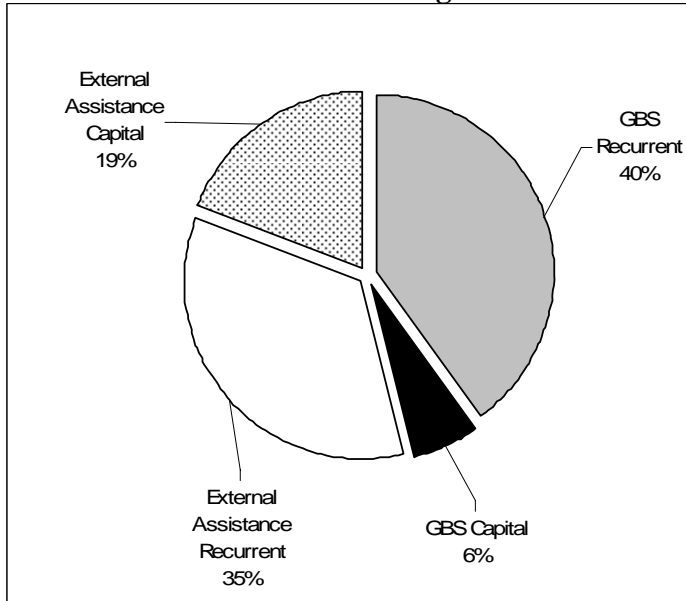
The Food Crops Directorate will be expanded to attain better food security for those who live in rural and remote areas.

The Ministry will engage forestry guardians to implement forestry policy and conserve natural resources for long term national benefits.

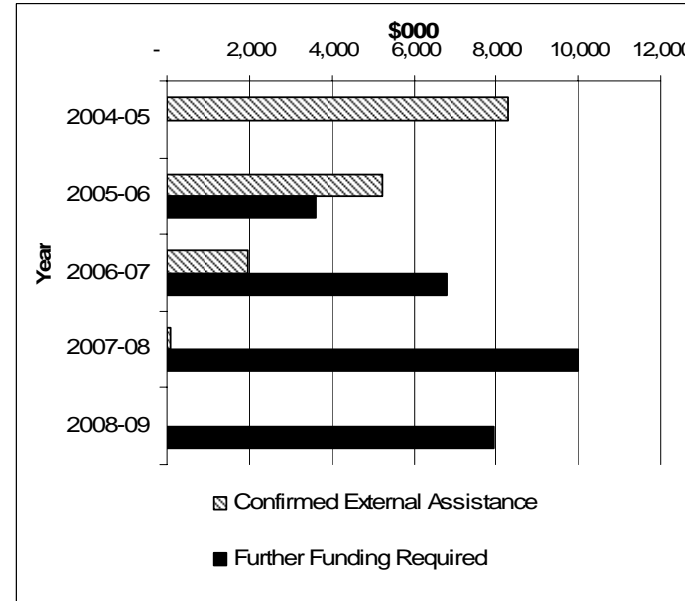
New Quarantine Legislation will be implemented to protect the country's natural fauna and flora and generate income from licensing.

The Ministry will increase the ongoing support for the rehabilitation and maintenance of the national irrigation scheme.

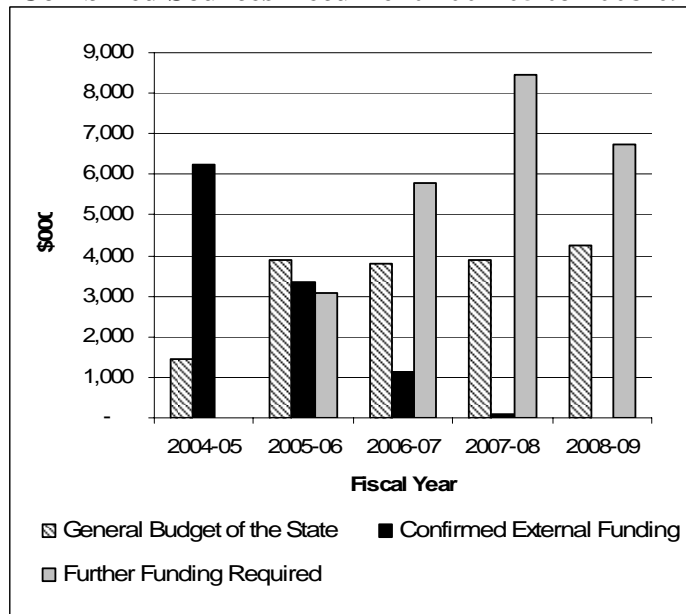
**Chart 6.41
Combined Sources Budget 2005-06**



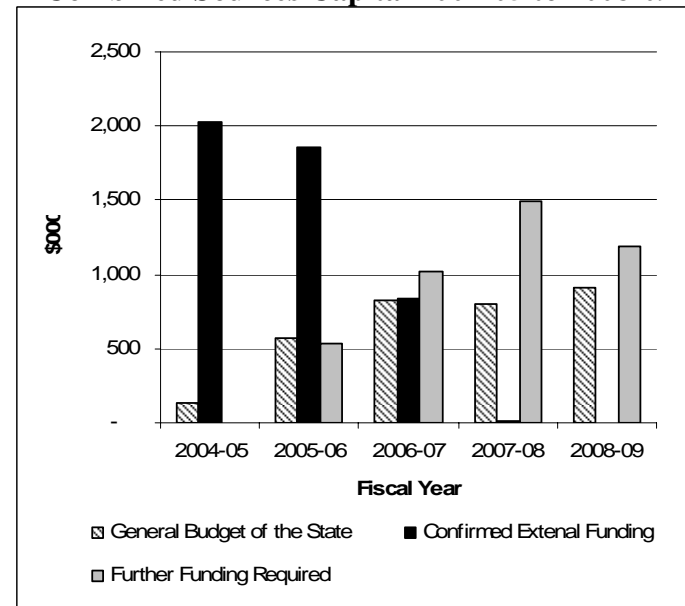
**Chart 6.42
External Assistance 2004-05 to 2008-09**



**Chart 6.43
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.44
Combined Sources Capital 2004-05 to 2008-09**



Ministry of Education and Culture

Table 6.21
Funding and Staffing Overview Ministry of Education and Culture (\$'000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	11,767	11,921	13,217	13,832	14,591	53,561
Goods and Services	3,378	4,225	5,048	5,403	5,918	20,594
Minor Capital	211	451	1,317	1,260	1,827	4,855
Total Recurrent Expenses	15,356	16,597	19,582	20,495	22,336	79,010
<i>Growth on Previous Year</i>		8.1%	18.0%	4.7%	9.0%	34.6%
Total Capital and Development	943	1,362	2,293	2,778	1,902	8,335
<i>Growth on Previous Year</i>		44.4%	68.4%	21.2%	-31.5%	39.6%
Total General Budget of the State	16,299	17,959	21,875	23,273	24,238	87,345
<i>Growth on Previous Year</i>		10.2%	21.8%	6.4%	4.1%	35.0%
Confirmed Funds From Other Sources						
Recurrent Expenses	12,995	4,118	934	666	-	5,718
Capital Expenses	6,400	1,135	-	-	-	1,135
Total Confirmed Funds from Other Sources	19,395	5,254	934	666	-	6,853
<i>Growth on Previous Year</i>		-72.9%	-82.2%	-28.7%	-100.0%	-100.0%
Combined Sources Budget						
Recurrent Expenses	28,351	20,715	20,516	21,161	22,336	84,728
<i>Growth on Previous Year</i>		-26.9%	-1.0%	3.1%	5.6%	7.8%
Capital Expenses	7,343	2,497	2,293	2,778	1,902	9,470
<i>Growth on Previous Year</i>		-66.0%	-8.2%	21.2%	-31.5%	-23.8%
Total Combined Sources Budget	35,694	23,213	22,809	23,939	24,238	94,198
<i>Growth on Previous Year</i>		-35.0%	-1.7%	5.0%	1.3%	4.4%
Further Funding Required						
Recurrent Expenses	3,180	6,232	8,160	4,640	4,300	23,332
Capital Expenses	-	9,118	13,342	9,804	1,400	33,664
Total	3,180	15,350	21,502	14,444	5,700	56,996

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	16	29	4509	2221	36	21	2	6834
Temporary	0	2	64	38	0	0	0	104
Total	16	31	4573	2259	36	21		6936

THE ROLE OF THE MINISTRY OF EDUCATION AND CULTURE AND INTEGRATION WITH SIPS

The role of the Ministry of Education and Culture is to provide access to quality education from early childhood to senior secondary through good teaching materials, well trained teachers, adequate equipment and school buildings; to develop a framework for providing quality tertiary education; to increase productivity and living standards through non-formal education; and to uphold the national identity of Timor-Leste's arts and culture. The activities of the Ministry of Education and Culture are contained within the "Education" SIP.

The Ministry of Education and Culture has formulated and adopted an Education Policy Framework (EPF) for the medium term, which lays down a vision and goals, objectives, and priorities in both general and specific areas of education. Taking the EPF as the overall framework, the objectives for the medium-term are as follows:

- Establish an appropriate policy, legal and regulatory framework for the education sector.
- Promote universal quality primary education with emphasis on improved equity, access and coverage; improved student achievement and overall quality; and reduced drop-out and repetition.
- Hasten the effective re-introduction of Portuguese and Tetum in schools.
- Rationalize the provision of tertiary education.
- Build the capacity of the Ministry for educational management and service delivery.

The proposed program for the formal education sector calls for total expenditures of \$169 million during the five-year period ending 2008-09. This compares with the \$167 million spent on the formal education system during the previous five years. The highest priority is accorded to primary education which would require outlays of \$75 million and account for 44 percent of spending on formal education. A number of specific programs have been drawn up to improve the quality of primary education and to raise the net enrolment ratio for primary school from 75 percent to 81 percent by 2007. Spending on secondary education would amount to about \$60 million, with a large part of that going to junior secondary education in support of the Government's longer-term goal of providing all children in Timor-Leste with nine years of basic education.

In the case of vocational and adult education, the proposed program calls for expenditures of \$19 million during 2004-05 through 2008-09, compared with \$21 million during the past five years. It should be noted that this program refers only to those activities that are under the direct purview of the Ministry of Education and Culture and SSLS. It does not include specialized training programs for farmers, foresters and other groups that receive support from various other line ministries. During the five- year period ending 2003-04, these programs, which are described in other SIPs, amounted to about \$5 million.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

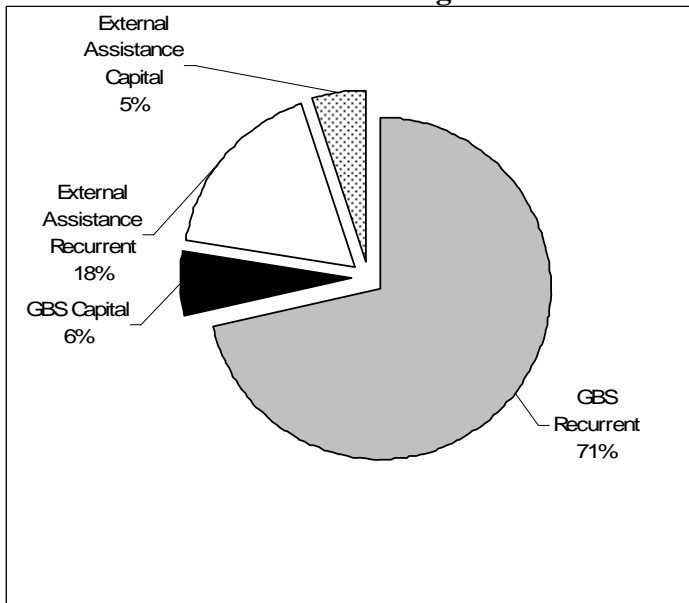
The Ministry will continue the rehabilitation of 18 of schools and the construction of 7 new schools in 2005-06 to ensure that the children of Timor Leste have suitable accommodation for learning. More funds are being allocated to maintenance and cleaning of school buildings. There will be an increased use of temporary staff to employ University lecturers. Increases in Minor Capital are being used to provide school furniture.

The Ministry will also build a new Rector's Office at the National University of Timor Leste.

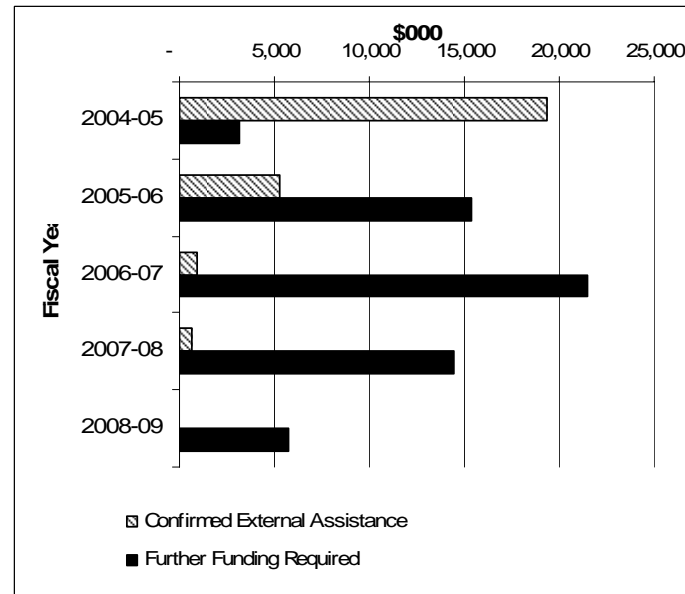
Agricultural colleges will be transferred to the Ministry of Agriculture, Forests and Fisheries.

The Ministry is working towards reviewing and improving the curriculum for all sectors of education.

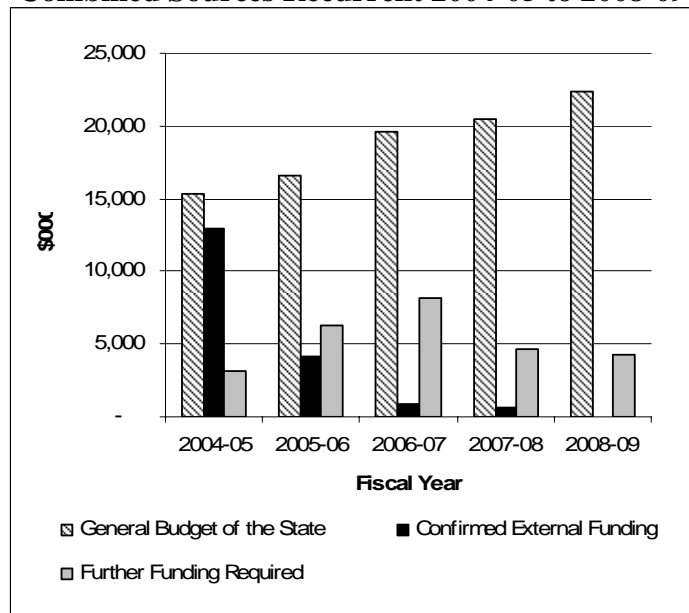
**Chart 6.45
Combined Sources Budget 2005-06**



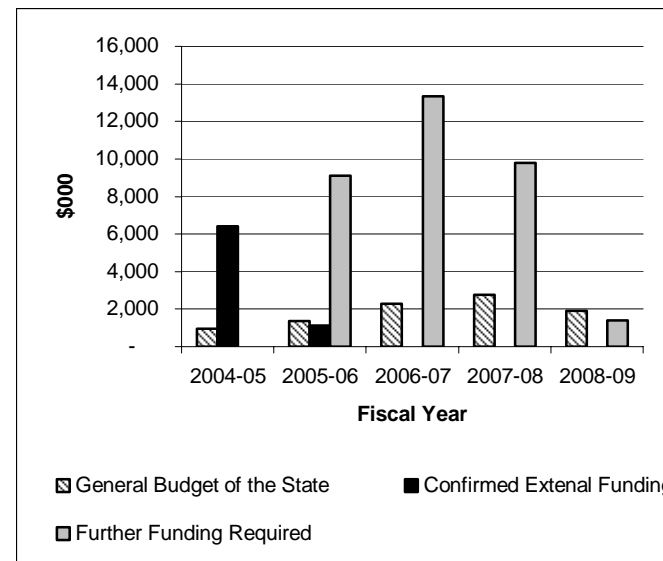
**Chart 6.46
External Assistance 2004-05 to 2008-09**



**Chart 6.47
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.48
Combined Sources Capital 2004-05 to 2008-09**



Ministry of Health

Table 6.22
Funding and Staffing Overview Ministry of Health 2004-05 to 2008-09 (\$'000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	3,012	3,025	3,114	3,196	3,335	12,670
Goods and Services	5,571	6,730	7,834	8,315	7,472	30,351
Minor Capital	483	550	663	780	748	2,741
Total Recurrent Expenses	9,066	10,305	11,611	12,291	11,555	45,762
<i>Growth on Previous Year</i>		13.7%	12.7%	5.9%	-6.0%	12.1%
Total Capital and Development	600	4,000	2,666	4,635	615	11,916
<i>Growth on Previous Year</i>		566.7%	-33.4%	73.9%	-86.7%	-84.6%
Total General Budget of the State	9,666	14,305	14,277	16,926	12,170	57,678
<i>Growth on Previous Year</i>		48.0%	-0.2%	18.6%	-28.1%	-14.9%
Confirmed Funds From Other Sources						
Recurrent Expenses	16,046	7,750	6,401	1,156	1,156	16,464
Capital Expenses	2,737	1,445	1,518	-	-	2,963
Total Confirmed Funds from Other Sources	18,783	9,196	7,919	1,156	1,156	19,427
<i>Growth on Previous Year</i>		-51.0%	-13.9%	-85.4%	0.0%	-87.4%
Combined Sources Budget						
Recurrent Expenses	25,112	18,055	18,012	13,447	12,711	62,226
<i>Growth on Previous Year</i>		-28.1%	-0.2%	-25.3%	-5.5%	-29.6%
Capital Expenses	-	-	-	-	-	14,879
<i>Growth on Previous Year</i>		na	na	na	na	na
Total Combined Sources Budget	25,112	18,055	18,012	13,447	12,711	77,105
<i>Growth on Previous Year</i>		-28.1%	-0.2%	-25.3%	-5.5%	-29.6%
Further Funding Required						
Recurrent Expenses	3,503	6,205	6,544	1,157	-	13,905
Capital Expenses	1,775	3,325	4,580	4,300	1,805	14,010
Total	5,278	9,530	11,124	5,457	1,805	27,915

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	0	181	986	392	149	50	2	1,760
Temporary	0	1	18	2	1	1	0	23
Total	0	182	1,004	394	150	51	2	1,783

ROLE OF THE MINISTRY OF HEALTH AND INTEGRATION WITH SIPS

The roles of the Ministry of Health is to reduce the incidence of morbidity and mortality in Timor Leste by providing of efficient and effective health services, including high quality hospital, laboratory, and pharmaceutical services. The activities of the Ministry of Health are contained within the "Health" SIP.

Total health expenditures in five-year period from 1999/00 to 2003/04 were over \$106m. Total health expenditure increased from \$18.5 million in 1999/00 to almost \$25 million in 2003/04 with donors funding about 70 percent of expenses, although in the last two years budget allocations accounted for almost 40 percent of total spending.

In accordance with the Timor-Leste health policy framework (HPF), most health expenditure has been concentrated on primary and preventive health care services at the district level, with these outlays accounting for about 65% of total spending in the past five years. While the HPF provides for up to 40% of health expenditure to be committed to hospitals, only 26% of expenditure was allocated to hospitals and specialised services over this five-year period.

Over these five years, considerable gains have been made in extending immunization coverage and improving access to primary health care services. The concentration has been on boosting the consumption of health services by the population and rehabilitating infrastructure for district health services. However, the

task of rehabilitating health infrastructure is a massive one, and much remains to be done to put in place a reasonable level of facilities for the operation of district health services. Hospital infrastructure is also in need of attention. The provision of health services in renovated facilities would provide a further incentive for the population to avail themselves of these services. As has already been discussed, utilisation rates of health services in Timor-Leste are sub-optimal. Improvements in facilities will go some way towards addressing this problem.

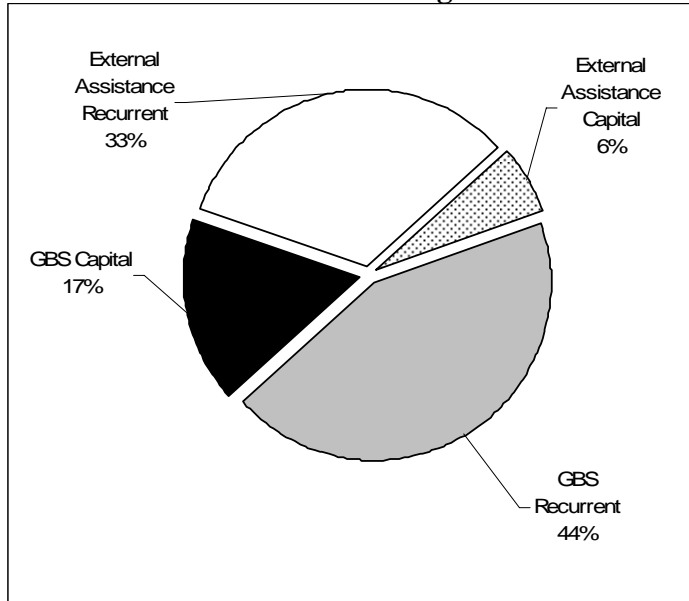
Proposed expenditures for the health sector amount to \$127 million in the period from 2004-05 to 2008-09 – an increase of 19% over the previous five years. Ongoing expenditure commitments for the next five years amount to \$94m. Proposed new disbursements amount to \$33 million. Donors have been identified for new projects costing \$0.7m. This leaves a financing gap of about \$32m for proposed projects over the period 2004/05 to 2008/09.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

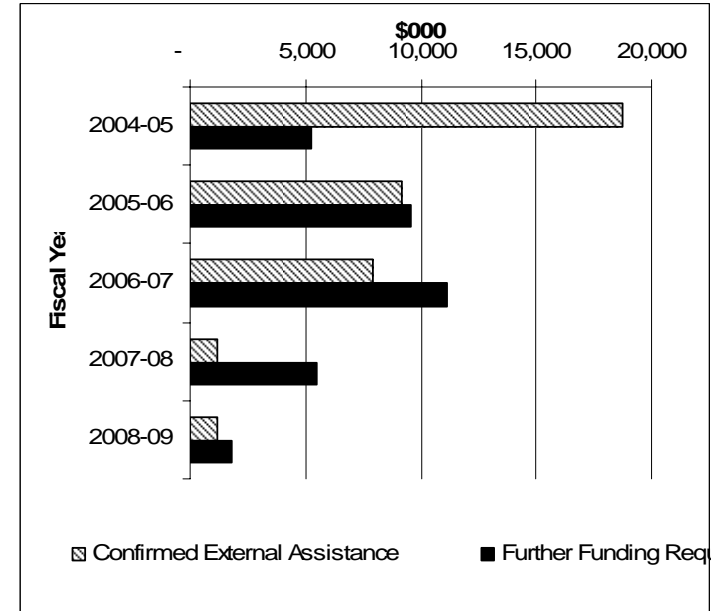
To improve services to the regions, the health services programs will be divided into 23 separate programs which have been restructured to show the separate districts and funding to those districts. District health services will be funded through each separate program. This will improve transparency and the quality of services to districts.

The Autonomous Medical Supplies Stores service will be set up as a separate institution under the Minister for Health and will charge for providing supplies.

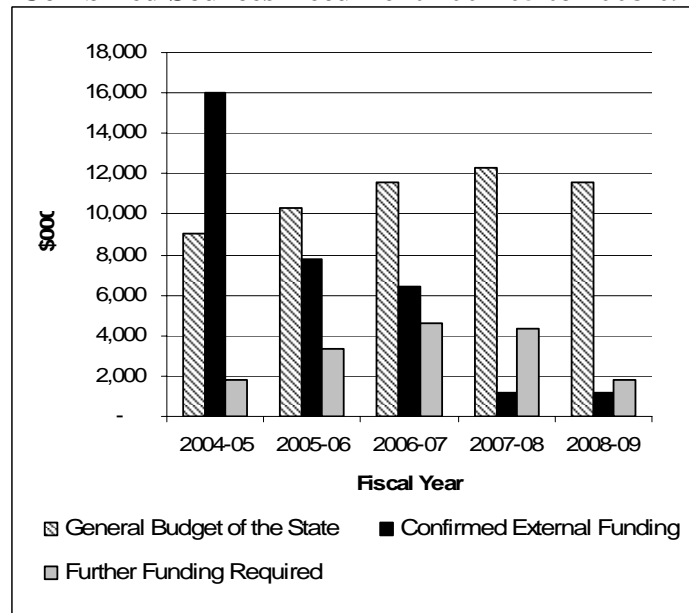
**Chart 6.49
Combined Sources Budget 2005-06**



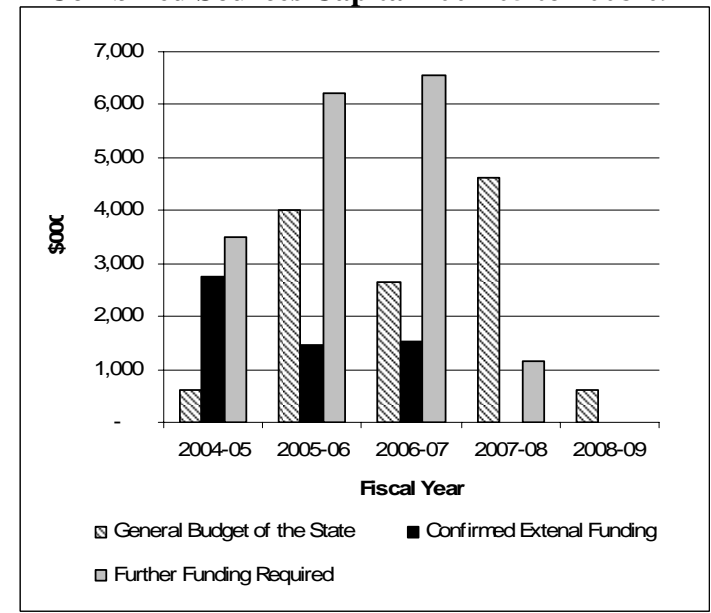
**Chart 6.50
External Assistance 2004-05 to 2008-09**



**Chart 6.51
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.52
Combined Sources Capital 2004-05 to 2008-09**



Ministry of Labour and Community Reintegration

Table 6.23
Funding and Staffing Overview Ministry of Labour and Community Reintegration
(\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	199	232	571	593	607	2,003
Goods and Services	279	373	345	365	379	1,462
Minor Capital	12	2	27	27	28	84
Total Recurrent Expenses	490	607	943	985	1,014	3,549
<i>Growth on Previous Year</i>		23.9%	55.4%	4.5%	2.9%	67.1%
Total Capital and Development	-	253	-	-	-	253
<i>Growth on Previous Year</i>		na	na	na	na	na
Total General Budget of the State	490	860	943	985	1,014	3,802
<i>Growth on Previous Year</i>		75.5%	9.7%	4.5%	2.9%	17.9%
Confirmed Funds From Other Sources						
Recurrent Expenses	375	-	-	-	-	-
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sources	375	-	-	-	-	-
<i>Growth on Previous Year</i>		-100.0%	na	na	na	na
Combined Sources Budget						
Recurrent Expenses	865	607	943	985	1,014	3,549
<i>Growth on Previous Year</i>		-29.8%	55.4%	4.5%	2.9%	67.1%
Capital Expenses	-	253	-	-	-	253
<i>Growth on Previous Year</i>		na	na	na	na	na
Total Combined Sources Budget	865	860	943	985	1,014	3,802
<i>Growth on Previous Year</i>		-0.6%	9.7%	4.5%	2.9%	17.9%
Further Funding Required						
Recurrent Expenses	500	1,500	1,600	300	200	3,600
Capital Expenses	-	-	-	-	-	-
Total	500	1,500	1,600	300	200	3,600

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	1	10	60	21	7	5	0	104
Temporary	7	1	1	1	0	0	0	10
Total	8	11	61	22	7	5	0	114

ROLE OF THE MINISTRY OF LABOUR AND COMMUNITY REINTEGRATION AND INTEGRATION WITH THE SIPS

The role of Ministry of Labour and Reintegration is to promote economic growth through harmonious and cooperative industrial relations; to increase workforce participation and decrease unemployment through more skilled labour; to protect the most vulnerable groups in society; and reintegration of veterans and ex-combatants into mainstream society through education, jobs and equal rights. The activities of the Ministry of Labour and Community Reintegration are contained in the SIP on "Protection and Civil Society."

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

The establishment of the National Prosthetics and Orthotics resource centre in Dili, (Becora) will provide high quality and affordable prosthetic and orthotic devices and/or mobility aids.

The Ministry will commission a War Memorial (Garden of Heroes) to honour those who contributed to the struggle for independence. The Ministry will also implement a National labour code, and a work skill program for employment placements.

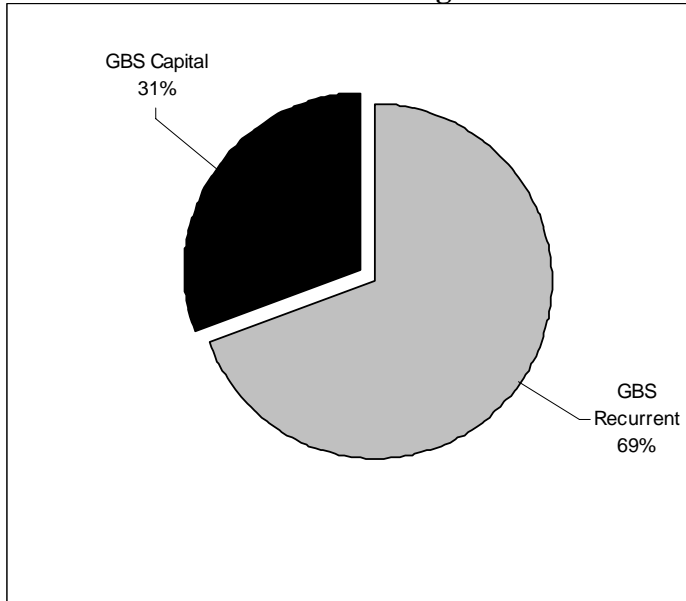
There will be some expansion of the scope of social services to various disadvantaged groups through food distribution and basic necessities.

They will also implement a program of assistance (with some cooperation from donors) to veterans and ex-combatants, such as housing and basic services.

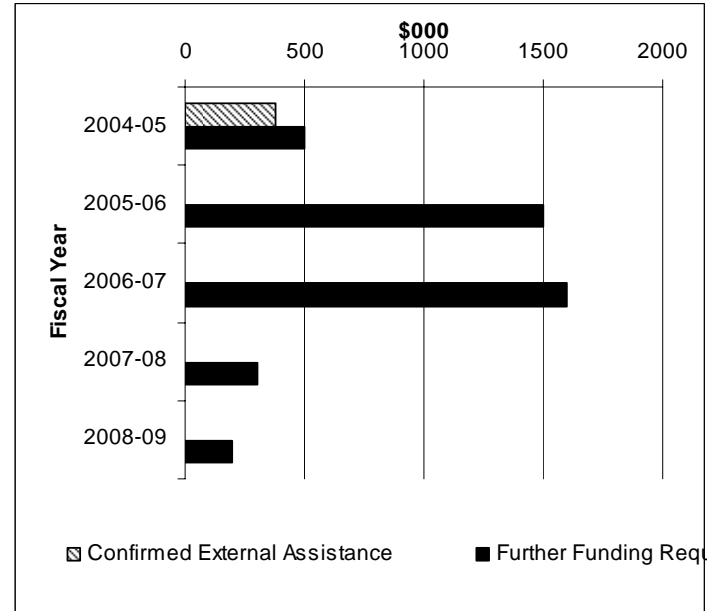
The Ministry is also embarking on a program of improved administrative, logistics and financial support capabilities at head office and the regional centres.

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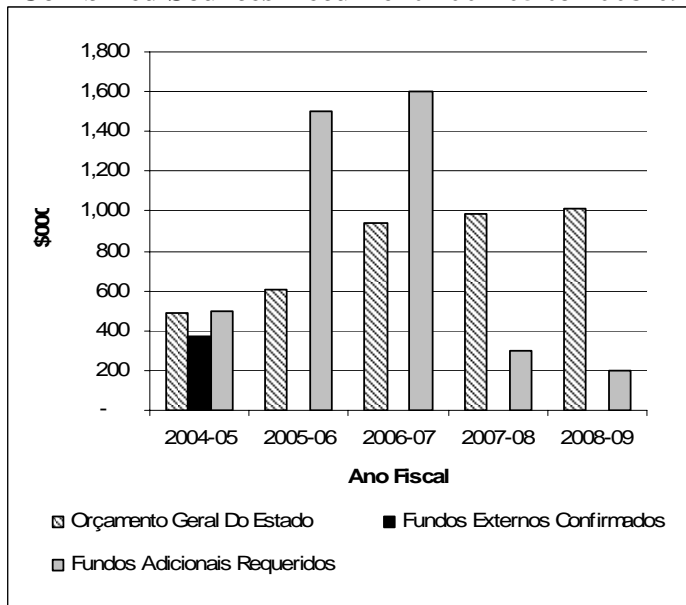
**Chart 6.53
Combined Sources Budget 2005-06**



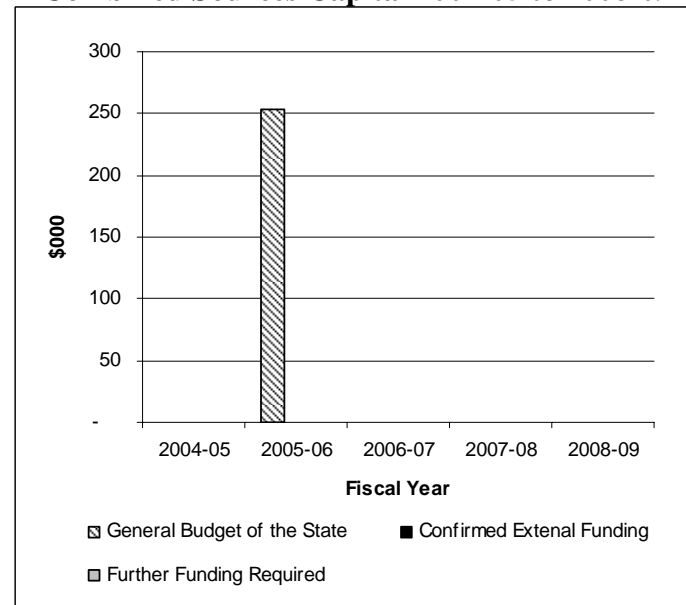
**Chart 6.54
External Assistance 2004-05 to 2008-09**



**Chart 6.55
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.56
Combined Sources Capital 2004-05 to 2008-09**



Ministry of Foreign Affairs and Cooperation

Table 6.24
Funding and Staffing Overview Ministry of Foreign Affairs and Cooperation(\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	217	221	221	221	221	884
Goods and Services	2,068	2,417	2,520	2,643	2,759	10,339
Minor Capital	151	40	-	-	-	40
Total Recurrent Expenses	2,436	2,678	2,741	2,864	2,980	11,263
<i>Growth on Previous Year</i>		9.9%	2.4%	4.5%	4.1%	11.3%
Total Capital and Development	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Total General Budget of the State	2,436	2,678	2,741	2,864	2,980	11,263
<i>Growth on Previous Year</i>		9.9%	2.4%	4.5%	4.1%	11.3%
Confirmed Funds From Other Sources						
Recurrent Expenses	1,396	-	-	-	-	-
Capital Expenses	1,588	2,000	500	-	-	2,500
Total Confirmed Funds from Other Sources	2,984	2,000	500	-	-	2,500
<i>Growth on Previous Year</i>		-33.0%	-75.0%			
Combined Sources Budget						
Recurrent Expenses	3,832	2,678	2,741	2,864	2,980	11,263
<i>Growth on Previous Year</i>		-30.1%	2.4%	4.5%	4.1%	11.3%
Capital Expenses	1,588	2,000	500	-	-	2,500
<i>Growth on Previous Year</i>		25.9%	-75.0%	-100.0%	na	-100.0%
Total Combined Sources Budget	5,420	4,678	3,241	2,864	2,980	13,763
<i>Growth on Previous Year</i>		-13.7%	-30.7%	-11.6%	4.1%	-36.3%
Further Funding Required						
Recurrent Expenses	510	970	1,110	325	325	2,730
Capital Expenses	798	307	307	30	-	644
Total	1,308	1,277	1,417	355	325	3,374

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	3	3	11	24	12	14	1	68
Temporary	2	2	0	0	2	8	0	14
Total	5	5	11	24	14	22	1	82

ROLE OF THE MINISTRY OF FOREIGN AFFAIRS AND COOPERATION AND INTEGRATION WITH SIPS

The role of the Ministry for Foreign Affairs and Cooperation is to strengthen the diplomatic relations and the international contribution to support Timor-Leste's development. The activities of the Ministry of Foreign Affairs and Cooperation are contained within the "External Affairs" SIP.

Over the next five years, the main challenge is to build the Ministry's diplomatic capacity and its ability to engage in international cooperation. This capacity building would address the following four sets of issues:

Build the capacities of MFAC for international diplomacy.

Strengthen legal and other technical capacities for evaluating the costs and benefits of memberships in international organisations and of becoming a signatory to various international conventions and treaties.

Strengthen policies and programs aimed at expanding trade relations with other countries and attracting international investment to Timor-Leste.

Strengthen mechanisms within the Government for inter-agency coordination and information sharing in areas where policies and programs have implications for bilateral, multilateral and regional relationships and cooperation.

Total expenditures on External Relations and Cooperation Sector programs amounted to about \$38 million during the five-year period ending FY2003/04, 90% of which was funded by donors. Expenditures are dominated by the extraordinary levels of donor support in 1999. Budget appropriations jumped sharply in 2002/03 following Independence in May 2002 and in 2003-04 at 50%.

Budget outlays for operating eight embassies and a consulate averaged \$870,000 in the past two years. However, this figure understates the true cost of embassy operations. Just maintaining the current level of representation overseas would require a sum of \$4 million in property rents alone. Timor-Leste's diplomatic presence in so many foreign capitals is due to skilful use of offset arrangements involving waiver of rents by the host country and provision of office space by closely allied CPLP countries such as Portugal (for the embassy in Lisbon and the permanent missions in New York and Brussels) and Cape Verde (for the embassy in Washington).

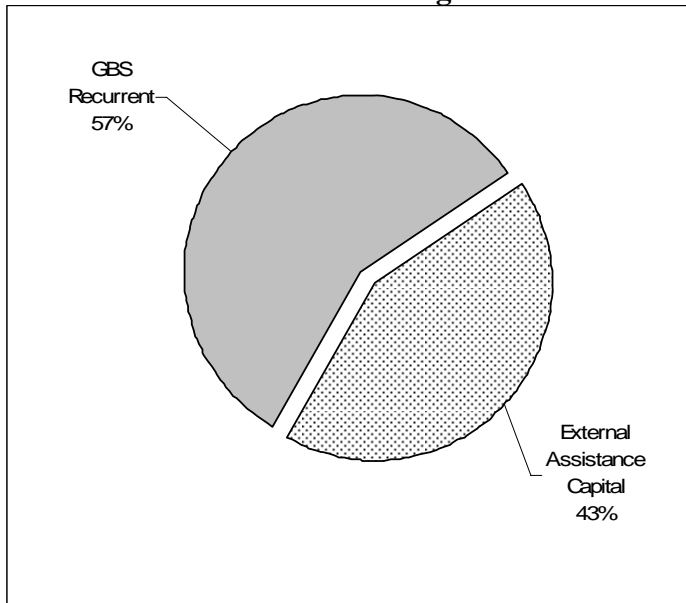
Over the five-year period ending FY2008/09, total expenditures in the external relations sector would amount to around \$23 million. The Budget of the State would account for more than half of the total outlays. Existing CFET allocations and ongoing donor programs would account for almost \$13 million of the proposed program, leaving a total of \$5.5 million of new donor funding to be raised.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

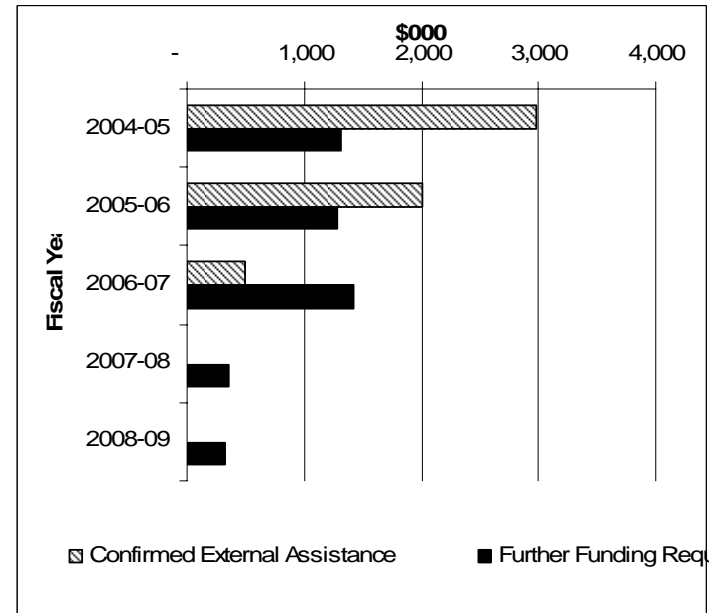
The Ministry of Foreign Affairs and Cooperation will open two consulates in Indonesia – Kupang and Denpasar. This will facilitate the repatriation of citizens of Timor Leste still living in West Timor and assist ministers and officials when transiting Bali on duty travel.

To enable further improvements in external relations, the Ministry will have an increase in its overseas travel budget which is accessed from the central Government pool for overseas travel from \$100,000 to \$150,000 in 2005-06.

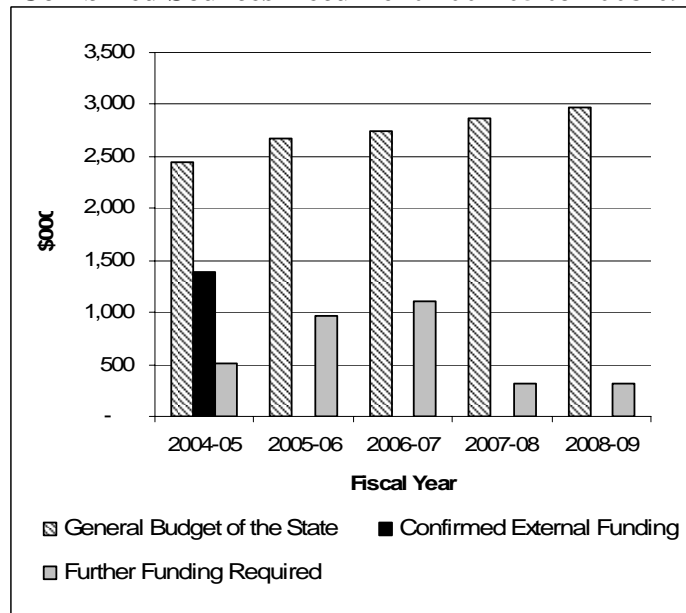
**Chart 6.57
Combined Sources Budget 2005-06**



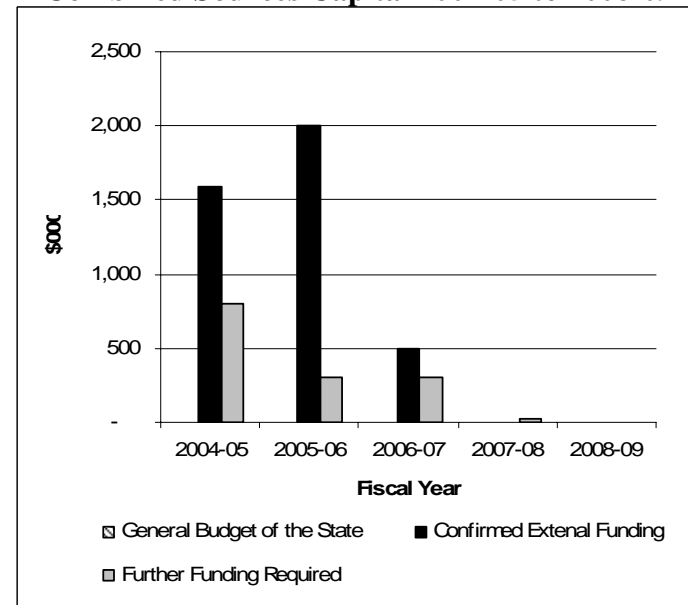
**Chart 6.58
External Assistance 2004-05 to 2008-09**



**Chart 6.59
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.60
Combined Sources Capital 2004-05 to 2008-09**



Ministry of Planning and Finance

Table 6.25
Funding and Staffing Overview Ministry of (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	981	1,002	1,019	1,027	1,043	4,091
Goods and Services	3,017	5,594	4,236	3,613	3,741	17,184
Minor Capital	77	120	139	153	127	539
Total Recurrent Expenses	4,075	6,716	5,394	4,793	4,911	21,814
<i>Growth on Previous Year</i>		64.8%	-19.7%	-11.1%	2.5%	-26.9%
Total Capital and Development						
	35	215	172	122	24	533
<i>Growth on Previous Year</i>		514.3%	-20.0%	-29.1%	-80.3%	-88.8%
Total General Budget of the State	4,110	6,931	5,566	4,915	4,935	22,347
<i>Growth on Previous Year</i>		68.6%	-19.7%	-11.7%	0.4%	-28.8%
Confirmed Funds From Other Sources						
Recurrent Expenses	9,574	414	-	-	-	414
Capital Expenses	113	112	101	101	-	101
Total Confirmed Funds from Other Sources	9,687	526	101	101	-	729
<i>Growth on Previous Year</i>		-94.6%	-80.7%	0.0%	-100.0%	-100.0%
Combined Sources Budget						
Recurrent Expenses	13,649	7,130	5,394	4,793	4,911	22,228
<i>Growth on Previous Year</i>		-47.8%	-24.3%	-11.1%	2.5%	-31.1%
Capital Expenses	148	327	273	223	24	634
<i>Growth on Previous Year</i>		121.4%	-16.5%	-18.3%	-89.3%	-92.7%
Total Combined Sources Budget	13,797	7,457	5,667	5,016	4,935	22,862
<i>Growth on Previous Year</i>		-45.9%	-24.0%	-11.5%	-1.6%	-33.8%
Further Funding Required						
Recurrent Expenses	30	10,820	13,280	11,330	7,950	43,380
Capital Expenses	-	250	250	-	-	500
Total	30	11,070	13,530	11,330	7,950	43,880

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	14	93	147	186	57	20	1	518
Temporary	0	35	8	1	0	0	0	44
Total	14	128	155	187	57	20	1	562

ROLE OF THE MINISTRY OF PLANNING AND FINANCE AND INTEGRATION WITH SIPS

The roles of the Ministry of Planning and Finance are the efficient management of government resources and assets through: planning and developing the National Budget; collection of revenue (taxes and customs); efficient procurement and management of goods and services used by Government; and provision of regular and reliable statistical data on Timor Leste. The Ministry also advises on economic policy for sustainability in the medium term. The activities of the Ministry of Planning and Finance are contained within the "Public Sector Management" SIP.

Total spending on Public Sector Management programs related to the activities of the Ministry in the five years amounted to about \$114 million, 70 % of which was funded by Development Partners and 19 percent through UN assessments. Annual outlays expanded rapidly during the first four years, and after peaking at \$42 million in FY2002/03, dropped to \$30 million last year. The decline stemmed from reduced levels on spending on expatriate advisors with the phase down in the role of UNMISSET.

Total funding for activities within the Ministry of Planning excluding United Nations stability and critical posts (counted within Ministry of State Administration) in the same period was over \$17 million.

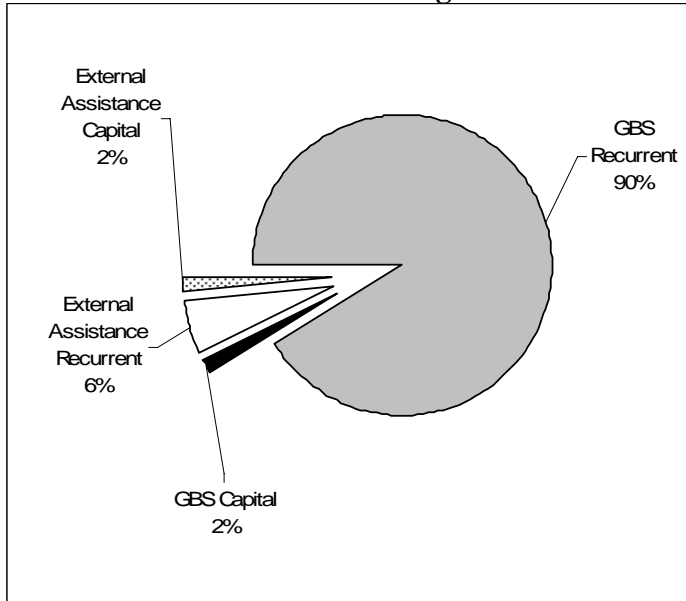
The proposed expenditure program for the PSM sector amounts to \$108 million for the five year period ending 2008/09. The proposed PSM program is most directly associated with capacity building in the civil service. Total expenditures for activities within the Ministry of Planning and Finance represent approximately

\$44 million. The proposed program represents a significant shift in emphasis compared to the program in previous years. These shifts reflect the Government's decision to accelerate significantly the development of the civil service through a combination of training, institutional development and improved systems and procedures.

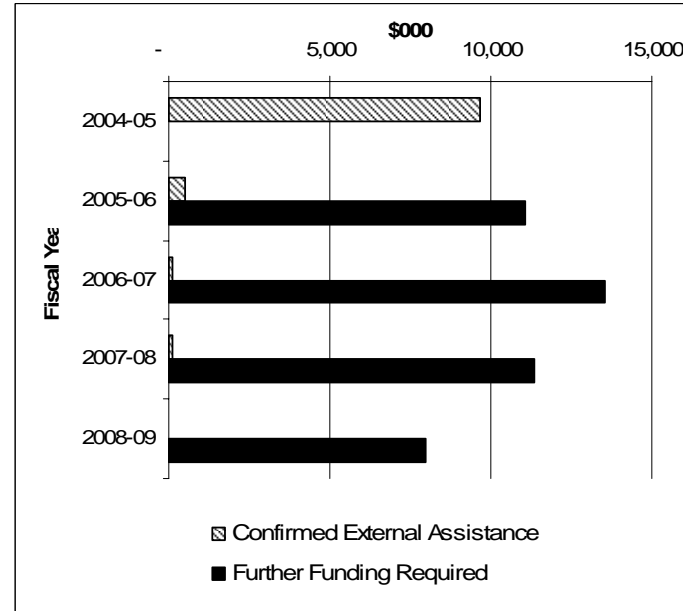
GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

The Ministry of Planning and Finance will further strengthen the Customs Service with a view to reducing evasion and thus significantly increasing customs collection net of the costs of collection. Additional Budget funding will be provided to enable the establishment of six new Customs posts to implement this initiative.

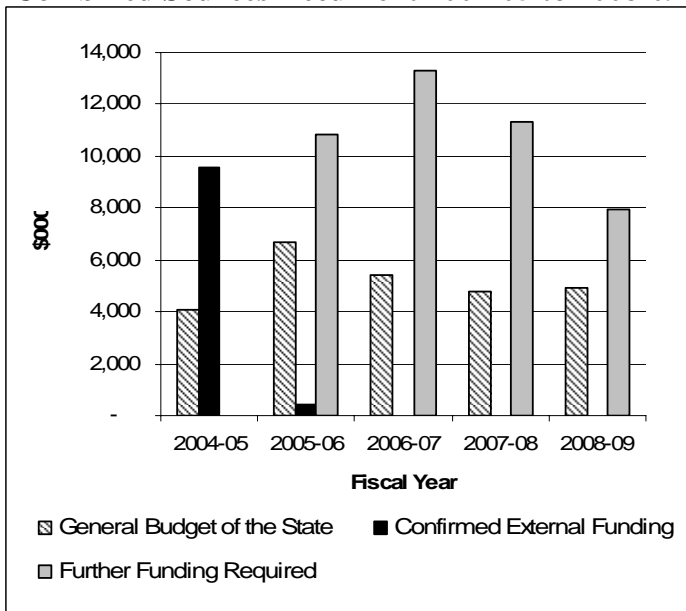
**Chart 6.61
Combined Sources Budget 2005-06**



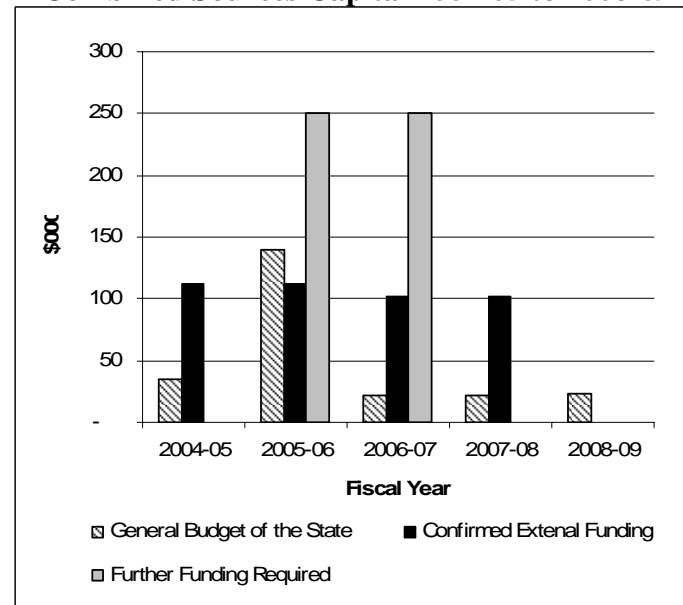
**Chart 6.62
External Assistance 2004-05 to 2008-09**



**Chart 6.63
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.64
Combined Sources Capital 2004-05 to 2008-09**



Ministry of Transport and Communications

Table 6.26

Funding and Staffing Overview Ministry of Transport and Communications (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	604	675	684	698	716	2,773
Goods and Services	1,653	2,371	3,631	3,640	3,820	13,462
Minor Capital	306	663	741	721	676	2,801
Total Recurrent Expenses	2,563	3,709	5,056	5,059	5,212	19,036
<i>Growth on Previous Year</i>		44.7%	36.3%	0.1%	3.0%	40.5%
Total Capital and Development	723	2,025	2,013	4,156	3,192	11,386
<i>Growth on Previous Year</i>		180.1%	-0.6%	106.5%	-23.2%	57.6%
Total General Budget of the State	3,286	5,734	7,069	9,215	8,404	30,422
<i>Growth on Previous Year</i>		74.5%	23.3%	30.4%	-8.8%	46.6%
Confirmed Funds From Other Sources						
Recurrent Expenses	304	950	605	170	170	1,895
Capital Expenses	451	2,017	1,167	1,179	320	4,683
Total Confirmed Funds from Other Sources	755	2,967	1,772	1,349	490	6,578
<i>Growth on Previous Year</i>		292.9%	-40.3%	-23.9%	-63.7%	-83.5%
Combined Sources Budget						
Recurrent Expenses	2,867	4,659	5,661	5,229	5,382	20,931
<i>Growth on Previous Year</i>		62.5%	21.5%	-7.6%	2.9%	15.5%
Capital Expenses	1,174	4,042	3,180	5,335	3,512	16,069
<i>Growth on Previous Year</i>		244.2%	-21.3%	67.8%	-34.2%	-13.1%
Total Combined Sources Budget	4,041	8,701	8,841	10,564	8,894	37,000
<i>Growth on Previous Year</i>		115.3%	1.6%	19.5%	-15.8%	2.2%
Further Funding Required						
Recurrent Expenses	664	950	605	170	170	1,895
Capital Expenses	270	2,017	1,167	1,179	320	4,683
Total	934	2,967	1,772	1,349	490	6,578

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	10	23	52	30	17	7	1	140
Temporary	5	3	32	14	4	1	0	59
Total	15	26	84	44	21	8	1	199

ROLE OF THE MINISTRY OF TRANSPORT AND COMMUNICATIONS AND INTEGRATION WITH SIPS

The roles of the Ministry of Transport and Communications is to plan, research and regulate land, water and air transport; to improve the management of erosion and flooding; to provide and regulate telecommunications and postal services across Timor-Leste; to provide Government with an adequate IT infrastructure; and to provide meteorological services. The activities of the Ministry of Transport, Communications and Public Works are spread amongst a number of sectors including: "Transport"; "Communication"; "Water Supply and Sanitation" and "Housing and Urban Development".

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

The Ministry will further improve the access to meteorological regional information to assist with accurate forecasting. Initial activities will involve rehabilitation of meteorological instruments and the introduction of meteorological and seismological services. .

The Ministry will start road safety program support, with the Directorate of Roads working with Police and Land Transport to identify critical points where accidents happen and install traffic lights.

Chart 6.65
Combined Sources Budget 2005-06

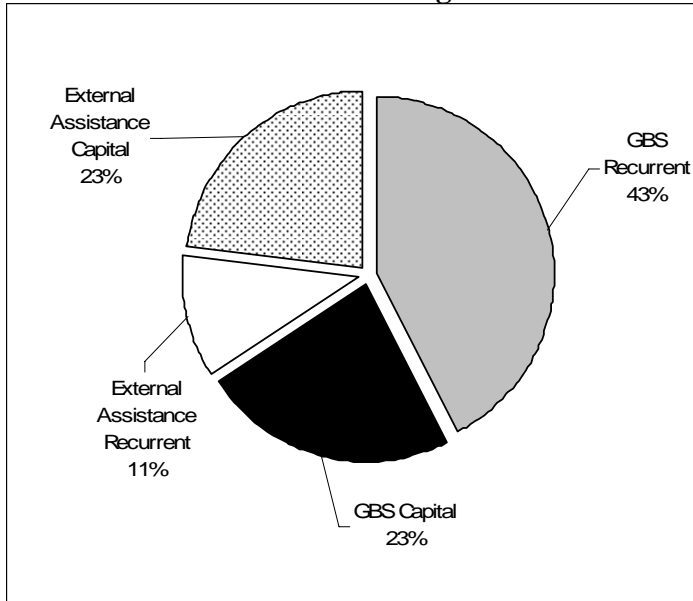


Chart 6.66
External Assistance 2004-05 to 2008-09

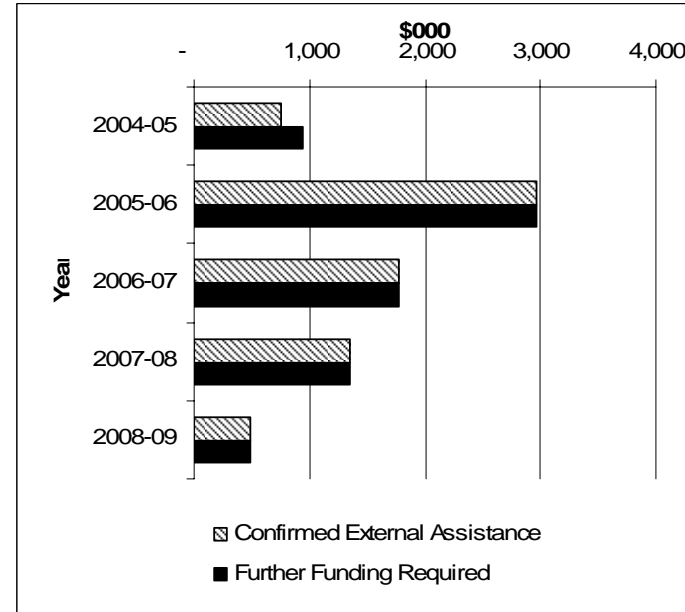


Chart 6.67
Combined Sources Recurrent 2004-05 to 2008-09

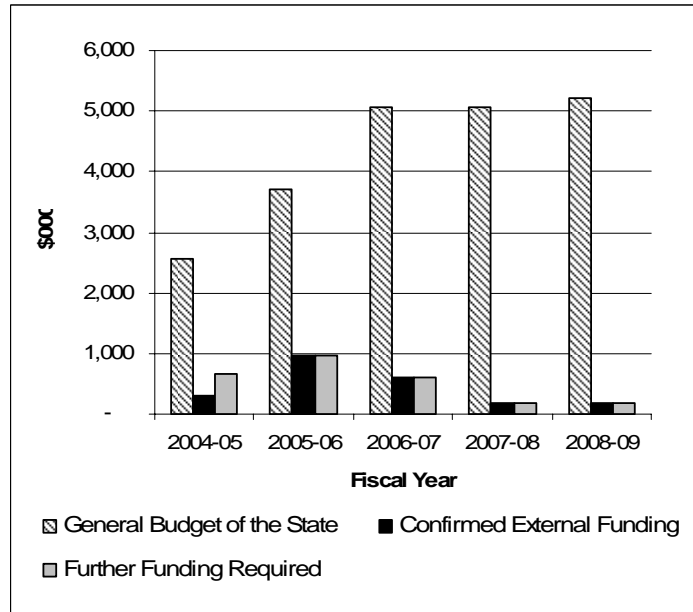
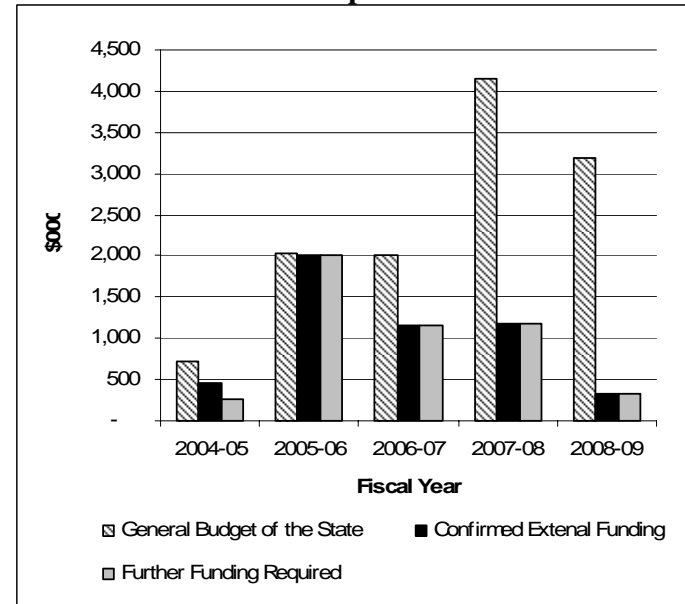


Chart 6.68
Combined Sources Capital 2004-05 to 2008-09



Ministry of Public Works

Table 6.27
Funding and Staffing Overview Ministry of Public Works (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	264	231	241	245	240	957
Goods and Services	217	445	678	696	756	2,575
Minor Capital	28	129	45	53	44	271
Total Recurrent Expenses	509	805	964	994	1,040	3,803
<i>Growth on Previous Year</i>		58.2%	19.8%	3.1%	4.6%	29.2%
Total Capital and Development	4,135	5,145	6,050	6,685	7,600	25,480
<i>Growth on Previous Year</i>		24.4%	17.6%	10.5%	13.7%	47.7%
Total General Budget of the State	4,644	5,950	7,014	7,679	8,640	29,283
<i>Growth on Previous Year</i>		28.1%	17.9%	9.5%	12.5%	45.2%
Confirmed Funds From Other Sources						
Recurrent Expenses	553	250	0	0	0	250
Capital Expenses	7912	9953	10927	4433	352	25,665
Total Confirmed Funds from Other Sources	8465	10203	10927	4433	352	25,915
<i>Growth on Previous Year</i>		20.5%	7.1%	-59.4%	-92.1%	-96.6%
Combined Sources Budget						
Recurrent Expenses	1,062	1,055	964	994	1,040	4,053
<i>Growth on Previous Year</i>		-0.7%	-8.6%	3.1%	4.6%	-1.4%
Capital Expenses	12,047	15,098	16,977	11,118	7,952	51,145
<i>Growth on Previous Year</i>		25.3%	12.4%	-34.5%	-28.5%	-47.3%
Total Combined Sources Budget	13,109	16,153	17,941	12,112	8,992	55,198
<i>Growth on Previous Year</i>		23.2%	11.1%	-32.5%	-25.8%	-44.3%
Further Funding Required						
Recurrent Expenses	675	2,039	2,650	1,050	300	6,039
Capital Expenses	-	4,000	8,000	13,000	12,500	37,500
Total	675	6,039	10,650	14,050	12,800	43,539

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	22	29	42	57	33	5	1	189
Temporary	2	3	14	1	4	1	0	25
Total	24	32	56	58	37	6	1	214

Role of the Ministry of Public Works and integration with the SIPS

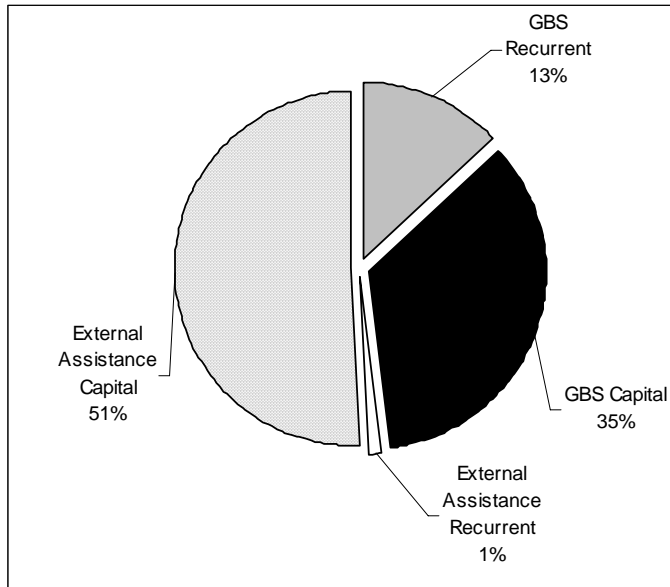
The role of the Ministry of Public Works is to plan, research and commission public works including roads, bridges and public buildings; and to improve the management of erosion and flooding. The activities of the Ministry of Public Works are contained in the SIP on "Housing and Urban Development".

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

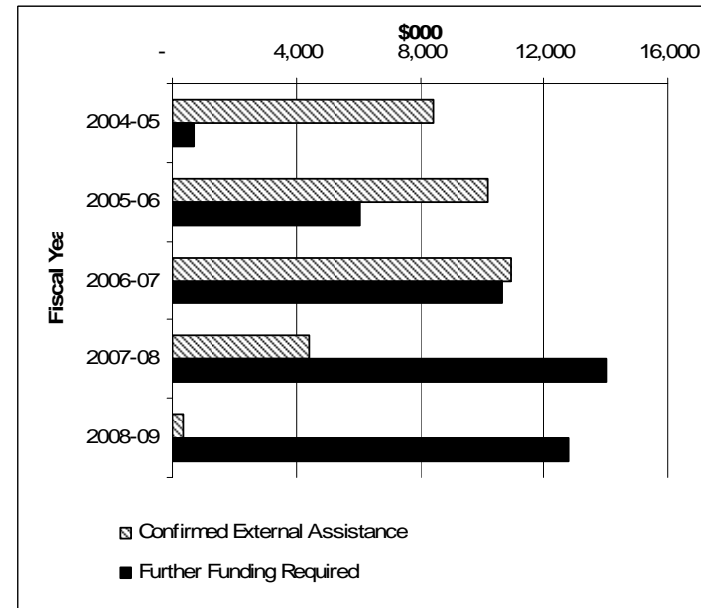
The Ministry of Public Works will build a significant number of new roads both in Dili and the districts during 2005-06. It will also improve existing roads and bridges which have fallen into disrepair. New roads will be constructed from Uaiaka to Quelicai and Vemasse to Baucau. There will also be a major rehabilitation of the Dilor Bridge in Viqueque.

The Ministry will also undertake works to improve flood control of some of the larger rivers in the districts. Some of these will occur in the Boromata River in Viqueque and the Laga River in Baucau.

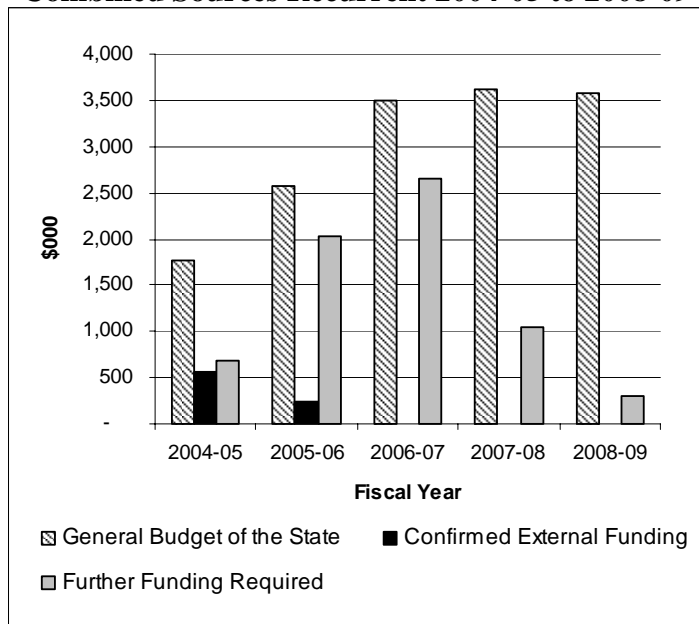
**Chart 6.69
Combined Sources Budget 2005-06**



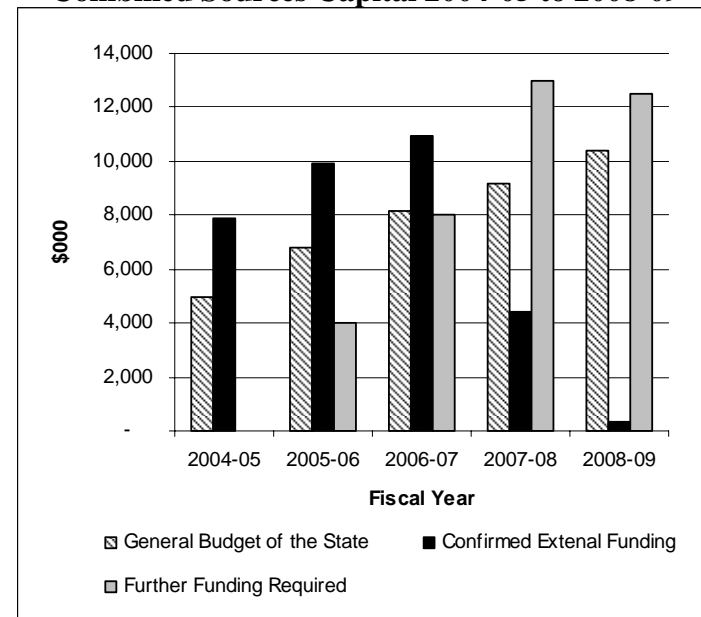
**Chart 6.70
External Assistance 2004-05 to 2008-09**



**Chart 6.71
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.72
Combined Sources Capital 2004-05 to 2008-09**



Ministry of Natural Resources, Minerals and Energy Policy

Table 6.28
Funding and Staffing Overview Ministry of Natural Resources, Minerals and Energy Policy(\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	702	743	772	798	840	3,153
Goods and Services	12,260	12,796	14,407	16,162	16,466	59,831
Minor Capital	223	404	609	713	763	2,489
Total Recurrent Expenses	13,185	13,943	15,788	17,673	18,069	65,473
<i>Growth on Previous Year</i>		5.7%	13.2%	11.9%	2.2%	29.6%
Total Capital and Development	1,340	2,768	3,300	4,000	4,000	14,068
<i>Growth on Previous Year</i>		106.6%	19.2%	21.2%	0.0%	44.5%
Total General Budget of the State	14,525	16,711	19,088	21,673	22,069	79,541
<i>Growth on Previous Year</i>		15.0%	14.2%	13.5%	1.8%	32.1%
Confirmed Funds From Other Sources						
Recurrent Expenses	2970.39	1681.26	1014	318.571	228.571	3,242
Capital Expenses	5515.2	7651.2	2150	0	0	9,801
Total Confirmed Funds from Other Sources	8485.59	9332.46	3164	318.571	228.571	13,044
<i>Growth on Previous Year</i>		10.0%	-66.1%	-89.9%	-28.3%	-97.6%
Combined Sources Budget						
Recurrent Expenses	16,155	15,624	16,802	17,992	18,298	68,715
<i>Growth on Previous Year</i>		-3.3%	7.5%	7.1%	1.7%	17.1%
Capital Expenses	6,855	10,419	5,450	4,000	4,000	23,869
<i>Growth on Previous Year</i>		52.0%	-47.7%	-26.6%	0.0%	-61.6%
Total Combined Sources Budget	23,011	26,043	22,252	21,992	22,298	92,585
<i>Growth on Previous Year</i>		13.2%	-14.6%	-1.2%	1.4%	-14.4%
Further Funding Required						
Recurrent Expenses	1,575	3,173	3,442	1,000	-	7,615
Capital Expenses	2,790	10,138	8,417	8,800	9,317	36,672
Total	4,365	13,311	11,859	9,800	9,317	44,287

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	42	60	44	36	8	4	0	194
Temporary	0	8	0	0	0	0	0	8
Total	42	68	44	36	8	4	0	202

ROLE OF THE THE MINISTRY OF NATURAL RESOURCES, MINERALS AND ENERGY POLICY AND INTEGRATION WITH THE SIPS

The role of the Ministry of Natural Resources, Minerals and Energy Policy is to manage the natural resources of Timor Leste efficiently and in a consistent and environmentally acceptable way.

The activities of the Ministry of Natural Resources, Minerals and Energy Policy are contained in the SIPs on "Natural Resources, Minerals and Energy Policy", "Power", "Water Supply and Sanitation".

In the five year period ending 2003/04, a total of \$10.4 m was spent on programs in the natural resources sector 90% of which was funded by development partners, whilst \$30m spent on development of the private sector, 90% of which was also funded by development partners.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

The Government is proposing a significant increase in total combined spending on natural resources over the next four years. The majority of which is aimed at:

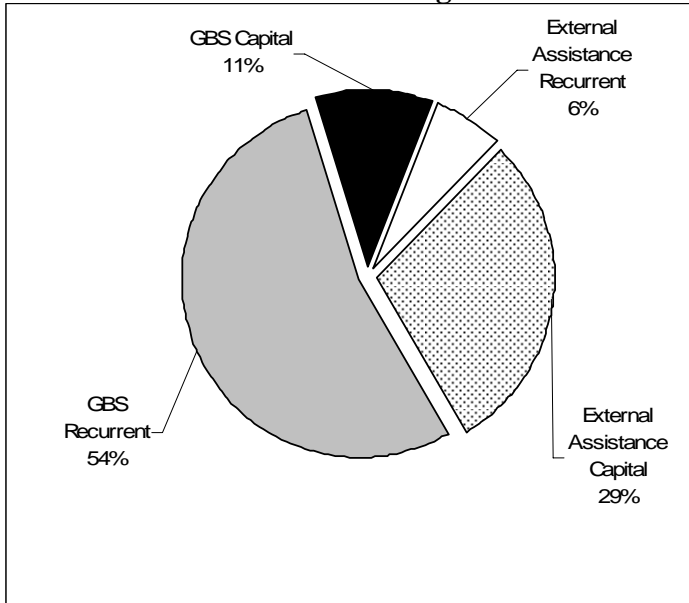
- laying the foundations to enable the conditions for increased private investment in resource related industries;
- improving the understanding of the resource base of the country and its prudent management; and

- strengthening the legal and regulatory capacities of Government

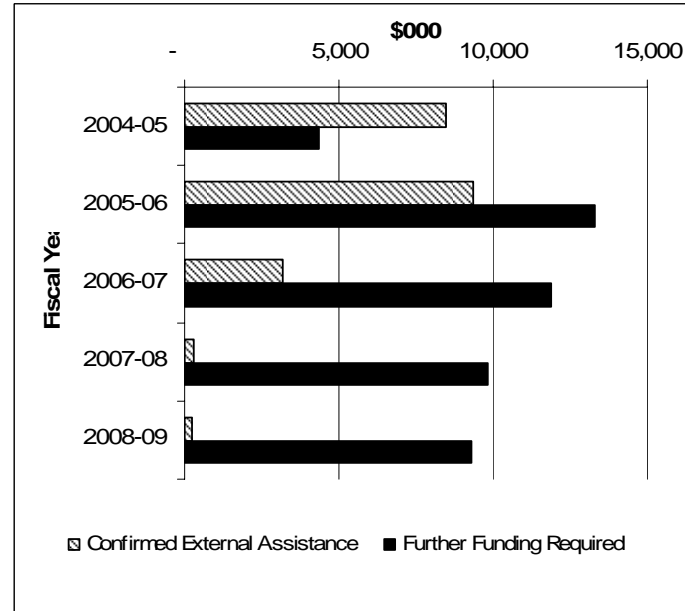
Two new Directorates have been created, a new Oil and Gas Directorate, and a new Geology and Mineral Resources Directorate. A new permanent Secretary has also been appointed. Further strengthening of the administration will be achieved with the creation of a finance and legal section.

The proposed level of expenditures in the natural resources sector is estimated to be \$21 million from 2004/05 to 2008/09, some \$7 m of which is related to development partner programs ongoing and under preparation and current budget allocations. Disbursements from proposed new projects and programs amount to \$13 million over the same period, along with a small amount of additional budget counterpart funding for the environment program of approximately \$ 0.25 million

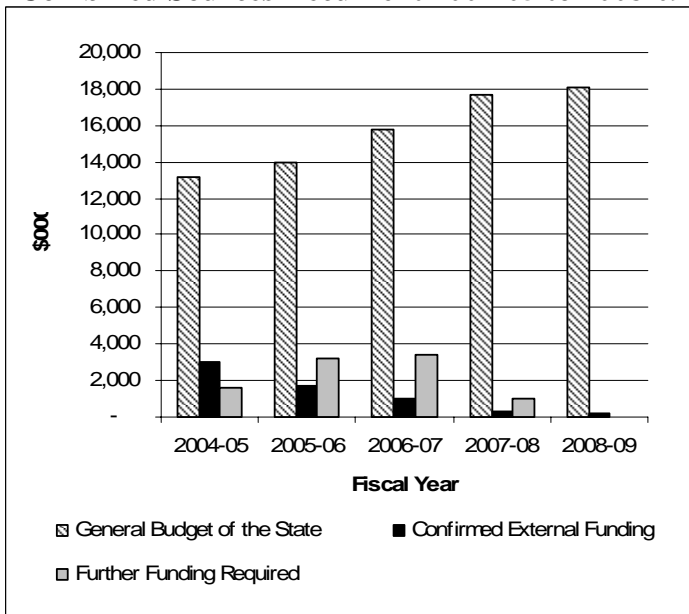
**Chart 6.73
Combined Sources Budget 2005-06**



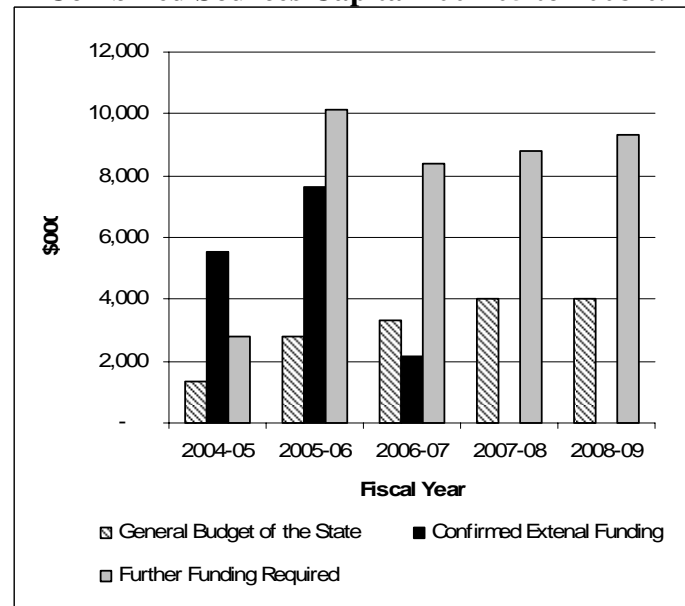
**Chart 6.74
External Assistance 2004-05 to 2008-09**



**Chart 6.75
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.76
Combined Sources Capital 2004-05 to 2008-09**



Secretary of State of Tourism and Environment

Table 6.29
Funding and Staffing Overview Secretary of State of Tourism and Environment
(\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	63	70	71	72	73	286
Goods and Services	97	97	137	137	152	523
Minor Capital	10	10	17	35	22	84
Total Recurrent Expenses	188	177	225	244	247	893
<i>Growth on Previous Year</i>		-5.9%	27.1%	8.4%	1.2%	39.5%
Total Capital and Development	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Total General Budget of the State	188	177	225	244	247	893
<i>Growth on Previous Year</i>		-5.9%	27.1%	8.4%	1.2%	39.5%
Confirmed Funds From Other Sources						
Recurrent Expenses	-	-	-	-	-	-
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sources	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Combined Sources Budget						
Recurrent Expenses	188	177	225	244	247	893
<i>Growth on Previous Year</i>		-5.9%	27.1%	8.4%	1.2%	39.5%
Capital Expenses	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Total Combined Sources Budget	188	177	225	244	247	893
<i>Growth on Previous Year</i>		-5.9%	27.1%	8.4%	1.2%	39.5%
Further Funding Required						
Recurrent Expenses	-	1,070	940	-	-	2,010
Capital Expenses	-	530	460	-	-	990
Total	-	1,600	1,400	-	-	3,000

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	0	1	8	14	3	4	0	30
Temporary	1	2	3	1	1	0	0	8
Total	1	3	11	15	4	4	0	38

THE ROLE OF THE MINISTRY OF TOURISM AND ENVIRONMENT AND INTEGRATION WITH THE SIPS

The role of the Ministry of Tourism and Environment is to establish a tourism industry which generates jobs and maintains local cultures and to protect and enhance the natural environment of Timor Leste.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

Over the next four years the Government is proposing to strengthen its environmental management capacity, and to develop sustainable tourism in Timor Leste.

Chart 6.77
Combined Sources Budget 2005-06

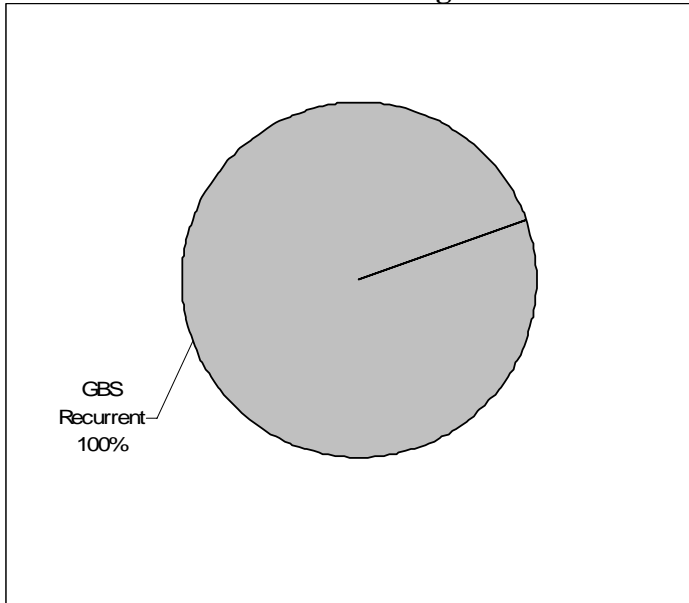


Chart 6.78
External Assistance 2004-05 to 2008-09

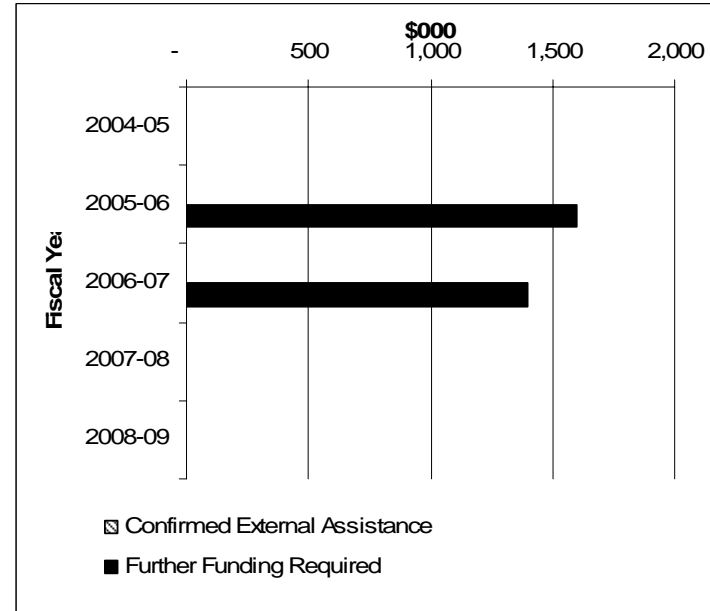


Chart 6.79
Combined Sources Recurrent 2004-05 to 2008-09

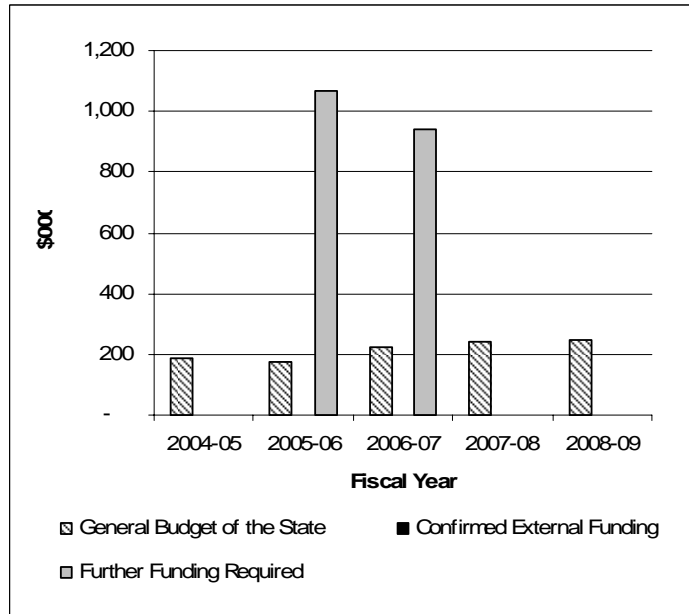
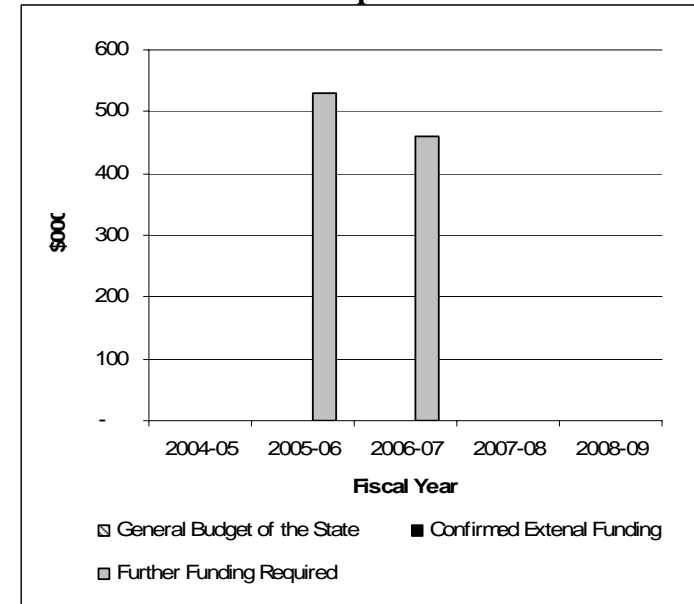


Chart 6.80
Combined Sources Capital 2004-05 to 2008-09



Ministry of Youth and Sport

Table 6.30
Funding and Staffing Overview Secretary of State for Youth and Sport (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	61	80	69	70	70	289
Goods and Services	122	161	156	160	176	653
Minor Capital	6	6	14	26	28	74
Total Recurrent Expenses	189	247	239	256	274	1,016
<i>Growth on Previous Year</i>		30.7%	-3.2%	7.1%	7.0%	10.9%
Total Capital and Development	-	183	-	-	-	183
<i>Growth on Previous Year</i>	0	na	na	na	na	na
Total General Budget of the State	189	430	239	256	274	1,199
<i>Growth on Previous Year</i>		127.5%	-44.4%	7.1%	7.0%	-36.3%
Confirmed Funds From Other Sources						
Recurrent Expenses	60	-	-	-	-	-
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sources	60	-	-	-	-	-
<i>Growth on Previous Year</i>	0	na	na	na	na	na
Combined Sources Budget						
Recurrent Expenses	249	247	239	256	274	1,016
<i>Growth on Previous Year</i>		-0.9%	-3.2%	7.1%	7.0%	10.9%
Capital Expenses	-	183	-	-	-	183
<i>Growth on Previous Year</i>	0	na	-100.0%	na	na	na
Total Combined Sources Budget	249	430	239	256	274	1,199
<i>Growth on Previous Year</i>		72.5%	-44.4%	7.1%	7.0%	-36.3%
Further Funding Required						
Recurrent Expenses	320	320	410	800	700	2,230
Capital Expenses	-	-	-	-	-	-
Total	320	320	410	800	700	2,230

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	0	0	4	27	3	1	0	35
Temporary	0	0	0	0	0	0	0	0
Total	0	0	4	27	3	1	0	35

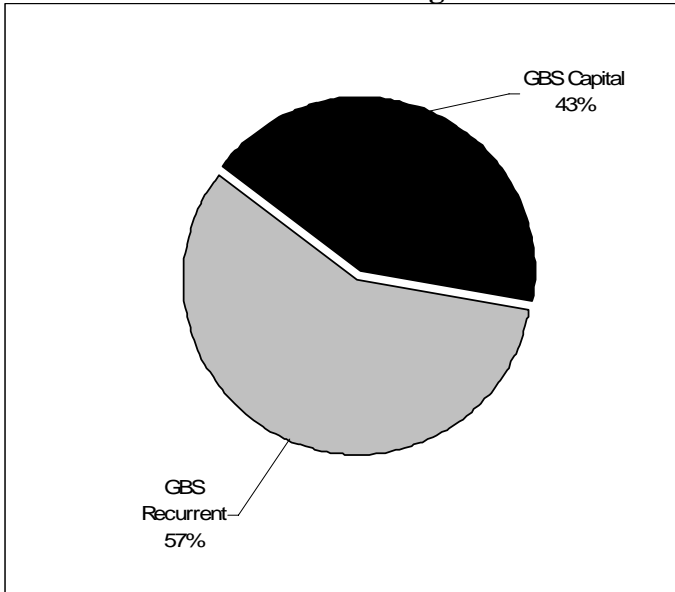
THE ROLE OF THE MINISTRY OF YOUTH AND SPORT AND INTEGRATION WITH THE SIPS

The role of the Ministry of Youth and Sport is to develop youth leadership; and support sporting activities.

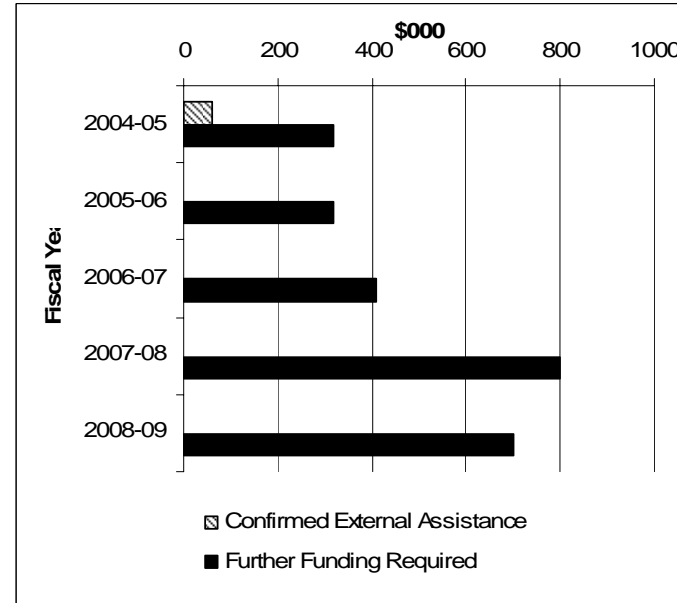
GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

Funding of \$103 will be provided to construct an office for the Sports division in 2005-06

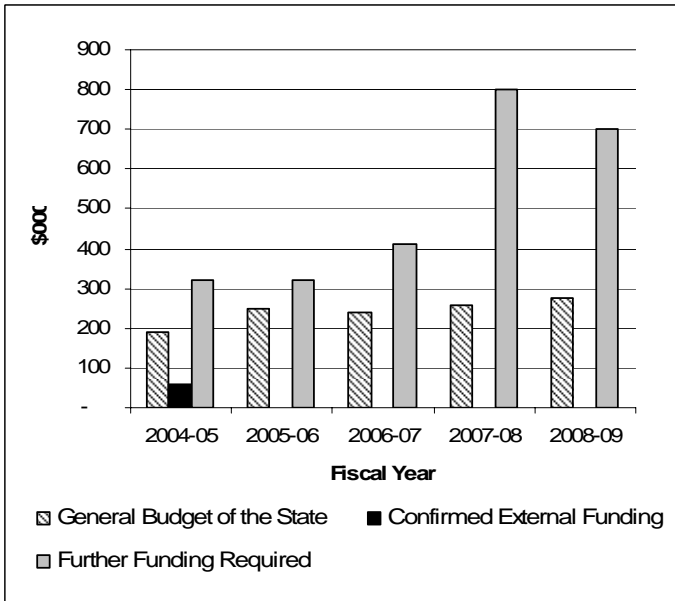
**Chart 6.81
Combined Sources Budget 2005-06**



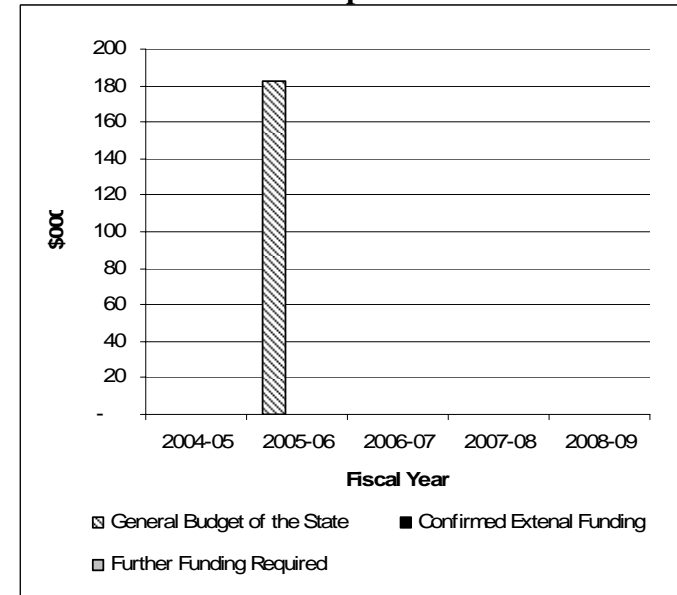
**Chart 6.82
External Assistance 2004-05 to 2008-09**



**Chart 6.83
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.84
Combined Sources Capital 2004-05 to 2008-09**



TRIBUNALS

**Table 6.31
Funding and Staffing Overview of the Judiciary (\$000)**

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	226	227	234	237	237	935
Goods and Services	117	209	217	220	220	866
Minor Capital	16	67	84	84	77	312
Total Recurrent Expenses	359	503	535	541	534	2,113
<i>Growth on Previous Year</i>		40.1%	6.4%	1.1%	-1.3%	6.2%
Total Capital and Development	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Total General Budget of the State	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Confirmed Funds From Other Sources						
Recurrent Expenses	353	-	-	-	-	-
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sources	353	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Combined Sources Budget						
Recurrent Expenses	712	503	535	541	534	2,113
<i>Growth on Previous Year</i>		-29.4%	6.4%	1.1%	-1.3%	6.2%
Capital Expenses	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Total Combined Sources Budget	712	503	535	541	534	2,113
<i>Growth on Previous Year</i>		-29.4%	6.4%	1.1%	-1.3%	6.2%
Further Funding Required						
Recurrent Expenses	1,988	1,961	2,026	2,045	745	6,777
Capital Expenses	73	99	34	15	15	163
Total	2,060	2,060	2,060	2,060	760	6,940

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	15	29	13	8	1	0	0	66
Temporary	0	0	1	0	0		30	31
Total	15	29	14	8	1	0	30	97

THE ROLE OF THE TRIBUNALS AND INTEGRATION WITH THE SIPS

The roles of the Tribunals are the sound and timely administration of justice; and the good management and discipline of justices. The activities of the Tribunals are contained in the SIP on "Rights, Equality and Justice".

Within the rights equality and justice sector the medium-term program for the judiciary aims to improve capacities for more effective delivery of justice to the population at large. The priority of the judiciary sub-sector is to strengthen the professional capacity of human resources within the judiciary as soon as possible. There is also a clear need for assistance in other areas of justice administration that are just as critical as the human resource expertise.

To ensure delivery of justice services and a reduction in the backlog of cases, the proposed program for the judiciary includes provision for the continued use of the services of international judges and other personnel from countries that practise civil law to work together with Timorese colleagues in teams in handling the workload while Timorese personnel are undertaking training.

The estimated cost of this support program is \$9 million for the five-year period ending 2008-09. By that time, training programs are expected to be producing sufficient numbers of qualified Timorese so that reliance on internationally recruited personnel can be phased out.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

The operational costs of the Tribunals will increase by \$116,000 in 2005-06, to expedite hearing the backlog of cases pending and for further development of their activities.

Chart 6.85
Combined Sources Budget 2005-06

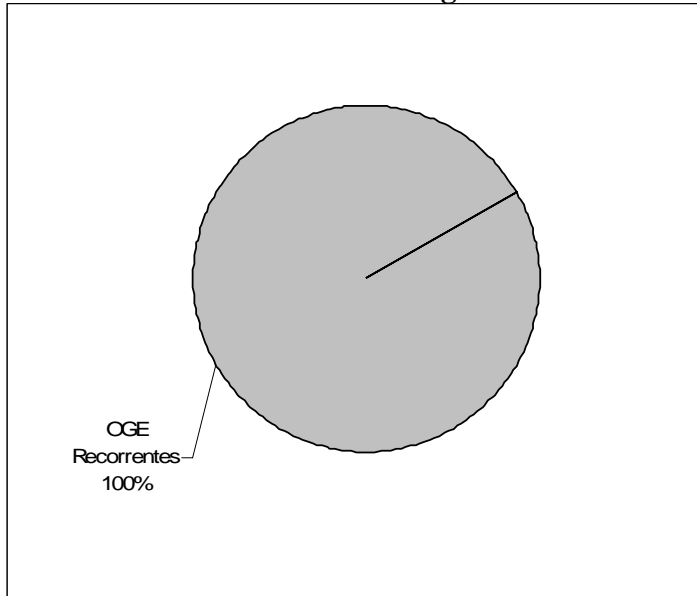


Chart 6.86
External Assistance 2004-05 to 2008-09

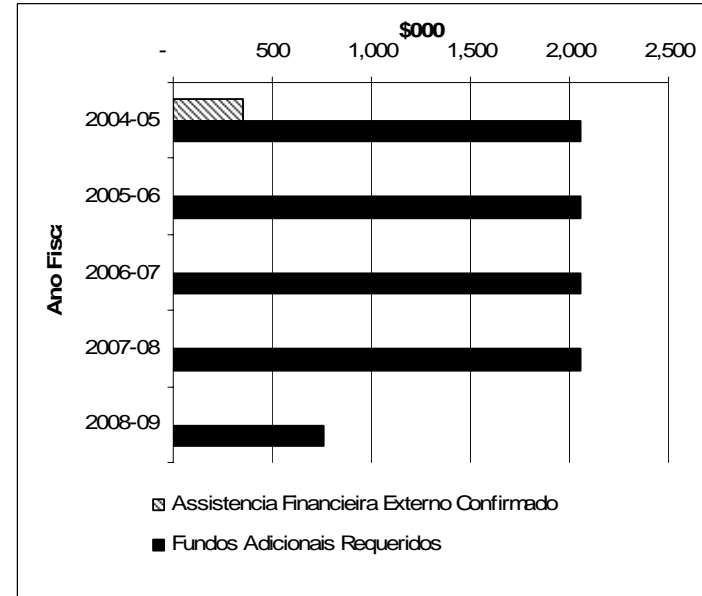


Chart 6.87
Combined Sources Recurrent 2004-05 to 2008-09

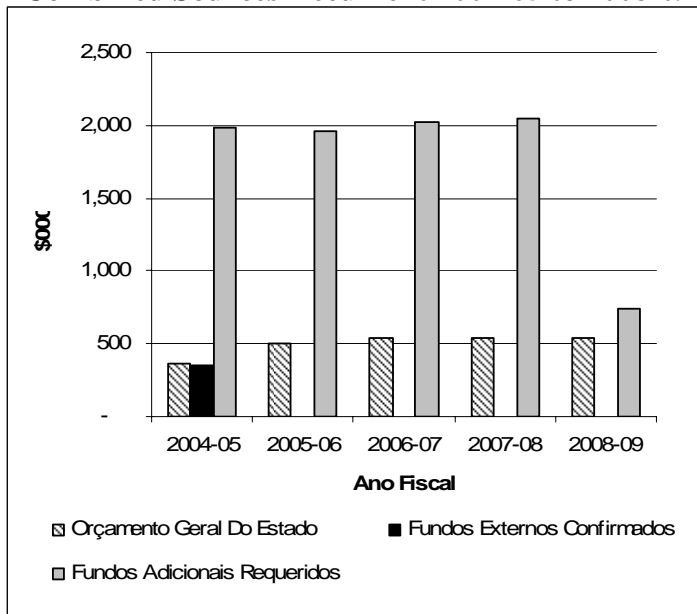
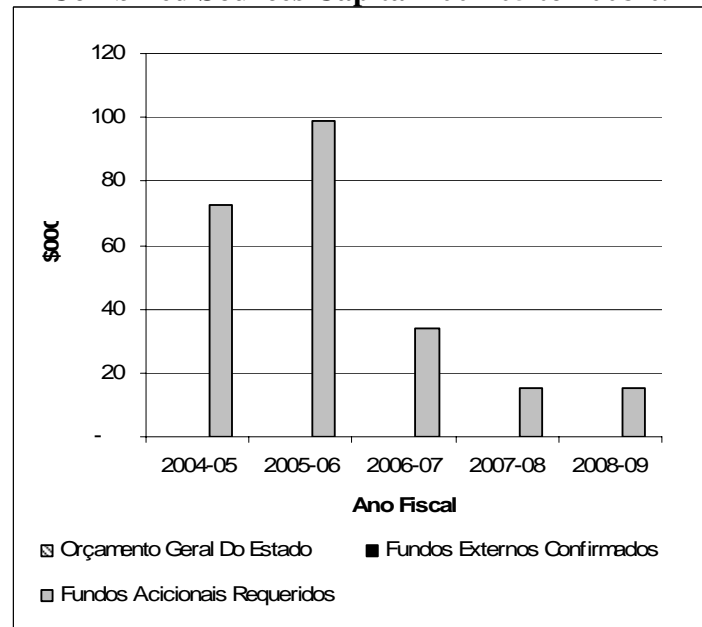


Chart 6.88
Combined Sources Capital 2004-05 to 2008-09



Banking and Payments Authority

Table 6.32
Funding and Staffing Overview of the Banking and Payments Authority (\$000)

General Budget of the State						
Recurrent Expenses						
Salary and Wages	-	-	-	-	-	-
Goods and Services	620	240	240	240	240	960
Minor Capital	-	-	-	-	-	-
Total Recurrent Expenses	620	240	240	240	240	960
<i>Growth on Previous Year</i>		-61.3%	0.0%	0.0%	0.0%	
Total Capital and Development						
	-	10,500	-	-	-	10,500
<i>Growth on Previous Year</i>			-100.0%	na		
Total General Budget of the State	620	10,740	240	240	240	11,460
<i>Growth on Previous Year</i>		1632.3%	-97.8%	0.0%	0.0%	
Confirmed Funds From Other Sources						
Recurrent Expenses	-	-	-	-	-	-
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Source	-	-	-	-	-	-
<i>Growth on Previous Year</i>						
Combined Sources Budget						
Recurrent Expenses	620	240	240	240	240	960
<i>Growth on Previous Year</i>		-61.3%	0.0%	0.0%	0.0%	0.0%
Capital Expenses	-	10,500	-	-	-	10,500
<i>Growth on Previous Year</i>		na	0.0%	0.0%		
Total Combined Sources Budget	620	10,740	240	240	240	11,460
<i>Growth on Previous Year</i>		na	-97.8%	0.0%	0.0%	-97.8%
Further Funding Required						
Recurrent Expenses	-	250	250	250	250	1,000
Capital Expenses	-	-	-	-	-	-
Total	-	250	250	250	250	1,000

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	3	6	19	21	13	4	1	67
Temporary	0	0	0	0	0	0	0	0
Total	3	6	19	21	13	4	1	67

BANKING AND PAYMENTS AUTHORITY

The role of the programme under the Banking and Payments Authority is to develop an efficient and viable financial sector and institutions and payment systems; and to provide Government with technical advice on economic policy.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

To build up the capital of the Authority, the Government will make injections of equity through three tranches of \$3.5 million each over the next three years, with the first tranche being paid in 2005-06. The amount of \$3.5 million is based on the deposits of the Authority.

Chart 6.89
Combined Sources Budget 2005-06

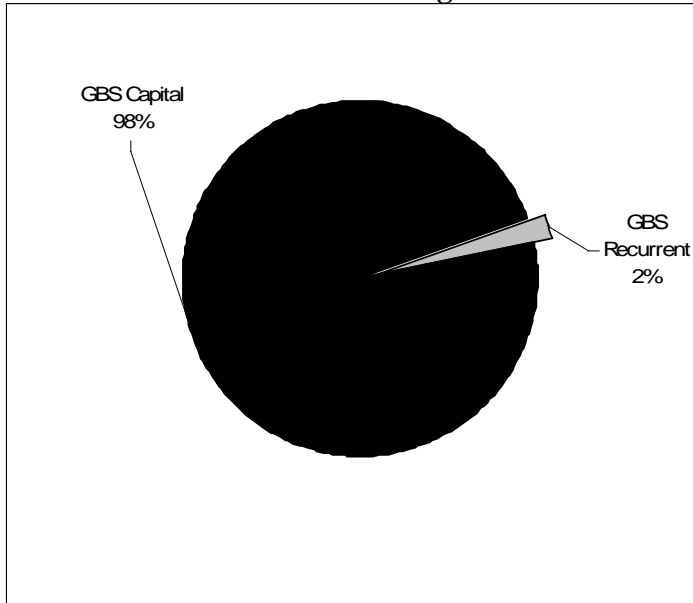


Chart 6.90
External Assistance 2004-05 to 2008-09

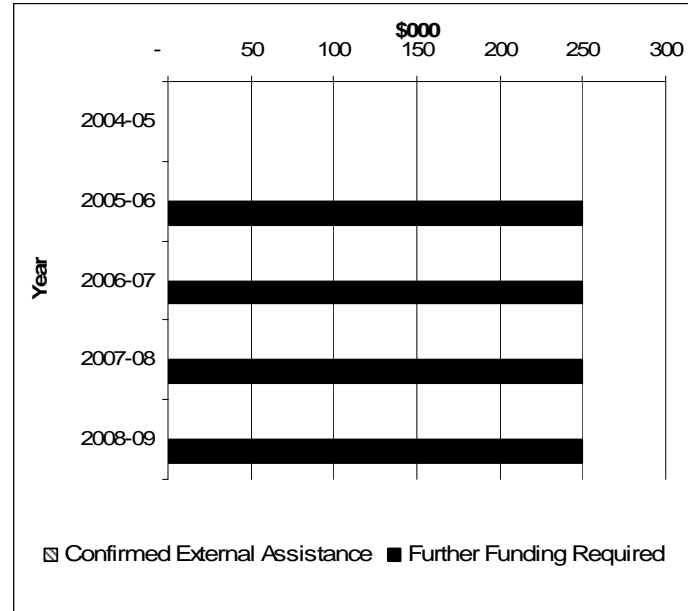


Chart 6.91
Combined Sources Recurrent 2004-05 to 2008-09

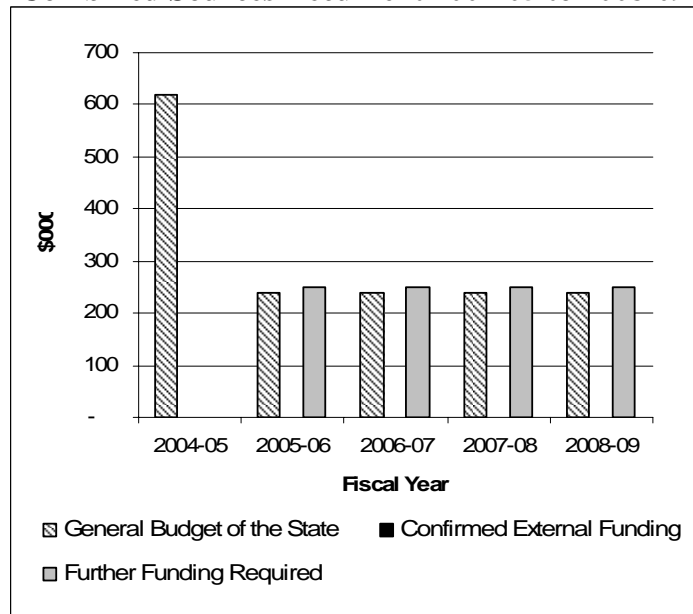
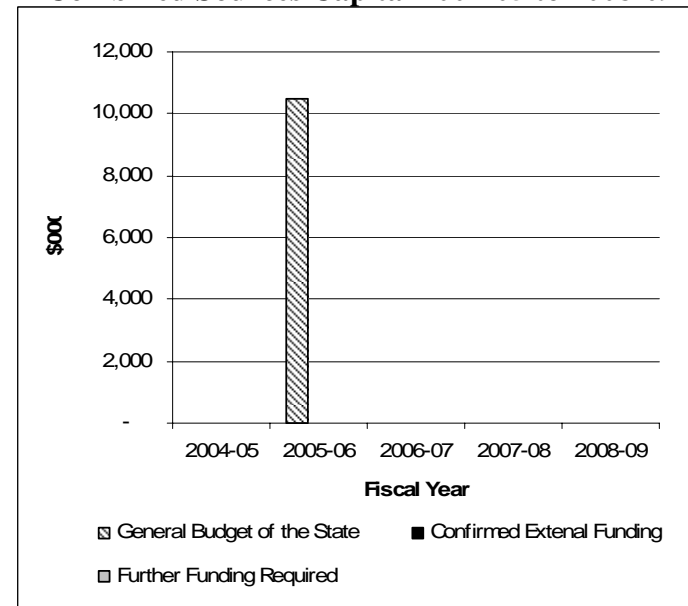


Chart 6.92
Combined Sources Capital 2004-05 to 2008-09



Public Broadcasting Service

Table 6.33
Funding and Staffing Overview Public Broadcasting Service (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	272	310	315	325	333	1,283
Goods and Services	78	516	593	657	781	2,547
Minor Capital	-	-	-	-	-	-
Total Recurrent Expenses	350	826	908	982	1,114	3,830
<i>Growth on Previous Year</i>		136.0%	9.9%	8.1%	13.4%	34.9%
Total Capital and Development	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Total General Budget of the State	350	826	908	982	1,114	3,830
<i>Growth on Previous Year</i>		136.0%	9.9%	8.1%	13.4%	34.9%
Confirmed Funds From Other Sources						
Recurrent Expenses	234	-	-	-	-	-
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sources	234	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Combined Sources Budget						
Recurrent Expenses	584	826	908	982	1,114	3,830
<i>Growth on Previous Year</i>		41.4%	9.9%	8.1%	13.4%	34.9%
Capital Expenses	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Total Combined Sources Budget	584	826	908	982	1,114	3,830
<i>Growth on Previous Year</i>		41.4%	9.9%	8.1%	13.4%	34.9%
Further Funding Required						
Recurrent Expenses	-	186	341	348	394	1,268
Capital Expenses	652	904	642	638	170	2,354
Total	652	1,090	983	986	564	3,622

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	25	10	8	48	23	11	10	135
Temporary	0	0	0	0	0	0	0	0
Total	25	10	8	48	23	11	10	135

PUBLIC BROADCASTING SERVICE (PBS)

The role of the PBS is to provide public news and information and to develop a quality, sustainable media organisation that will serve the needs of the people of Timor-Leste. The objective is to promote the development of democracy and the improvement in the quality of life of the people.

The PBS has as its objective the provision of accurate, balanced and credible news that contributes to the development of democracy and the society of Timor-Leste. The PBS also aims to provide information that will contribute to the achievement of the National Development Plan by supporting and assisting in the provision of information to the Ministries, Government Agencies, NGOs, UN Agencies, and the other development partners.

In the particular case of the PBS, there is a need to invest in basic infrastructure that will lower operating costs, protect equipment and assets, and allow for the expansion of programming in support of the NDP that will be paid for by various, Ministries, Agencies and NGOs. The key programs for PBS over the medium-term are aimed at:

- Restructuring the organization to better meet the requirements set forth in the PBS Law, and to more directly assist in the activities designed to achieve the goals of the National Development Plan.

- Establishing a Community Education unit whose primary purpose is to assist government ministries, agencies, UN agencies, and NGOs with communication strategies, programs, and campaigns that target the goals and objectives of the National Development Plan.
- Reducing the damage being done to equipment by environmental and electrical conditions through capital investment in buildings, and transmission and electrical equipment.
- Improving the journalistic quality of the reporting of the PBS through on site training.
- Improving the reliability and expand the coverage of radio to ensure complete coverage of the population.
- Planning for expanded TV coverage to all Districts.

The operating deficit of the PBS is projected to rise as a result of the need to extend coverage and access throughout the country. Capital outlays for rehabilitation and new facilities and equipment needed to support this program are projected at \$3 million for the five-year period to 2008-09. Additional budget allocations are proposed to cover the operating deficit and allow PBS to sustain and improve its basic services. A proposed new donor program for the PBS in the amount of \$4.3 m would include support for training programs and funding for communications equipment, generators, computer systems and provision for repair and rehabilitation of facilities, including broadcast towers.

There has been about \$1.8 million of capital spending (two-thirds of which was funded by donors) on communications facilities that are owned and operated by the Government. These facilities especially those of PBS, are in a very poor state of repair and are in urgent need of replacement and upgrading. Under the proposed program, capital spending would rise to \$5.5 million, equivalent to 30 % of the entire communications sub-sector which would be covered by development partners.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

The Government funding for the PBS will increase by 136% in 2005-06 to \$826,000. The large increase reflects the need to compensate for the withdrawal from the PBS of donor funding.

Chart 6.93
Combined Sources Budget 2005-06

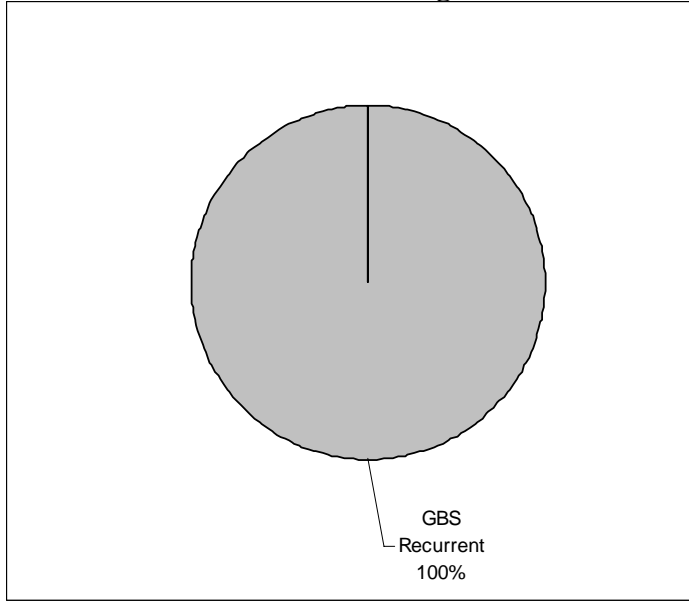


Chart 6.94
External Assistance 2004-05 to 2008-09

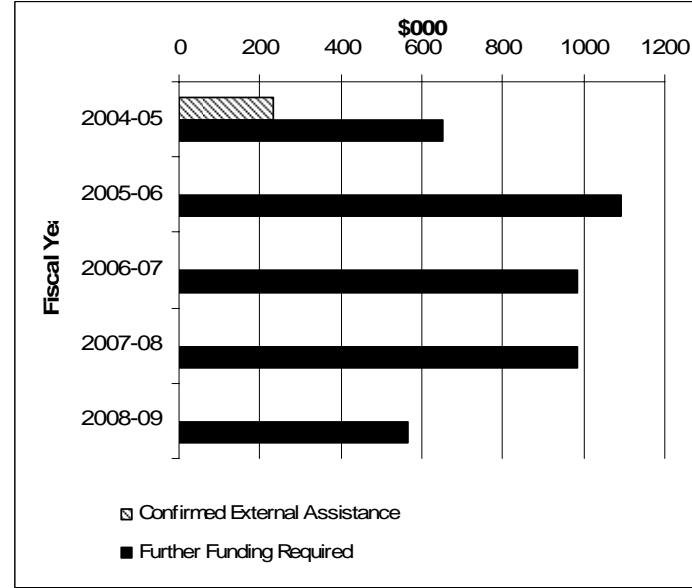


Chart 6.95
Combined Sources Recurrent 2004-05 to 2008-09

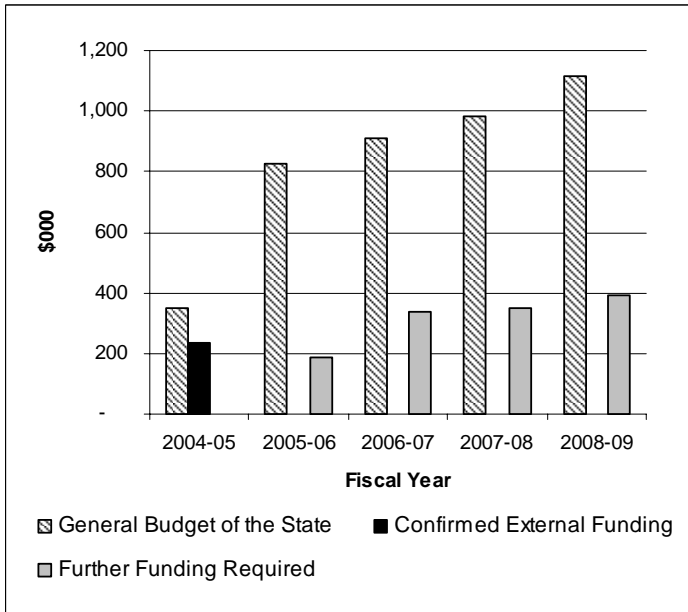
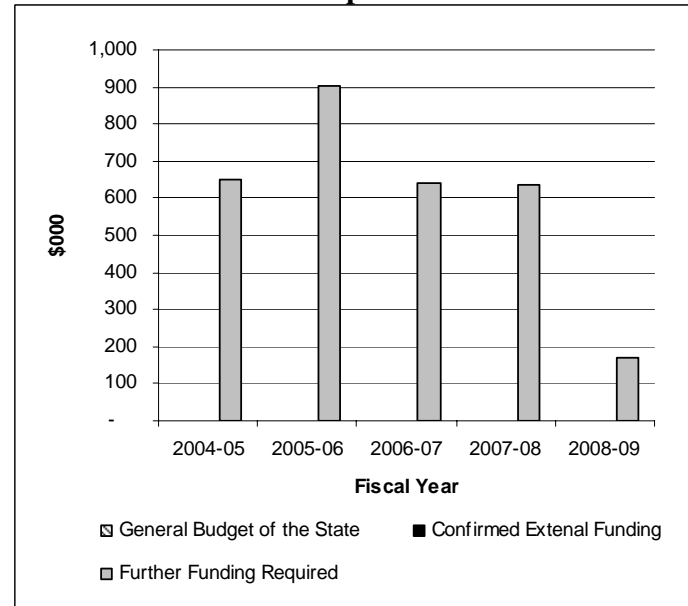


Chart 6.96
Combined Sources Capital 2004-05 to 2008-09



Providor of Human Rights

Table 6.34
Funding and Staffing Overview of the Providor of Human Rights (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	52	53	54	55	56	218
Goods and Services	19	20	23	24	25	92
Minor Capital	8	10	10	10	10	40
Total Recurrent Expenses	79	83	87	89	91	350
<i>Growth on Previous Year</i>		5.1%	4.8%	2.3%	2.2%	9.6%
Total Capital and Development	50	-	-	-	-	-
<i>Growth on Previous Year</i>		-100.0%	na	na	na	na
Total General Budget of the State	129	83	87	89	91	479
<i>Growth on Previous Year</i>		-35.7%	4.8%	2.3%	2.2%	9.6%
Confirmed Funds From Other Sources						
Recurrent Expenses	1,064	490	-	-	-	490
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sources	1,064	490	-	-	-	490
<i>Growth on Previous Year</i>		-54.0%	-100.0%	na	na	-100.0%
Combined Sources Budget						
Recurrent Expenses	1,143	573	87	89	91	840
<i>Growth on Previous Year</i>		-49.9%	-84.8%	2.3%	2.2%	-84.1%
Capital Expenses	50	-	-	-	-	-
<i>Growth on Previous Year</i>		-100.0%	na	na	na	na
Total Combined Sources Budget	1,193	573	87	89	91	840
<i>Growth on Previous Year</i>		-52.0%	-84.8%	2.3%	2.2%	-84.1%
Further Funding Required						
Recurrent Expenses	125	625	777	650	600	2,652
Capital Expenses	-	-	-	-	-	-
Total	125	625	777	650	600	2,652

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	0	0	1	5	2	3	0	11
Temporary	2	2	0	0	0	0	0	4
Total	2	2	1	5	2	3	0	15

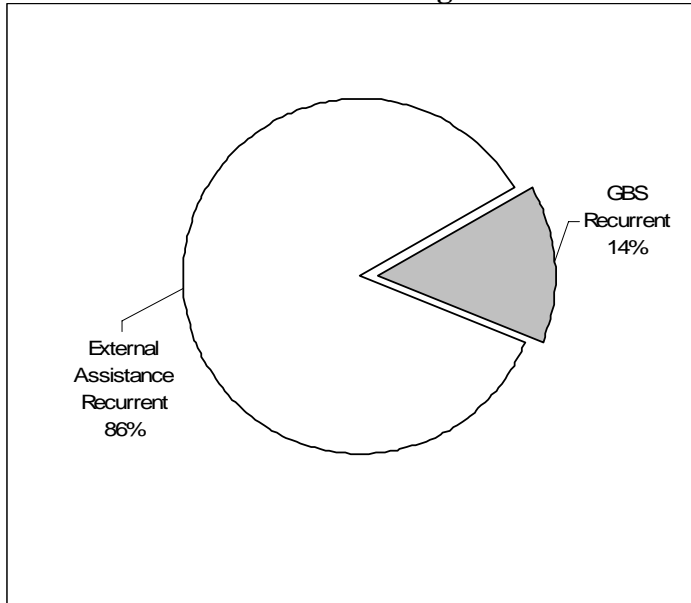
ROLE OF PROVIDOR OF HUMAN RIGHTS AND JUSTICE AND INTEGRATION WITH THE SIPS

The role of this agency is consistent with preparing plans for the establishment of investigations and inspections of operational activities of the Government with a role of promoting human rights, good governance and Justice.

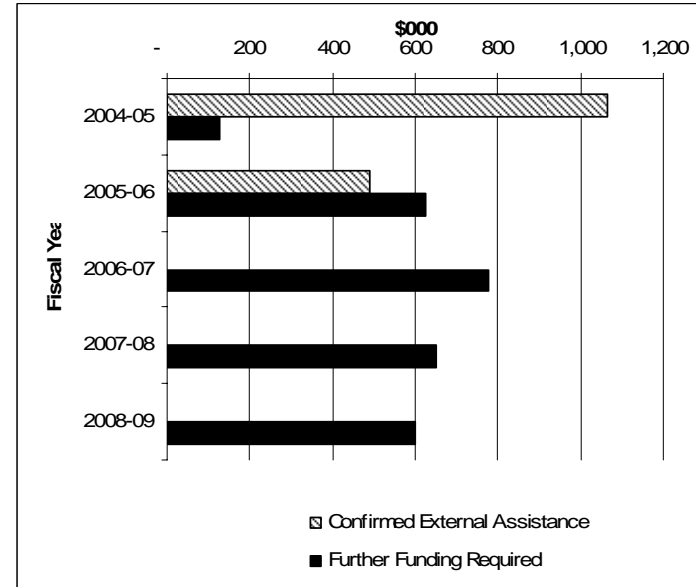
GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

This agency was made an independent organ of state relative to its previous association with the Office of the Prime Minister. The agency is planning to recruit new staff in 2005-06 and 2006-07 as soon as the Providor is nominated by the National Parliament.

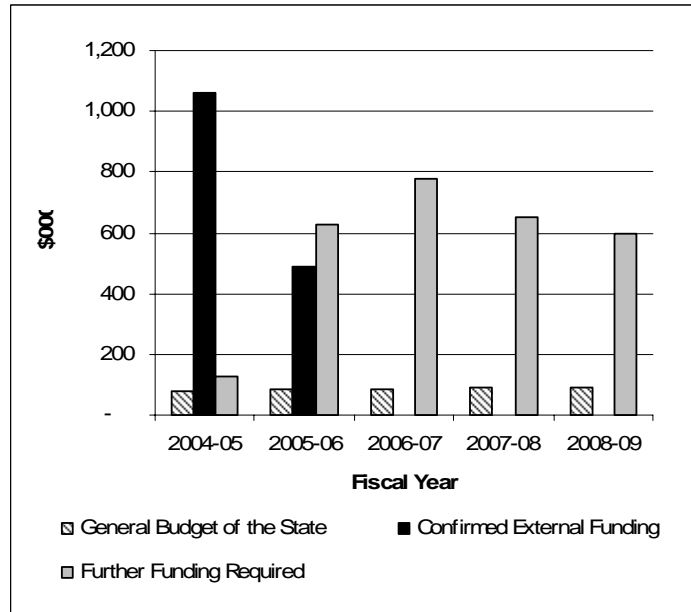
**Chart 6.97
Combined Sources Budget 2005-06**



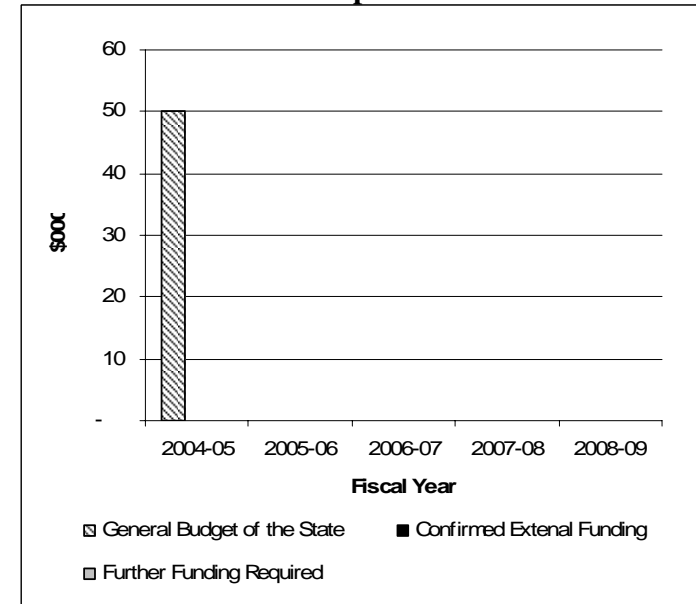
**Chart 6.98
External Assistance 2004-05 to 2008-09**



**Chart 6.99
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.100
Combined Sources Capital 2004-05 to 2008-09**



Electricidade de Timor-Leste (EDTL) (Self Funded)

Table 6.35
Funding and Staffing Overview of Electricidade de Timor-Leste (Self Funded) (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	33	36	40	45	50	171
Goods and Services	6,026	7,496	9,418	11,538	12,141	40,593
Minor Capital	71	197	435	568	602	1,802
Total Recurrent Expenses	6,130	7,729	9,893	12,151	12,793	42,566
<i>Growth on Previous Year</i>	0	26.1%	28.0%	22.8%	5.3%	65.5%
Total Capital and Development	320	1,000	1,500	2,000	2,000	6,500
<i>Growth on Previous Year</i>	0	212.5%	50.0%	33.3%	0.0%	100.0%
Total General Budget of the State	6,450	8,729	11,393	14,151	14,793	49,066
<i>Growth on Previous Year</i>	0	35.3%	30.5%	24.2%	4.5%	69.5%
Confirmed Funds From Other Sources						
Recurrent Expenses	1,175	275	-	-	-	275
Capital Expenses	9,310	-	-	-	-	-
Total Confirmed Funds from Other Sources	10,485	275	-	-	-	275
<i>Growth on Previous Year</i>	0	-97.4%	-100.0%			
Combined Sources Budget	0	0	0	0	0	
Recurrent Expenses	7,305	8,004	9,893	12,151	12,793	42,841
<i>Growth on Previous Year</i>	0	9.6%	23.6%	22.8%	5.3%	59.8%
Capital Expenses	9,630	1,000	1,500	2,000	2,000	6,500
<i>Growth on Previous Year</i>	0	-89.6%	50.0%	33.3%	0.0%	100.0%
Total Combined Sources Budget	16,935	9,004	11,393	14,151	14,793	49,341
<i>Growth on Previous Year</i>	0	-46.8%	26.5%	24.2%	4.5%	64.3%
	0	0.0%	0.0%	0.0%	0.0%	
Further Funding Required	0	0	0	0	0	
Recurrent Expenses	150	-	-	-	-	-
Capital Expenses	1,200	13,325	36,700	47,700	31,400	129,125
Total	1,350	13,325	36,700	47,700	31,400	129,125

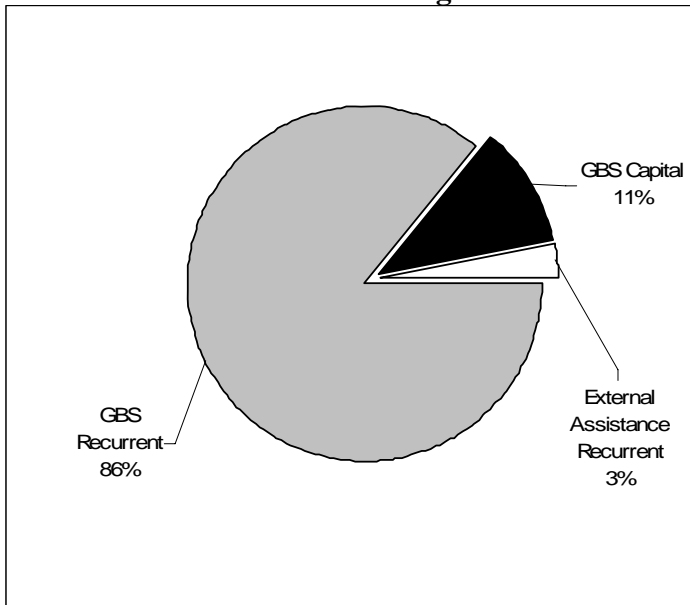
ROLE OF ELECTRICITY OF TIMOR LESTE (EDTL) AND INTEGRATION WITH SIPS

The role of the EDTL is to ensure a reliable and adequate supply of electricity adequate to meet demand. The activities of the EDTL are covered in the SIP on "Power".

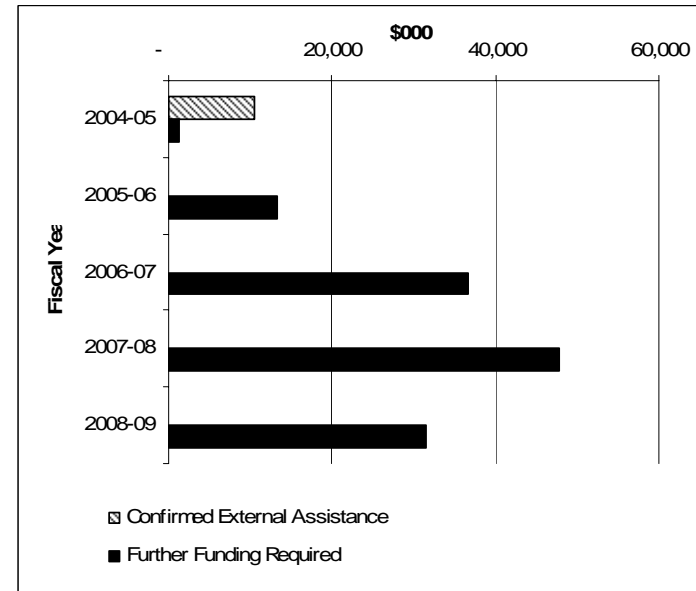
GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

Substantial capital improvements are scheduled for 2005-06 (\$700,000) and subsequent years to improve reliability and meet demand.

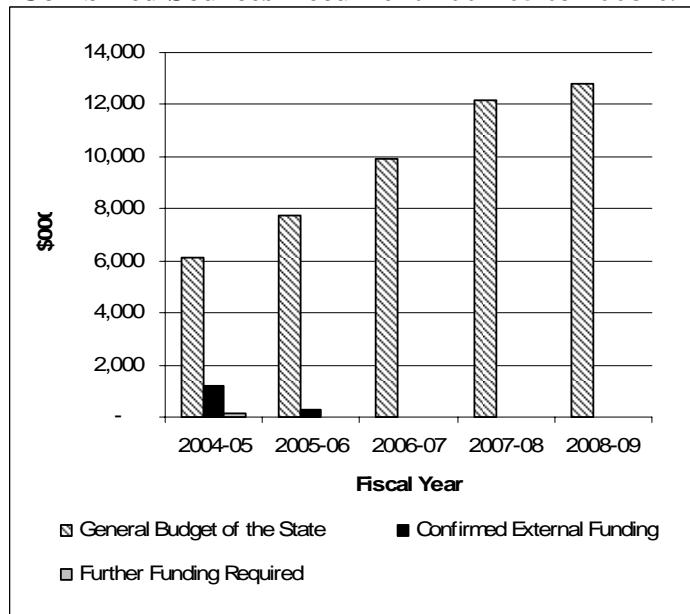
**Chart 6.101
Combined Sources Budget 2005-06**



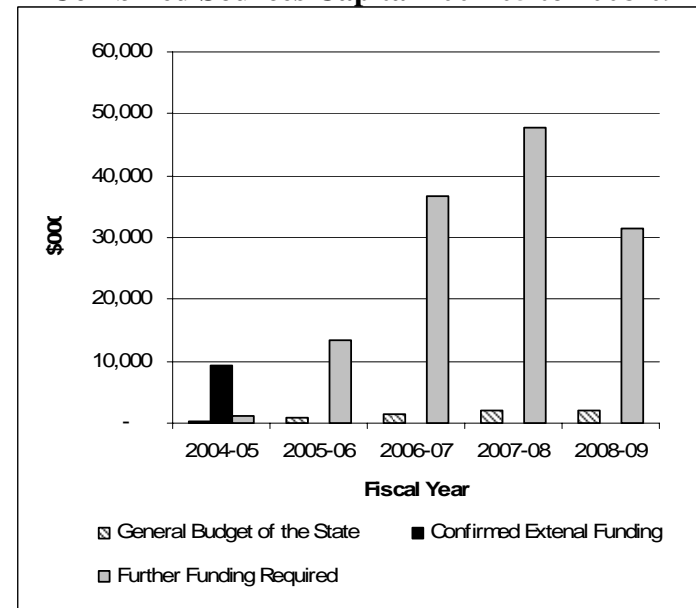
**Chart 6.102
External Assistance 2004-05 to 2008-09**



**Chart 6.103
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.104
Combined Sources Capital 2004-05 to 2008-09**

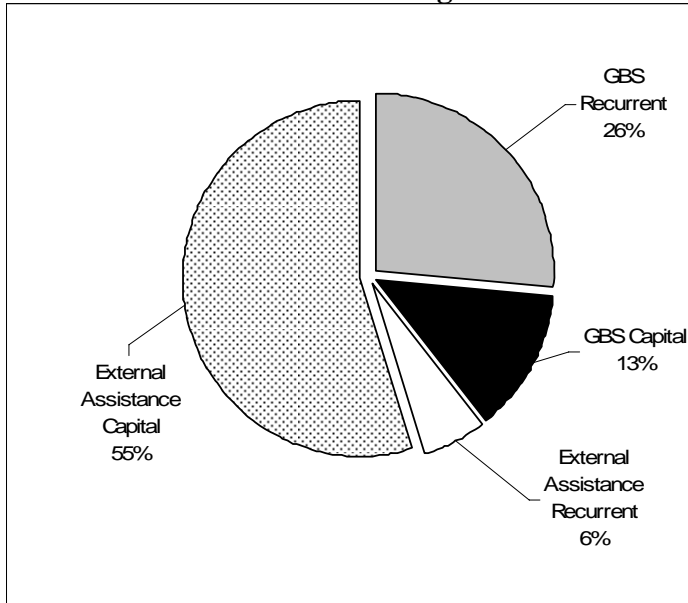


Other Self Funded

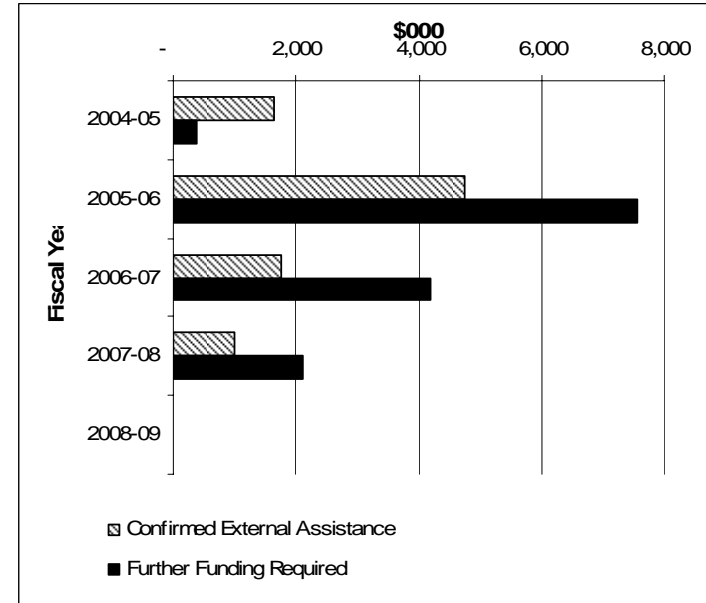
**Table 6.36
Funding and Staffing Overview of Other Self Funded Agencies (\$000)**

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	327	308	310	310	320	1,248
Goods and Services	1,035	1,480	2,087	2,038	2,125	7,730
Minor Capital	256	285	275	185	187	932
Total Recurrent Expenses	1,618	2,073	2,672	2,533	2,632	9,910
<i>Growth on Previous Year</i>		28.1%	28.9%	-5.2%	3.9%	27.0%
Total Capital and Development	423	1,044	450	500	500	2,494
<i>Growth on Previous Year</i>		146.8%	-56.9%	11.1%	0.0%	-52.1%
Total General Budget of the State	2,041	3,117	3,122	3,033	3,132	12,404
<i>Growth on Previous Year</i>		52.7%	0.2%	-2.9%	3.3%	0.5%
Confirmed Funds From Other Sources						
Recurrent Expenses	610	450	250	-	-	700
Capital Expenses	1,044	4,309	1,500	1,000	-	6,809
Total Confirmed Funds from Other Sources	1,654	4,759	1,750	1,000	-	7,509
<i>Growth on Previous Year</i>		187.7%	-63.2%	-42.9%	-100.0%	-100.0%
Combined Sources Budget						
Recurrent Expenses	2,228	2,523	2,922	2,533	2,632	10,610
<i>Growth on Previous Year</i>		13.2%	15.8%	-13.3%	3.9%	4.3%
Capital Expenses	1,467	5,353	1,950	1,500	500	9,303
<i>Growth on Previous Year</i>		264.9%	-63.6%	-23.1%	-66.7%	-90.7%
Total Combined Sources Budget	3,695	7,876	4,872	4,033	3,132	19,913
<i>Growth on Previous Year</i>		113.1%	-38.1%	-17.2%	-22.3%	-60.2%
Further Funding Required						
Recurrent Expenses	370	830	100	-	-	930
Capital Expenses	-	6,740	4,100	2,110	-	12,950
Total	370	7,570	4,200	2,110	-	13,880

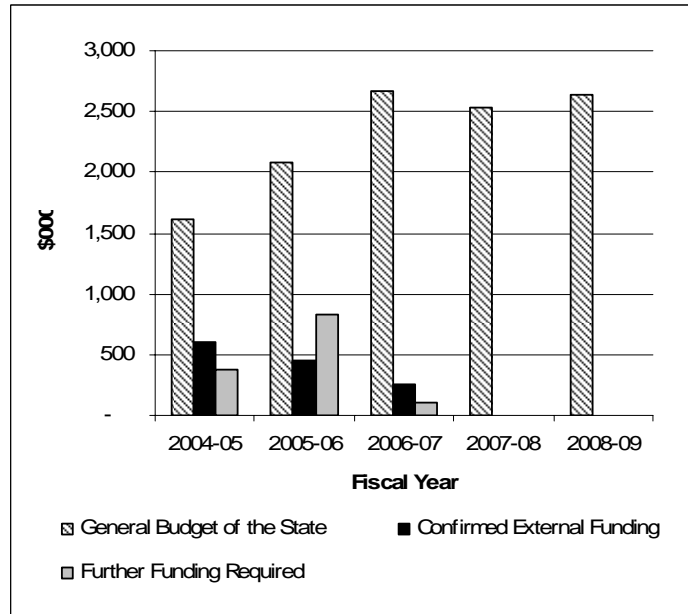
**Chart 6.105
Combined Sources Budget 2005-06**



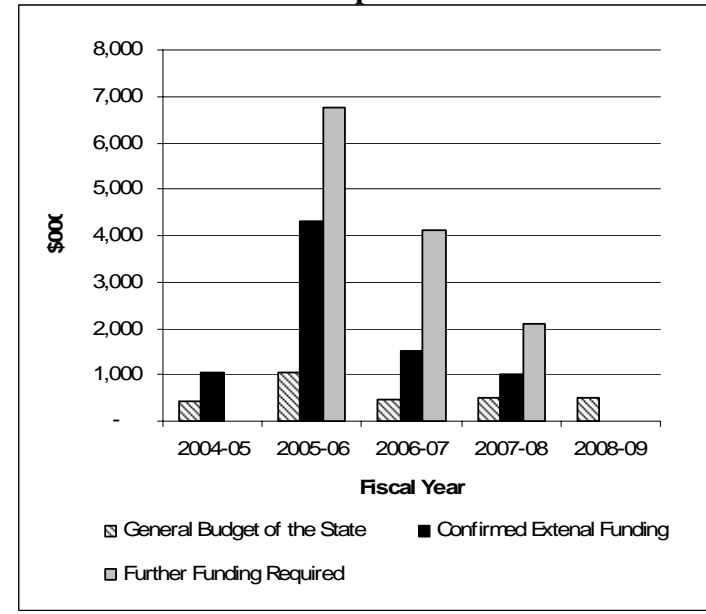
**Chart 6.106
External Assistance 2004-05 to 2008-09**



**Chart 6.107
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.108
Combined Sources Capital 2004-05 to 2008-09**



ANNEX 1 GENERAL BUDGET OF THE STATE (INCLUDING AUTONOMOUS AGENCIES)

	FY 04/05	FY 05/06	FY 06/07	FY 07/08	FY 08/09	4 Year Total
Expenditure	86,962	129,185	118,453	126,696	124,988	499,322
Salaries and Wages	28,538	29,289	31,627	32,696	33,920	127,532
Salary	28,368	29,055	31,357	32,388	33,601	126,401
Overtime/Allowance	170	234	270	308	319	1,131
Goods and Services	46,544	57,927	60,984	63,691	64,924	247,526
Local Travel	817	1,028	1,160	1,220	1,311	4,719
Overseas Travel	1,313	1,023	1,091	1,143	1,186	4,443
Training and Workshop	1,078	1,618	1,760	1,840	1,607	6,825
Utilities	2,692	3,210	3,484	3,605	3,711	14,010
Rental of Property	586	650	668	699	737	2,754
Vehicle Operation Fuel	1,763	2,302	2,844	2,955	3,086	11,187
Vehicle Maintenance	2,494	2,948	3,520	3,796	3,930	14,194
Vehicle Rental, Insurance and Services	55	114	134	144	151	543
Office Stationary and Supplies	1,159	1,261	1,456	1,536	1,637	5,890
Operational Material and Supplies	6,536	7,164	9,439	9,878	10,009	36,490
Fuel for Generators	9,725	10,234	10,962	12,870	13,128	47,194
Maintenance of Equipment and Buildings	3,931	4,646	4,296	4,696	4,897	18,535
Operational Expenses	2,830	4,367	4,641	4,781	4,712	18,501
Professional Services	4,411	6,416	6,356	6,454	6,277	25,503
Translation Services	250	250	320	338	378	1,286
Other Miscellaneous Services	6,794	10,496	8,653	7,536	7,967	34,652
Payments of Memberships	110	200	200	200	200	800
Minor Capital	2,443	5,414	4,802	4,647	5,225	20,088
Security Equipment	185	152	147	109	156	564
EDP Equipment	181	148	395	477	514	1,534
Communication Equipment	289	744	368	337	299	1,748
Generators	57	93	307	354	372	1,126
Water Equipment	200	359	288	297	314	1,258
Office Equipment	235	420	630	696	733	2,479
Other Misc. Equipment	707	1,383	936	861	893	4,073
Furniture and Fitting	402	603	809	1,012	1,425	3,849
Purchase Vehicle	187	1,512	922	504	519	3,457
Capital and Development	9,437	36,555	21,040	25,662	20,919	104,176
Acquisition of Building	0	4,531	2,667	1,492	1,494	10,184
Infrastructure Assets	9,437	21,524	18,373	24,170	19,425	83,492
Injection of Capital	0	10,500	0	0	0	10,500
Vehicle Operations	4,312	5,364	6,498	6,895	7,167	25,924
Miscellaneous Services	11,455	17,162	15,329	14,328	14,622	61,441

ANNEX 2 GENERAL BUDGET OF THE STATE (EXCLUDING AUTONOMOUS AGENCIES)

	FY 04/05	FY 05/06	FY 06/07	FY 07/08	FY 08/09	4 Year Total
Expenditure	78,694	117,541	104,138	109,512	107,063	438,254
Salaries and Wages	28,250	28,945	31,277	32,341	33,550	126,113
Salary	28,140	28,795	31,096	32,127	33,340	125,358
Overtime/Allowance	110	150	181	214	210	755
Goods and Services	39,739	48,951	49,479	50,115	50,658	199,203
Local Travel	793	994	1,116	1,170	1,254	4,534
Overseas Travel	1,268	969	1,021	1,068	1,106	4,164
Training and Workshop	963	1,523	1,650	1,720	1,482	6,375
Utilities	2,460	2,974	3,279	3,395	3,491	13,139
Rental of Property	586	650	668	699	737	2,754
Vehicle Operation Fuel	1,679	2,157	2,383	2,480	2,575	9,595
Vehicle Maintenance	2,369	2,736	2,945	3,208	3,314	12,203
Vehicle Rental, Insurance and Services	47	108	119	124	130	481
Office Stationary and Supplies	1,128	1,226	1,413	1,489	1,585	5,713
Operational Material and Supplies	6,401	7,024	9,244	9,713	9,838	35,819
Fuel for Generators	5,451	4,213	2,936	2,839	2,591	12,579
Maintenance of Equipment and Buildings	3,130	4,238	4,147	4,553	4,748	17,686
Operational Expenses	2,657	4,195	4,449	4,586	4,509	17,739
Professional Services	3,572	5,348	5,135	5,170	4,940	20,593
Translation Services	245	242	304	317	351	1,214
Other Miscellaneous Services	6,880	10,154	8,470	7,384	7,807	33,815
Payments of Memberships	110	200	200	200	200	800
Minor Capital	2,121	4,982	4,092	3,894	4,436	17,406
Security Equipment	125	140	127	84	126	477
EDP Equipment	148	133	360	429	462	1,384
Communication Equipment	242	701	303	267	224	1,495
Generators	45	61	105	102	119	387
Water Equipment	195	354	273	277	289	1,193
Office Equipment	205	378	595	656	688	2,317
Other Misc. Equipment	624	1,092	748	768	795	3,403
Furniture and Fitting	369	591	789	987	1,394	3,761
Purchase Vehicle	168	1,482	792	324	339	2,937
Capital and Development	8,694	34,661	19,290	23,162	18,419	95,532
Acquisition of Building	0	0	0	0	0	0
Infrastructure Assets	8,694	24,161	19,290	23,162	18,419	85,032
Injection of Capital	0	10,500	0	0	0	10,500
Vehicle Operations	4,095	5,001	5,447	5,812	6,019	22,279
Miscellaneous Services	10,697	15,744	13,909	12,871	13,098	55,622

ANNEX 3 CAPITAL AND DEVELOPMENT PLAN FOR TIMOR-LESTE

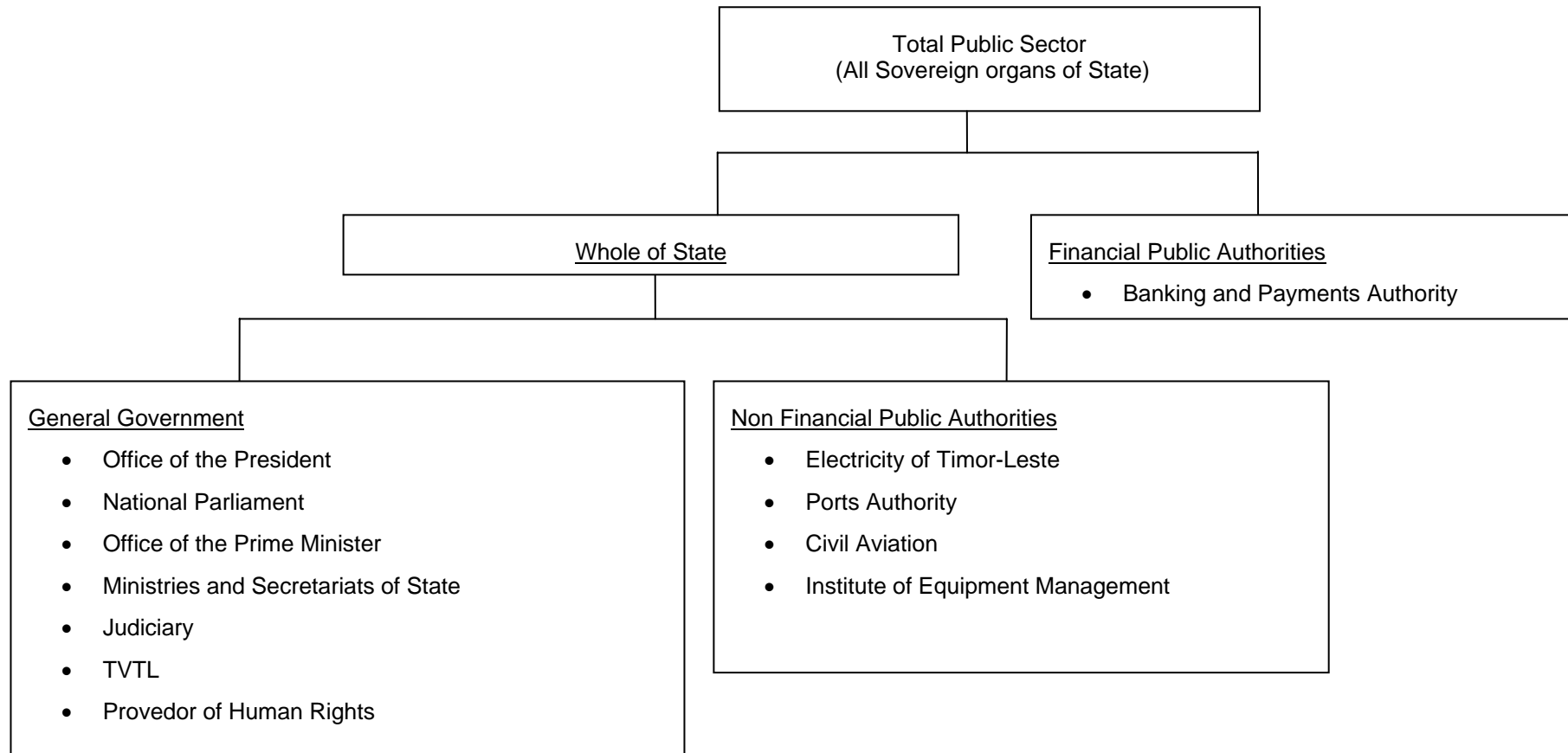
	2005-06	2006-07	2007-08	2008-09	Total 4 Anos
Total	36,705	21,240	25,662	20,919	104,526
Capital Works to Improve the Parliament Building	113	-	-	-	113
Construction of the Government Conference Centre	2,000	-	-	-	2,000
Integrated Communications System	1,600	-	-	-	1,600
New Administration Office	45	-	-	-	45
National Directorate for Administration of the Territory	-	100	120	130	350
Sub District Administration Office Sami (District of Manufahi)	26	-	-	-	26
Sub District Administration Office Liquiça (District of Liquiça)	26	-	-	-	26
Sub District Administration Office Suai (District of Cova Lima)	26	-	-	-	26
Sub District Administration Office Fohorem (District of Cova Lima)	26	-	-	-	26
Sub District Administration Office Ainaro (District of Ainaro)	26	-	-	-	26
Sub District Administration Office de Baucau (District of Baucau)	26	-	-	-	26
Sub District Administration Office Dom Eleixo (District of Dili)	26	-	-	-	26
Sub District Administration Office Metinaro (District of Dili)	26	-	-	-	26
Sub District Administration Office Nain Feto (District of Dili)	26	-	-	-	26
Sub District Administration Office Los Palos (District of Lautem)	26	-	-	-	26
Sub District Administration Office Natarbora (District of Manatuto)	26	-	-	-	26
Garage and Warehouse in Bobonaro	12	-	-	-	12
Rehabilitation of National Printing Office	400	-	-	-	400
Local Development Fund fo 6 Sub Districts in Bobonaro	192	526	526	526	1,770
Rehabilitation of Civil Protection Building	40	-	-	-	40
Direcção Nacional de Segurança de Edifícios e Acreditações	-	-	-	-	-
Rehabilitation of Building in Caicoli	40	20	20	20	100
Academia da Polícia	-	-	-	-	-
Firing Range for Police Academy	20	20	-	-	40
Rehabilitation of PNTL Station in Dili	31	-	-	-	31
Rehabilitation of PNTL Stations in 4 Districts	130	270	-	-	400
PNTL-UIR	-	15	15	-	30
Reconstruction of the Notary Building	650	-	-	-	650
Construction of Land and Property Offices	315	-	-	-	315
Construction of Office for the Prosecutor General	500	-	-	-	500
Rehabilitation of Agriculture Office	130	250	-	-	380
Direcção Nacional dos Serviços de Pesquisa e Extensão	-	-	150	200	350
Reabilitação do Laboratório de Pesquisa e Extensão	50	-	-	-	50
Rehabilitation and Maintenance of Irrigation	250	350	385	400	1,385

	2005-06	2006-07	2007-08	2008-09	Total 4 Anos
Rehabilitation of Quarantine Office (Suai - Díli)	40	20	20	60	140
Rehabilitation of Agricultural Schools	100	200	250	250	800
Primary Schools	-	800	1,000	200	2,000
Rehabilitation of Primary School Metinaro	100	-	-	-	100
Rehabilitation of Primary School ILallai Laivai Lospalos	60	-	-	-	60
Rehabilitation of Primary School Iradarat Lospalos	60	-	-	-	60
Rehabilitation of Primary School 30 de Agosto Fuloro	60	-	-	-	60
Rehabilitation of Primary School Mehara Lospalos	60	-	-	-	60
Rehabilitation of Primary School Laisorlai de cima Quelekai	100	-	-	-	100
Rehabilitation of Primary School Samalari Quelekai	100	-	-	-	100
Rehabilitation of Primary School Abu Laga	60	-	-	-	60
Pre Secondary Schools	-	463	520	610	1,593
Rehabilitation of Pre Secondary School Beco Cova Lima	20	-	-	-	20
Rehabilitation of Pre Secondary School Fatumea Covalima	35	-	-	-	35
Construction of Pre Secondary School 10 de Dezembro Comoro Díli	20	-	-	-	20
Construction of Pre Secondary School no 3 Becora Díli	25	-	-	-	25
Rehabilitation of Pre Secondary School Lay doe Laleia	30	-	-	-	30
Rehabilitation of Pre Secondary School no 1 Lospalos	50	-	-	-	50
Rehabilitation of Pre Secondary School Caijo Laran Viqueque	60	-	-	-	60
Construction of Pre Secondary School Dare Hatubuilico	81	-	-	-	81
Construction of Pre Secondary School Leorema Bazartete	65	-	-	-	65
Secondary School	-	280	345	-	625
Rehabilitation of Secondary Schools 4 de Setembro Dili	80	-	-	-	80
Rehabilitation of Secondary Schools Seron Debos Suai	86	-	-	-	86
Ensino Técnico e Profissional	-	250	313	392	955
Rehabilitation of Buildings for Vocational Education in Suai	150	-	-	-	150
Rehabilitation of Buildings for Vocational Education in Díli	50	-	-	-	50
University Works	-	500	600	700	1,800
Water canalisation	10	-	-	-	10
Design and Supervision Costs of Rehabilitation of Health Posts	52	54	100	-	206
Rehabilitation of Health Post in Bereleu	27	40	37	38	142
Rehabilitation of Health Post in Beikala	25	22	19	24	90
Rehabilitation of Health Post in Afaca and Saelari	40	48	44	54	186
Rehabilitation of Health Post in Bilimau	14	46	40	51	151
Rehabilitation of Health Post in Belulik Leten	14	71	65	78	228
Rehabilitation of Health Post in Dare e Centro de Saude de CHC Vila	35	25	20	22	102
Rehabilitation of Health Post in Asulau Sare	24	48	40	45	157
Rehabilitation of Health Post in Com e Maluhira	40	72	65	70	247
Rehabilitation of Health Post in Fahilebo	26	47	45	50	168

	2005-06	2006-07	2007-08	2008-09	Total 4 Anos
Rehabilitation of Health Post in Salau and Lacluba	111	50	42	44	247
Rehabilitation of Health Post in Foholau and Rotuto	30	48	40	50	168
Rehabilitation of Health Post in Afaloicai and Waimori	36	39	33	40	148
Rehabilitation of Health Post in Oel Ulan	26	56	45	49	176
Co-Financing of Hospital Rehabilitation Dili (Guido Valadares)	3,500	-	-	-	3,500
Construction of Base Hospital Baucau	-	-	4,000	-	4,000
Construction of Base Hospital Suai	-	2,000	-	-	2,000
Jardim das Vitimas da Guerra	253	-	-	-	253
Serviço de Impostos de Timor-Leste	12	22	22	24	80
Direcção Nacional do Plano e Coordenação de Assistência Externa	28	-	-	-	28
Armazem para Bens Apreendido e Dormitorio	100	-	-	-	100
Rehabilitation of Terminals in Becora and Tacitolu	200	-	-	-	200
Traffic Signals	50	280	556	400	1,286
Construcção da Gabinete de Licenciamento	100	183	850	442	1,575
Rehabilitation of Inspection Offices in Baucau	31	-	-	-	31
New Projects	-	300	700	350	1,350
Future Public Works Projects	-	200	800	400	1,400
Postal Services Warehouses	300	400	500	600	1,800
Extension of the Government IT Network	300	200	250	500	1,250
Civil Aviation (Self Funding) Works	944	100	150	150	1,344
Ports (Self Funding) Works	100	350	350	350	1,150
Emergency Response for Water and Sanitation	768	800	800	800	3,168
Water and Sanitation Development	1,000	1,000	1,200	1,200	4,400
Electricity of Timor-Leste selected works	1,000	1,500	2,000	2,000	6,500
Construction of Min Markets (Taibesi and Others)	50	100	285	450	885
Periodical Maintenance of Roads	3,189	4,000	4,400	5,000	16,589
Improvement of Selected Roads	1,000	1,000	1,000	1,000	4,000
Flood Control Works	606	650	650	700	2,606
Public Safety Campaign	100	100	150	250	600
Rehabilitaion of Urban Roads	400	400	400	500	1,700
Bridge Rehabilitation	1,000	1,350	1,500	1,500	5,350
Emergency Response for Roads	200	200	200	200	800
Reconstruction of Youth Centres	80	-	-	-	80
Construction of Sporting Facilities	103	-	-	-	103
Capitalisation of the Banking Payments Authority	10,500	-	-	-	10,500
Education Office	260	-	-	-	260

	2005-06	2006-07	2007-08	2008-09	Total 4 Anos
Counterpart Funds with the Asian Development Bank	1,500	1,000	-	-	2,500
New Border Posts	225	375	-	-	600

ANNEX 4 SRUCTURE OF THE PUBLIC SECTOR IN TIMOR-LESTE



ANNEX 5 ACRONYMS

ADB	Asian Development Bank
BPA	Banking and Payments Authority
CBO	Community Based Organisation
CFET	Consolidated Fund for Timor-Leste
CoM	Council of Ministers
CPV	Commitment Payment Voucher
EAN	Expenditure Authorisation Notices
EKKN	Elang Kakatua Kakatua North
FDTL	Defence Force of Timor-Leste
TLRS	Revenue Service of Timor-Leste
FTP	First Tranche Petroleum
GG	General Government
GDP	Gross Domestic Product
IFI	International Financial Institutions
IMF	International Monetary Fund
MDG	Millenium Development Goal
MTFF	Medium Term Fiscal Framework
NDP	National Development Plan
NGO	Non-Government Organisation
NFPC	Non Financial Public Corporations
FPC	Public Broadcasting Corporation
PFC	Public Financial Corporations
SIP	Sector Investment Package
TFET	Trust Fund for East Timor
TSP	Transition Support Programme
TVTL	Television Timor Leste
UN	United Nations
UNDP	United Nations Development Programme
UNMISSET	United Nations Mission in Suport of East Timor
UNTAET	United Nations Transitional Administration in East Timor
WB	World Bank
WOG	Whole of Government

ANNEX 6 USER GUIDE

Introduction

The purpose of the *General Budget of the State 2005-06* is primarily to inform the National Parliament and other interested parties of the Government's intended budget for 2005-06 budget. It provides an update of the medium-term fiscal position of Timor-Leste and the Government's fiscal strategy.

Readers should also refer to the *National Development Plan* (NDP) and the *Sector Investment Packages* (SIP) for detail on the Government's medium to long term sectoral visions, goals, strategies and policies.

Styles and Conventions Used

The following notations are used:

- - (nil)
- \$m (\$ million)
- \$'000s (\$ thousand)

All currency figures are in US dollars. Current prices are used for 2003-04 and 2004-05 and constant 2004-05 prices are used for all other years. Budget year refers to 1 July 2004 to 30 June 2005. Figures in tables and in the text may be rounded. Discrepancies in tables between totals and sums of components are due to rounding.

Classification of the Public Sector in Timor-Leste

For budgetary purposes Timor-Leste adopts the IMF principles for classifying the activities of the public sector, the *Government Finance Statistics (GFS) of Classifying the activities of Government*. The public sector Timor-Leste is made up of categories: General Government; Public non financial corporations; and Public Financial Corporations. The General Budget of the State covers the financing of activities on a Whole of Government basis which includes General Government and Public Non Financial Corporations. As shown in Annex C.

Enquiries

Enquires should be directed to: The Director, Budget Office, Ministry of Planning and Finance, Democratic Republic of Timor-Leste.

Supplemental information on Timor-Leste's legal situation with regard to environment and human rights

Although it has been independent for only three years, Timor-Leste is gradually signing and ratifying many international conventions involved with human rights, economic rights, the environment and other issues. These treaties are very important for small, new nations which rely on international law for their protection, and for the future of Timor-Leste's people. After enduring centuries of colonization and military occupation, with destruction of our environment and countless violations of our human rights, Timor-Leste's people hope that such experiences will never be repeated. Even as they resisted the Indonesian military occupation, their real struggle was to end human rights violations and to secure economic, social and political rights.

Timor-Leste has already signed and ratified the following international conventions to demonstrate their hopes for peace, justice and the rule of law:

- International Convention on Civil and Political Rights and Second Optional Protocol.
- International Convention on Economic, Social and Cultural Rights.
- Rome Statute of the International Criminal Court
- Convention on Elimination Discrimination Against Woman (CEDAW) and Optional Protocol.
- International Convention Against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment.
- Convention on Rights of the Child, and optional protocol on the sale of Children, Child Prostitution and Child Pornography.
- International Convention on the Protection of the Rights of all Migrant Workers.

These rights are also guaranteed by Timor-Leste's Constitution, but some are concerned that they are not being respected. Law have already been passed regarding defamation, immigration and other areas which violate constitutional rights, and the new court system is not functioning effectively to enforce the constitution and the rule of law. In addition, basic legislation to implement political, economic, social, cultural and civil rights have not yet been passed. Although the Timor-Leste Constitution discusses basic human rights, it does not specifically protect indigenous rights. Because of the pervasive repression of the Indonesian occupation, there are very few people still living traditional lifestyles on their traditional lands, and their interests are not represented effectively in public and political debates.

The Constitution also gives the State the responsibility to defend the environment and promote sustainable economic development. (Article 61.3: "O Estado deve promover acções de defesa do meio ambiente e salvaguardar o desenvolvimento sustentável da economia.") The state is also charged with responsibility to protect the environment and preserve natural resources.

Timor-Leste has signed or will shortly sign the Biodiversity Convention and the Convention on Climate Change, but ratification may not take place until 2006. When ratified, these international Conventions will help protect Timor-Leste's local environment, as well as the small nation doing its part to protect the global environment, showing its commitment to international principles and legal processes. They will also allow Timor-Leste to receive benefits from the Carbon Fund.

Timor-Leste is creating its entire body of domestic law, gradually replacing Indonesian and United Nations laws. Up to now, the environmental legislation has not been written. The Petroleum Act, passed in mid 2005, is weak on protecting the environment, which could cause problems for Timor-Leste. As other laws are written, they could be better or they could follow this discouraging model.

La'o Hamutuk is concerned that the underlying commitment to the environment and human rights in Timor-Leste's Constitution and international conventions ratified by the country not be fulfilled. Timor-Leste's experience over the last few years indicates that the involvement of non-state actors -- including oil companies, foreign governments, International Financial Institutions such as World Bank and IMF -- often constrains Timor-Leste's ability to implement its principles. In addition, centuries of colonialism and occupation, including the UN transitional government from 1999-2002, have set patterns of arbitrariness and corruption where the contents of laws or treaties were frequently violated with impunity. Timor-Leste is trying not to follow that model, but it is deeply ingrained.

Although public "consultations" were held regarding drafts of Timor-Leste's petroleum laws, the laws as enacted include many dangerous loopholes, omissions, conflicts of interest and other fundamental problems. Most of the suggestions from civil society were ignored, and the regime gives virtually all decision-making authority to the Ministry of Petroleum. That Ministry is also responsible to approve proposals to minimize or clean up environmental damage. The Ministry evaluates and approves contracts with oil companies, supervises the companies, and is also in charge of resolving disputes. Most of its decisions cannot be reviewed by or appealed to other authorities, and many are not even required to be made public. The Ministry's principal responsibility is to facilitate petroleum development, an inherent conflict of interest because they will be reluctant to slow petroleum development, and protecting the nation or implementing international conventions will get lower priority.

The Petroleum laws are also problematic with regard to transparency and human rights. Although Timor-Leste's government has endorsed the Extractive Industries Transparency Initiative (EITI), the laws actually prohibit companies from releasing information to the public without permission of the government. In addition, the weak state of Timor-Leste's judicial system and the long history of human rights violations, often with impunity, gives little confidence that human and community rights will be respected regarding petroleum development.

Timor-Leste's ratification of international human rights and ecological conventions is an important first step. But it will take much more work to ensure that the rights and protections guaranteed by these conventions are actually respected in the nation. Potential negative consequences of oil company activities are only a few of the obstacles to sustainable development in which all Timor-Leste citizens can enjoy their independence and freedom.

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