Democratic Republic of Timor-Leste
Ministry of Finance

Pre-Budget Statement

2020

Including the 2019 Mid-Year Report

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Preface

The publication of Timor-Leste's first-ever Pre-Budget Statement, including the Mid-Year Report, represents a significant step forward by the Ministry of Finance in the area of public financial management reform.

This document reports on the government priorities for the next fiscal year and for the medium term, describing their alignment to the proposed General State Budget. It details the proposed budget strategy for 2020, highlighting allocations to the various institutions, new measures and fiscal sustainability implications. It also outlines the macroeconomic and fiscal context, their key developments, risks and forecasts over the medium term. The issue also covers trends and projections for other sources of financing i.e. Petroleum Fund's revenues and returns, loans and grants.

The Pre-Budget Statement aims, above all, to enhance transparency and disclosure in Timor-Leste's budget process. As such, this report hopes to stimulate positive and constructive discussions across and within Government, Private Sector, Civil Society Organizations, International Partners, the People of Timor-Leste and other interested parties, expanding participation to the budget journey to all its stakeholders.

I am convinced that the 2020 Pre-Budget Statement will increase awareness and understanding of the Government's financial management and help the People become good and informed citizens by providing them with relevant information on the 2020 Pre-Budget and Mid-Year analysis.

I wish to express my appreciation to the Directorates and Units of the Ministry of Finance that have contributed to the drafting and compilation of this report, whose work has been essential to its publication.

This documentation is available for consultation on the website of the Ministry of Finance, www.mof.gov.tl. Inquiries relating to this publication should be directed to the General Directorate of State Finance on e-mail jgama@mof.gov.tl – tel. +670 77852000, syaquim@mof.gov.tl – tel. +670 77305809 and epmartins@mof.gov.tl – +670 77879183.

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1 Technical Disclaimer

Timor-Leste's 2020 Pre-Budget Statement, including the Mid-Year Report, is published prior to the 2020 General State Budget Book. For this reason, all economic projections contained in this statement are preliminary in nature and may be amended in the 2020 General State Budget Book publication. Both the aggregate budget ceiling and the proposed allocations to Line Ministries, Self-Funded Agencies (SFAs), Municipal Authorities and other relevant entities, as approved by the Council of Ministers, may be subject to change, following the Budget Review Committee revision, the Parliamentary discussions and Presidential assessment. Finally all 2019 actual figures for revenue and expenditure are preliminary, and might be amended at the closure of the 2019 financial year, once reconciliation of accounts by the DG Treasury of the Ministry of Finance has occurred.

2 Executive Summary

Government Policy

Timor-Leste's VIII Constitutional Government has defined three priority sectors for its mandate: Social Capital, Economic Development and National Connectivity. The proposed 2020 General State Budget is aligned to these key sectors with 31% of it being allocated to Social Capital, 41% to Economic and Infrastructure Development, and the remainder to the Institutional Framework Pillar. The proposed budget ceiling is set at $1.6bn and its split across appropriation categories as in the table below.

Table 1: Combined Sources Budget 2017-2023, $ Millions

	2017 Actual	2018 Budget	2019 Budget	2020 Budget
Combined Sources Budget	**1371.4**	**1459.1**	**1989.6**	**1,727.9**
Government Expenditures by Fund	1194.7	1277.4	1827	**1,600.0**
CFTL (excl. loans)	1140.7	1200	1720	**1,527.0**
HCDF	23.9	15.8	20	**20.0**
Borrowing/Loans (disbursements)	30.1	61.6	87	**73.0**
Development Partner Commitments	176.7	181.7	162.6	**127.9**

Source: National Directorate of Budget and Development Partnership Management Unit, Ministry of Finance, 2019.

Macro-Fiscal Overview

Economic growth is expected to accelerate, with rates of 5.6% in 2019 and 6.2% in 2020. This return to growth is driven by an end to political uncertainty and return to strong government expenditure. Meanwhile, inflation is expected to remain low and stable at 1.1% in 2019 and 2.7% in 2020.

Domestic revenue reached $96.8m in June 2019, representing a strong improvement from 2018. Additionally, Q1 2019 collection performance is significantly stronger than Q1 2018. Preliminary forecasts for 2019 see domestic revenue to approach $198.0m by the end of the year. Starting 2019, non-oil receipts are set to be on a growth trend nearing $250m by 2024, provided that macro-economic conditions hold and fiscal policy reforms are implemented.

Petroleum Fund Revenue

The Petroleum Fund revenues remain the main source of funding for the state budget, consisting of petroleum revenue and investment income. The Petroleum Fund projections are updated once a year as part of the Budget process, and as such have remained constant to the 2019 Budget Book. They will undergo further updating in the final 2020 Budget.

Total Petroleum Revenue are estimated at $343.7m. As of July 2019, receipts from the sale of oil and gas amounted to $477.9m. Investment returns equalled - $459.9m in 2018, which represents a negative return of -2.6%. As of July 2019, the Fund's return is 9.02%, which translates to $1,907.2m (or $1.9bn). The 2019 ESI $529.0m as in the 2019 Budget and the proposed withdrawal for 2019 remains at $1,196.4m. Up until July, transfer to the State Budget amounted $220m and the balance of the Petroleum Fund is $17.5bn.

Expenditure Analysis

Timor-Leste executes its budget primarily through the Consolidated Fund of Timor-Leste (CFTL) and must execute 25% cumulatively each quarter. The total government execution by Q2 2019 (by current budget which includes transfers, virements and contingency transfer) is 33%, while the materiality directive dictates it should be 50%[1]. Reasons for low execution given by implementing agencies point towards late promulgation of the 2019 budget, delay in contracting and unavailability of signatory authorities.

Loans and Public Private Partnerships (PPPs)

Loans – At present, external loans are provided by international multilateral banks such as the Asian Development Bank and the World Bank, and one bilateral loan from JICA. These have a considerable degree of concessionality and compare favourably to the opportunity cost of withdrawing funds from the petroleum fund. At the end of 2018, the stock of external debt increased to $145.65m. Given the stages of project progress, disbursements are expected to increase in 2019, despite a slight decline in 2020. This will lead to a rather significant increase in interest payments in 2019. There are currently 15 ongoing road projects funded by concessional loans of which 6 projects had already been completed. Other projects that most likely to be concluded by 2019/2020 bringing the total numbers of projects completed to over 60% by end the year.

Infrastructure development is expected to continue playing a key role in the country's economic development in the medium term. Strategic sectors such as water, education, telecommunication, and air transports should receive concessional financing. This would help unleash the growth potential of other key economic activities, leading to inclusive economic growth and poverty reduction. The Government is therefore proposing a ceiling of $750m for new concessional foreign loans to be negotiated in 2020.

PPPs – The PPPs projects are currently ongoing: the Tibar Bay Port PPP which is in the Implementation and Operation Stage, the Medical Diagnostic PPP, in the advanced Feasibility Stage, and the Affordable Housing PPP, in early Feasibility Stage.

Development Partners

Development Partners' support is expected to reach $162.0m in 2019. For outer years, grant forecasts are expected to decline gradually – $127.9m in 2020. Social Capital represents the highest concentration area of donor support, followed by infrastructure and economic development. In both 2019 and 2020, the Government of Australia, the European Union and the Government of Japan are expected to be the largest contributors.

1 Ref no: 44/DGT/III/2016 Ministerial Directive on Materiality in Budget execution analysis and conduct of financial reviews

3 Government Priorities and Budget Proposal

3.1 Government Priorities and New Measures

On July 31, 2019 the Council of Ministers approved the ceiling for the draft 2020 General State Budget (GSB), set at $1.6bn, and its disaggregation to Line Ministries, SFAs, Municipal Authorities and other relevant institutions. Both the ceiling and its disaggregation are preliminary and may undergo amendments through the Budget Review Committee assessment, the Parliamentary debate and the Presidential evaluation.

The approved draft GSB aims to finance the VIII Constitutional Government's Program for the 2020 fiscal year. Three sectors are defined as priority for the 2020 Budget and of the remainder of the Government's mandate, 2021-2023: **Social Capital, Economic Development and National Connectivity**.

The proposed GSB allocations aim to reflect, therefore, such priorities. The aggregate allocation to each Pillar and their respective new measures are described below. **Please note all sectoral allocations described below are preliminary and do not include budgets for new measures.**

Social Capital – Education and Training, Health, Drinking Water and Basic Sanitation

29% of the proposed 2020 proposed GSB will be allocated to the Social Capital Sector's Ministries and Agencies, with 10% going to Education and 13% to Social Protection and 5% to Health. New measures in the Social Capital Sector include:

- Construction of housing for vulnerable people
- Construction of SEPFOPE's excellence centre
- Investment in water and sanitation
- Construction of Health Centres and Health Posts
- Construction of TVTL and RTTL buildings
- Classroom Rehabilitation
- Subsidy to Women Groups in rural areas
- Construction of transmission towers for TV
- Rehabilitation and construction of Traditional Houses "Uma Lulik"
- Support to one-thousand university students

The Economic and Infrastructure Development, including the National Connectivity sector covers 48% of the proposed 2020 GSB. New measures in this sector include:

Economic Development – Facilitate investment in the private sector, Job creation, Macroeconomic Policy, Agricultural Sector

- Subsidy for the transportation of agricultural equipment
- Increase in operational costs for the National Development Plan of Sucos (PNDS)

National Connectivity – Infrastructure, Logistics

- Purchase of one boat for public transportation

- Investment in Public Transportation (buses)

Other relevant measures, outside the priority sectors include:

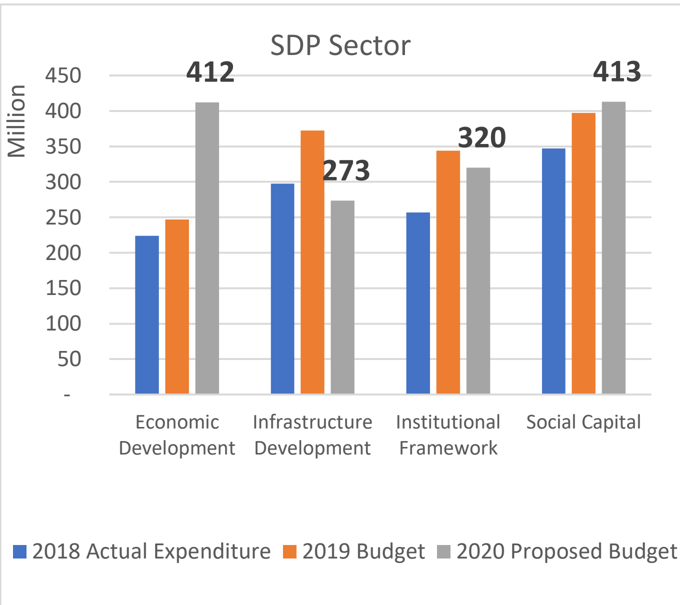
- Subsidy to KPK youth groups
- Support to Community Police
- Support to Border Police

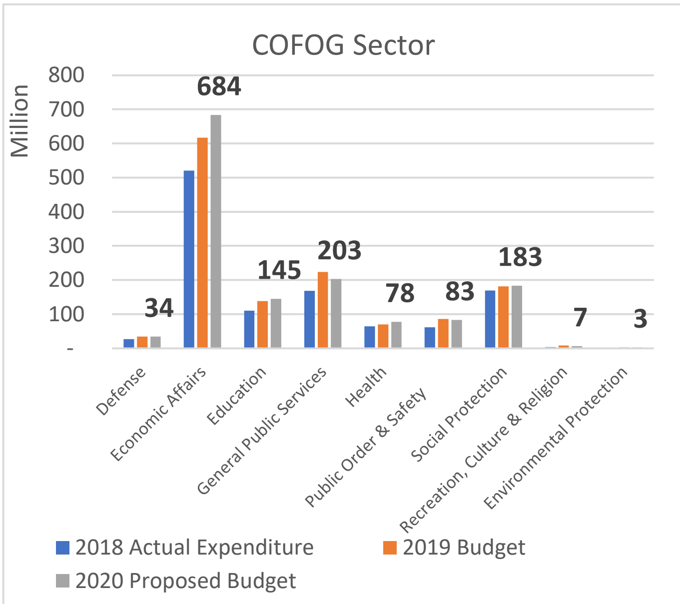
Analysis of the 2020 Proposed General State Budget by Sector

Timor-Leste's 2017-2023 Strategic Development Plan is organized around four pillars: Institutional Framework, Social Capital, Economic Development and Infrastructure Development, where the last three have been designed as priority in the VIII Constitutional Government's mandate. The proposed 2020 Budget allocates the largest share to the Social Capital Sector, followed by Economic Development, Institutional Framework and Infrastructure Development, excluding however loan disbursements and the transfer to ZEESM-RAEOA (see Figure 1, left-hand graph).

Following instead the international sectorial and more detailed classification COFOG (see Figure 1, right-hand graph), it can be observed that the Economic Affairs sector remains the largest, in line with previous year, followed by Social Protection, Social Protections, General Public Services, Education and Health. It should be noted that all sectors have revised a higher allocation than the past, except General Public Services whose budget has fallen instead.

Figure 1: Comparison of 2018 Expenditure, 2019 GSB and proposed 2020 GSB by Sector*





*Source: General Directorate of State Finance, Ministry of Finance 2019. *This does not include loans, minor capital and new measures that are currently under discussion. Please not that all 2020 Infrastructure Fund allocations are preliminary and may change.*

It should be noted that Social Capital's budget share will likely rise substantially once negotiation of new measures is finalized.

3.2 2020 General State Budget Proposal

The VIII Constitutional Government has approved a Budget ceiling of $1.6bn, whose disaggregation according to spending categories is reported in the table below.

Table 2: Budget 2019 and Proposed 2020 Budget by Appropriation Category, $ Millions

Appropriation Category	Proposed 2020 Budget
Salary and Wages	215.9
Goods and Services	522.9
Public Transfers	340.7
HCDF	20.0
Total Recurrent Expenditure	**1,099.5**
Minor Capital	5.0
Capital and Development (IF)	298.6
Capital and Development (LM, PDIM)	20.5
Loan Disbursements	73.0
Total Capital Expenditure	**397.1**
Recurrent Measures Under Discussion	9.5
Capital Measures Under Discussion	93.7
Total New Measures	**103.2**
Total Budget Ceiling	**1,600.0**

Source: General Directorate of State Finance, Ministry of Finance 2019.

Recurrent expenditure amounts to $1.1bn. Significant savings have been implemented across different categories of expenditure, accounting for one-offs and execution performance, for a total of $39.8m. More specifically: $17.6m in Goods and Services, $230.4m in Salary and Wages, $22.0 in Public Transfers. Total recurrent increase in allocation to finance the Government's priorities are estimated at $89.5m. Therefore, accounting for savings and additional costs from increases in allocation, the proposed recurrent budget for 2020 represents an increase of 5% with respect to 2019.

The Capital and Development fiscal ceiling is preliminarily set at $485.9m, including loan disbursements. This amount is to be allocated according to Table 3, where 81.5% falls under the Infrastructure Fund management and includes the budget for loan disbursements, and the rest is allocated to Line Ministries, SFAs and Municipalities. The Capital and Development Budget for the Infrastructure Fund will finance both ongoing projects and new ones. The largest projects include: water and sanitation investment in the Municipalities ($13.5m), Education (school rehabilitation $5.6m), Health (construction of health centres and health posts, $9.3m) and road infrastructure via loan contracts ($73.0m). For other Capital and Development measures refer to section 4.1.

Table 3: Proposed Allocation of the Capital and Development 2020 Budget by Institution, $ Millions

Institution	Proposed 2020 Budget
Infrastructure Fund (New and Ongoing Measures)	**323.1**
Infrastructure Fund (Loans)	**73.0**
Line Ministries, Autonomous Agencies (New and Ongoing Measures)	**84.7**
Integrated Municipal Development Plan	**5.0**
Total	**485.9**

Source: General Directorate of State Finance, Ministry of Finance 2019.

The sources of financing of the proposed GSB are highlighted in Table 4. 44.7% of the proposed fiscal ceiling will be financed through *sustainable* sources i.e. non-oil domestic revenue and the Estimated Sustainable Income of the Petroleum Fund; 52.3% oil and external sources, specifically loan disbursements (4.6%) and withdrawals in excess of the ESI (50.7%). This shows how Timor-Leste's remains highly dependent on both oil-derived (ESI and Excess Withdrawals) and external (loan disbursements) financing streams. Fiscal Sustainability analysis on the proposed ceiling predicts that the Petroleum Fund will be depleted by the year 2036, at baseline assumptions of medium- and long-term revenue, expenditure and GDP growth, and excluding the costs or benefits from the Greater Sunrise development.

Expanding the sustainable, domestic and non-oil revenue base remains key to ensure the country's long-term sustainability and development.

Table 4: Revenue and Financing Source of the Proposed 2020 General State Budget*****, $ Millions

Revenue	**Proposed 2020 Budget**
Domestic Revenue	**202.7**
Estimated Sustainable Income	**513.0**
Financing	
Excess Withdrawals from the Petroleum Fund	**811.3**
Loan Disbursements	**73.0**
Cash Balance	**0.0**

*Source: General Directorate of State Finance, Ministry of Finance 2019. *Please note that all figures will be recalculated before the final budget proposal.*

Disaggregation of the proposed 2020 General State Budget by receiving Public Entity

The tables below present the proposed 2020 GSB divided by Line Ministries and SFAs and Municipal Authorities' allocation, comparing it with the 2019 final allocation. **It should be noted that the budget for new measures has not been allocated to LMs and SFAs as of yet, and have been temporarily aggregated under the Appropriations for All of Government**.

Table 5: Proposed Allocation to Line Ministries, $

SDP Sector	Ministry	2020 Proposed Budget
Economic Development	Ministry of Agriculture and Fisheries	**14,250,608**
	Ministry of Mineral Resources and oil	**24,572,710**
	Ministry of State, Coordinator of Economic Affairs	**791,841**
	Ministry of Tourism, Commerce and Industry	**7,759,862**
	Secretariat of State for Vocational Training Policy and Employment	**5,654,426**
Infrastructure Development	Ministry of Planning and Strategic Investment	**5,299,447**
	Ministry of Public Works	**58,050,150**
	Ministry of Transport and Communications	**5,388,886**
Institutional Framework	Appropriations for all of Government	**331,586,069**
	Minister of State for the Presidency of the Council of Ministers	**4,832,501**
	Ministry of Defence	**26,945,306**
	Ministry of Finance	**21,533,737**
	Ministry of Foreign Affairs and Cooperation	**24,113,832**
	Ministry of Interior	**44,161,957**
	Ministry of Justice	**21,144,030**
	Ministry of Legislative Reform and Parliamentary Affairs Including SECS	**5,913,905**
	Ministry of State Adminstration	**9,549,691**
	Ombudsman for Human Rights	**1,730,681**
	Prime-Minister	**9,853,602**
Social Capital	Ministry of Education, Youth and Sports Including SEJD	**86,553,042**
	Ministry of Health	**47,538,265**
	Ministry of Higher Education, Science and Culture Including SEAC	**7,007,177**
	Ministry of National Liberation Combatants Affairs	**99,942,201**
	Ministry of Social Solidarity and Inclusion	**56,851,111**
	Secretariat of State for Youth and Sport	**6,674,076**

Source: General Directorate of State Finance, Ministry of Finance 2019.

Ministries belonging to priority sectors have received budget increase compared to the GSB 2019. These include Ministry of Agriculture (+7%), Secretariat of State for Vocational Training Policy and Employment (+4%), Ministry of Planning and Strategic Investment (+1%), Ministry of Justice (+2%), Ombudsman for Human Rights (+1%), Ministry of Education, Youth and Sports Including SEJD(+6%), Ministry of Higher Education, Science and Culture Including SEAC (+11%), Ministry of Social Solidarity and Inclusion (+1%).

Table 6: Proposed Allocation to SFAs, $

SDP Sector	Ministry	2020 Proposed Budget
Economic Development	Autoridade de Inspeção Alimentar e Fiscalização da Atividade Económica, Sanitária e Alimentar	**865,377**
	Tibar Bamboo Centre	**500,316**
	National Logistic Centre	**2,391,975**
	Centro Nacional de Emprego e Formação Profissional - Tibar	**1,238,535**
	Institute of Support for Enterprise Development	**933,051**
	Instituto Nacional do Desenvolvimento de Mão-de-Obra	**453,785**
	Registry and Business Verification Services	**1,002,815**
	Secretariat of State for Development of Cooperative Sector	**3,100,953**
	Secretariat of State for Environment	**1,282,299**
	Specialized Agency for Investment	**1,252,219**
	Training Center SENAI	**309,815**
Infrastructure Development	Administration of Ports of Timor-Leste	**3,271,712**
	Institute for Equipment Management	**3,020,911**
	National Authority of Communication	**994,650**
Institutional Framework	Anti-corruption Commission	**1,236,526**
	Council for Definitive Delimitation of Maritime Boundaries	**1,195,832**
	Courts	**6,554,073**
	Forensic Police of Criminal Investigation	**1,629,462**
	National Defense Institute	**1,237,852**
	National Electoral Commission	**9,780,386**
	National Institute of Public Administration	**1,033,807**
	National Intelligence Service (SNI)	**1,459,682**
	National Parliament	**14,231,117**
	Presidency of the Republic	**6,778,168**
	Prosecutor-General of the Republic	**3,940,449**
	Public Service Commission	**2,395,499**
	State Inspectorate General	**876,552**
Social Capital	Agência Nacional para Avaliação e Acreditação Académica	**385,639**
	Timorese Resistance Archive and Museum	**3,002,850**
	Institute of Health Sciences	**467,674**
	National Center for Rehabilitation	**828,672**
	National Hospital Guido Valadares	**10,369,804**
	National Laboratory	**771,657**
	National University of Timor-Leste	**13,924,560**
	Press Council	**791,458**
	SAMES	**5,735,433**
	Secretary of State for Equality and Inclusion	**1,397,938**

Source: General Directorate of State Finance, Ministry of Finance 2019.

Table 7: Proposed Allocation to Municipal Authorities, $

Municipal Authority	Proposed Budget 2020
Administração Municipal de Aileu	**2,321,383**
Administração Municipal de Ainaro	**2,787,895**
Administração Municipal de Covalima	**2,866,586**
Administração Municipal de Lautém	**3,195,850**
Administração Municipal de Liquiçá	**2,577,967**
Administração Municipal de Manatuto	**2,769,932**
Administração Municipal de Manufahi	**2,980,224**
Administração Municipal de Viqueque	**3,049,859**
Autoridade Municipal de Baucau	**3,855,857**
Autoridade Municipal de Bobonaro	**4,099,317**
Autoridade Municipal de Dili	**6,197,014**
Autoridade Municipal de Ermera	**3,284,887**

Source: General Directorate of State Finance, Ministry of Finance 2019.

4 Macro-Fiscal Overview

4.1 Summary

Table 8: Economic Indicators, 2019-2021, %

Summary	Forecast		
	2019	2020	2021
Real GDP (non-oil)	5.6%	6.2%	5.9%
Inflation CPI	1.1%	2.7%	2.4%

Source: Ministry of Finance, National Directorate of Economic Policy, 2019.

- Real non-oil GDP growth is expected to accelerate, with growth of 5.6% in 2019 and 6.2% in 2020. This return to growth is driven by an end to political uncertainty and return to strong government expenditure.
- Inflation is expected to remain low and stable at 1.1% in 2019 and 2.7% in 2020. This will positively contribute to increasing Timor-Leste competiveness, with inflation expected to be lower than the regional average.
- The exchange rate forecast suggests there will be some small depreciation in the near future, providing an overall stable foundation for traders, alongside improved competitiveness.

4.2 Macroeconomic Trends

4.2.1 Growth

Table 9: Growth Indicators, 2017-2020, %

Country	Actual		Forecast	
	2017	2018	2019	2020
World	3.8%	3.6%	3.3%	3.6%
Advanced Economies	2.4%	2.2%	1.8%	1.7%
Emerging and Developing Economies	4.8%	4.5%	4.4%	4.8%
Emerging and Developing Asia	6.6%	6.4%	6.3%	6.3%
China	6.8%	6.6%	6.3%	6.1%

Source: IMF World Economic Outlook April 2019.

Timor-Leste

In 2017, total (oil and non-oil) real GDP in Timor-Leste decreased by -9.2% to $2,829m (in 2015 prices). National Accounts data exist up to 2017, which is the latest year of GDP data available without forecasting. The decrease in total GDP in 2017 is attributed both to the fall in the non-oil sector (-3.5%), and the fall in the oil sector (see Table 2.3.2.1.1), as the volume of oil extracted decreased across the year (-15.8%).

Given the relatively small level of employment in the oil sector, total GDP is not the best measure of economic performance for Timor-Leste. Instead, it is more useful to monitor economic performance using non-oil GDP together with a wide variety of other indicators relating to the non-oil economy. This approach provides a more accurate indication of the real impact of changes in the economy on the people of Timor-Leste.

Table 10: Real GDP by Sector, Timor-Leste 2017

	GDP, $ Millions	Percent of Whole
Whole Economy	2,829	100%
Petroleum Sector	1,209	43%
Non-petroleum Sector	1,620	57%

Source: Ministry of Finance, General Directorate of Statistics, 2019.

Non-Oil Economy

Up to 2016, Timor-Leste experienced high non-oil GDP growth, averaging 6.9% per year over 2007-2016. These strong growth rates have been driven by increases in government expenditure associated with the government's economic strategy to ensure that Timor-Leste has the necessary infrastructure to allow the private sector to flourish in the long-run. The Government's economic strategy uses loan financing and excess withdrawals[2] from the Petroleum Fund to finance high quality investment in infrastructure and human capital development. As outlined in Timor-Leste's Strategic Development Plan, the Government's high return investments will provide the necessary foundations for long-term sustainable private sector led development. Government investment has enabled a significant upgrade to road and electricity coverage throughout Timor-Leste, which has helped to improve both living standards and the business environment.

For the first time in the last twelve years, the non-oil GDP growth in 2017 rate was negative (-3.5%). The contraction was a consequence of declines in government expenditure, development partner expenditure, and lower exports. Government spending was lower as a result of a lower budget ceiling compared to 2016 and relatively low execution rates. Political uncertainty also led to lower development partner spending and reduced business activity. The coffee harvest, the main source of exports, was affected by a poor season.

However, aided by the low inflationary environment, private consumption increased by 4.1% suggesting that living standards continued to increase in Timor-Leste over 2017.

Table 11: Real GDP 2009 - 2016, $ Millions

	2010	2011	2012	2013	2014	2015	2016	2017
Non-Oil Sector ($m)	1276	1362	1439	1473	1543	1597	1679	1620
Non-Oil Sector Growth	8.5%	6.7%	5.7%	2.4%	4.7%	3.5%	5.1%	-3.5%

Source: Ministry of Finance, General Directorate of Statistics, 2018.

International

Globally, after strong growth in 2017 and early 2018, growth is now projected to slow from 3.6 percent in 2018 to 3.3 percent in 2019. This reduction is driven by the decline in growth rate of advanced economies and the emerging market and developing Asia, from US-China trade tension, tighter policy in response to macroeconomic imbalances in Argentina and Turkey, credit tightening in China, weakness in Germany's auto sector, and higher interest rates. However, the global growth is projected to stabilize in 2020 at around 3.6 percent, mainly due to a rebound

[2] Withdrawals from the Petroleum Fund in excess of the ESI.

in emerging markets and developing economies especially in Argentina, Turkey and a few other stressed economies. Nevertheless high levels of growth, especially in Asia, still provides a solid foundation for Timorese exporters and economic development. The international environment provides favourable conditions for Timor-Leste to take advantage of in 2020 and beyond.

4.2.2 Prices and Inflation

Table 12: Global and Regional Inflation Rates (%)

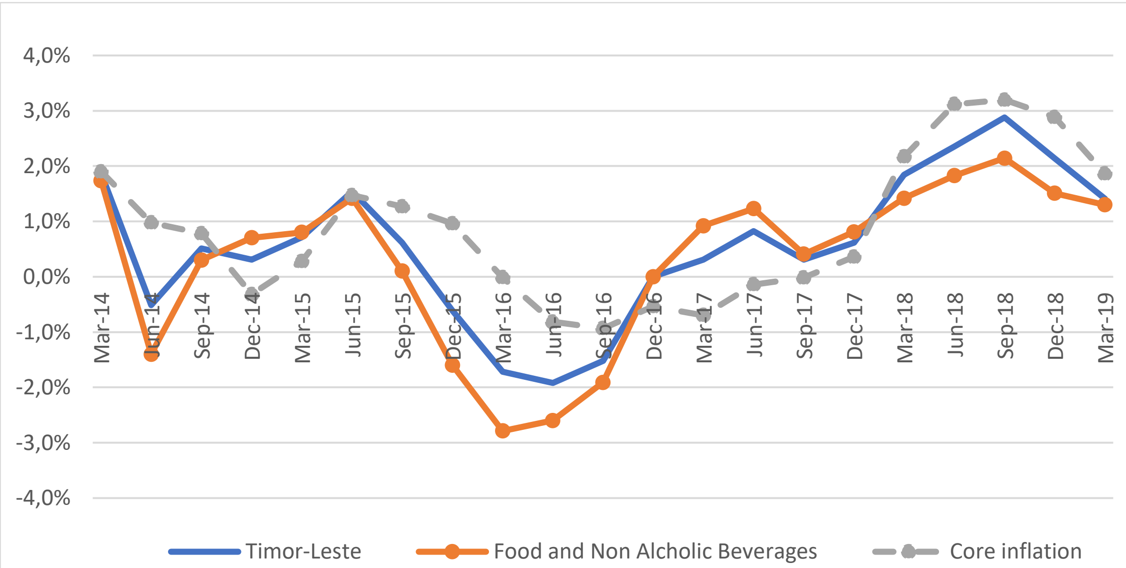
Country	Actual		Forecast	
	2017	2018	2019	2020
World	3.2%	3.6%	3.6%	3.6%
Advanced Economies	1.7%	2.0%	1.6%	2.1%
Emerging and Developing Economies	4.3%	4.8%	4.9%	4.7%
Emerging and Developing Asia	2.4%	2.6%	2.8%	3.1%
Timor-Leste*	0.5%	2.3%	1.1%	2.7%

*Source: IMF World Economic Outlook April 2019. *Ministry of Finance forecast.*

Timor-Leste

With year on year inflation in March of 2.0%, Timor-Leste still enjoys a low level of inflation. Due to the significant weight of food and non-alcoholic beverages in the CPI basket and the high proportion of food imported into Timor-Leste every year, international food prices remain one of the key drivers of the overall CPI rate, and the MoF continues to monitor price levels. The Food and Agricultural Organization's (FAO) food price index decreased -3.3% year on year in March. This moderates earlier upward swings in food prices. Domestic food prices rose in March, though these remained muted at 1.3% and it is expected that the current world food markets will continue to provide a moderating impact on prices in the near future. A 9.0% increase in education costs will affect annual inflation in Timor-Leste throughout 2019, though this is lower than the 16.6% increase in 2018.

Figure 2: Change in Consumer Price Index Timor-Leste 2014-2019 (%)



Source: Ministry of Finance, National Directorate of Economic Policy and General Directorate of Statistics, 2019.

International

Consumer price inflation is set to remain favourable, with global inflation forecast at 3.6% by the IMF. The decline in the commodity prices especially lower oil prices have contributed to the sharp falls in consumer price inflation in the advanced economies. However, the inflation is projected to soften in the coming years. For the emerging market economies, inflation has been rising reflecting the impact of currency depreciation and higher commodity prices, but it is projected to moderate as the impact of tighter monetary policy and recent declines in oil prices. Inflationary pressures have already fallen sharply in China as activity has moderated. Low inflation in Timor-Leste in this context will tend to help improve competitiveness.

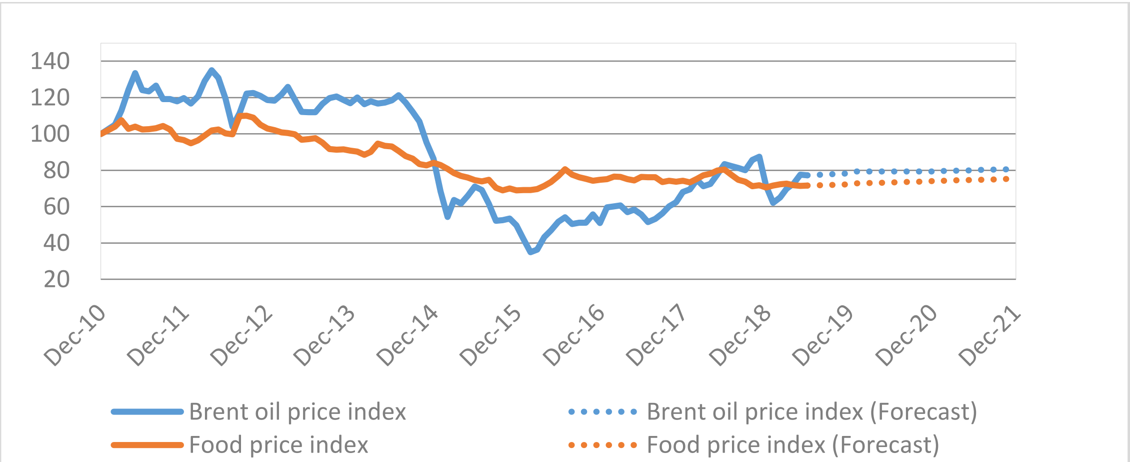
Oil prices

Oil prices are important to Timor-Leste both for consumers, through consumer prices, and as an oil exporting country. The international price of Brent oil has witnessed dramatic declines since June 2014 from highs of $112 per barrel to lows of $32.2 per barrel in January 2016. The decline in oil prices was driven by the increased global supply during a period of low global demand. However, for the period following this, the oil market began to recover reaching an average of $77 per barrel in May 2019. But it's still lower than average price seen in September 2018 at $81 per barrel. This strengthening recovery has been driven by the production cut by OPEC. The oil price is projected to increase only moderately in the near future.

Agricultural Commodity Prices

A significant portion of the food consumed in Timor-Leste is imported and thus changes in international food prices can have a significant impact on both the rate of inflation and standard of living. According to the World Bank commodities Prices Forecast, international food prices have continued to decline from 2011, though prices started to increase from a low of $69 in January 2016, reaching $71.6 in May 2019. The increasing cost of energy and weather variability could stabilise food prices higher for the remainder of the year. The World Bank is forecasting that food prices will rise marginally throughout the rest of 2019 and 2020, however the increase is small, and overall food prices are expected to remain relatively low. This will benefit poorer households in Timor-Leste.

Figure 3: Commodity Price Indices



Source: Ministry of Finance, National Directorate of Economic Policy and General Directorate of Statistics, 2019.

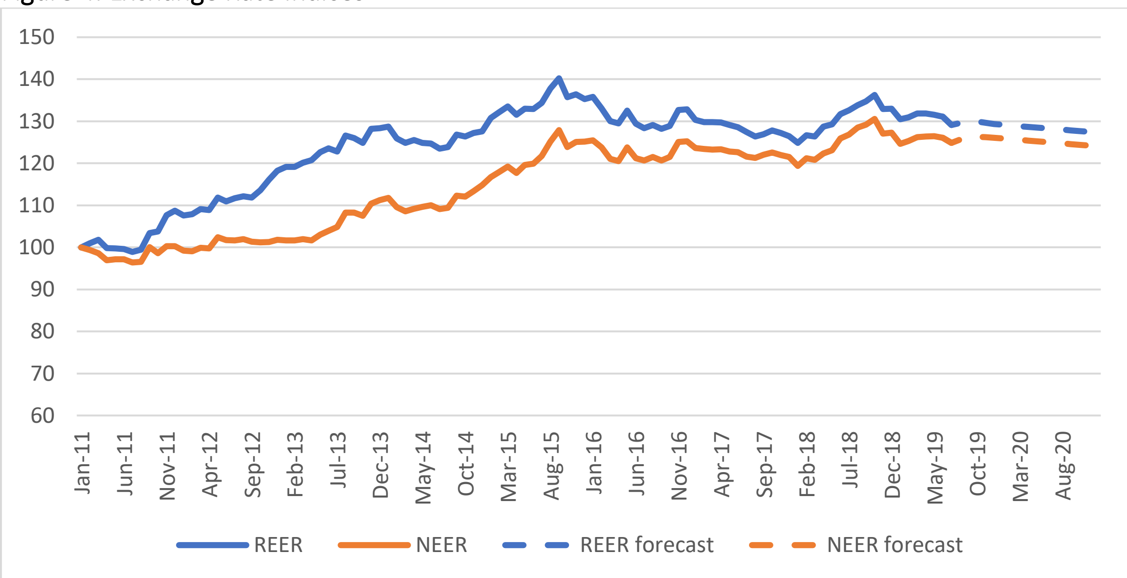
4.2.3 Exchange Rates and Competitiveness

Between May 2018 and May 2019 the US dollar appreciated by 2.7% against a weighted basket of currencies of Timor-Leste's trading partners (the nominal effective exchange rate, NEER). There has been a small overall appreciation in the last few years which has reduced the price of imports, placing downward pressure on domestic inflation, benefiting Timorese consumers. However, this appreciation makes Timorese non-oil exports more expensive in international markets constraining the development of the country's exports sector.

An inflation-adjusted measure of the exchange rate, the real effective exchange rate (REER), is a better measure of competitiveness. If inflation in Timor-Leste is lower than in other countries, this can help mitigate exchange rate appreciation. The REER has appreciated by 1.8% between May 2018 and May 2019, driven by the exchange rate changes captured in the NEER and lower inflation in Timor-Leste compared to its neighbours over the last year.

The inflation rate in Timor-Leste is expected to be lower than its neighbours in the near future, and so Timor-Leste can expect an improvement in competitiveness. This will help the Timorese export market be well-placed in the international market. While this is to be welcomed, the government is not complacent about the issue of competitiveness. A key priority is improving the business environment to encourage improved competitiveness, and the inflation target policy is a part of meeting the priority.

Figure 4: Exchange Rate Indices



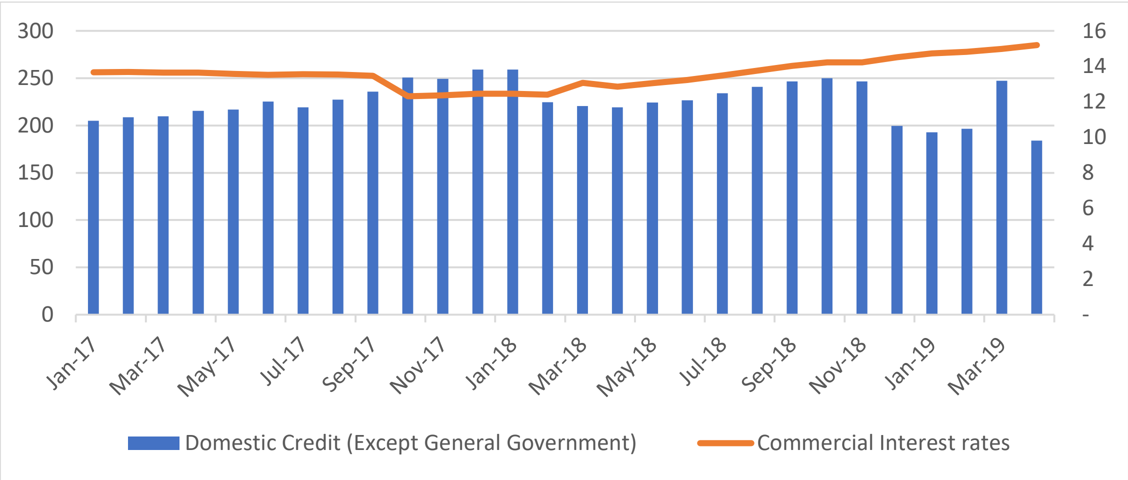
Source: Ministry of Finance, National Directorate of Economic Policy and General Directorate of Statistics, 2019.

4.2.4 Financial Sector Trends

Commercial Interest Rates and Credit

The amount and cost of credit to the private sector is an important indicator for private sector development. Loans to the private sector were at an average interest rate of 15.19% in April 2019. Total domestic credit, excluding general government, was $236m in April 2019, a reduction from the peak at the end of 2017.

Figure 5: Commercial Interest Rates and Credit



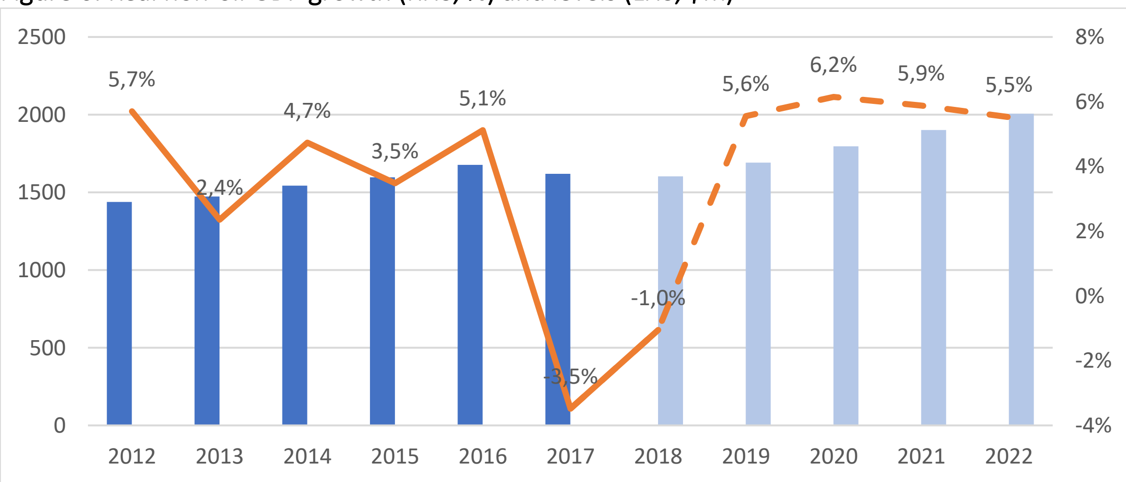
Source: Banco Central Timor-Leste, 2019. Interest Rate (RHS, %), Credit (LHS, $m).

4.3 Economic Outlook

The Ministry of Finance is forecasting non-oil GDP growth to be +5.6% for 2019. With the uncertain economic environment finally ending in 2018, growth is expected to pick up in 2019. Factors contributing to high 2019 growth include an end to political uncertainty, a return to normal budgeting procedures, and a resurgence in private sector investment.

For 2020, the expansionary fiscal position is expected to enable high growth of 6.2%, given a budget ceiling of $1.6bn. Over the medium term, the government anticipates high growth rates, driven by private sector-led, sustainable development.

Figure 6: Real non-oil GDP growth (RHS, %) and levels (LHS, $m)



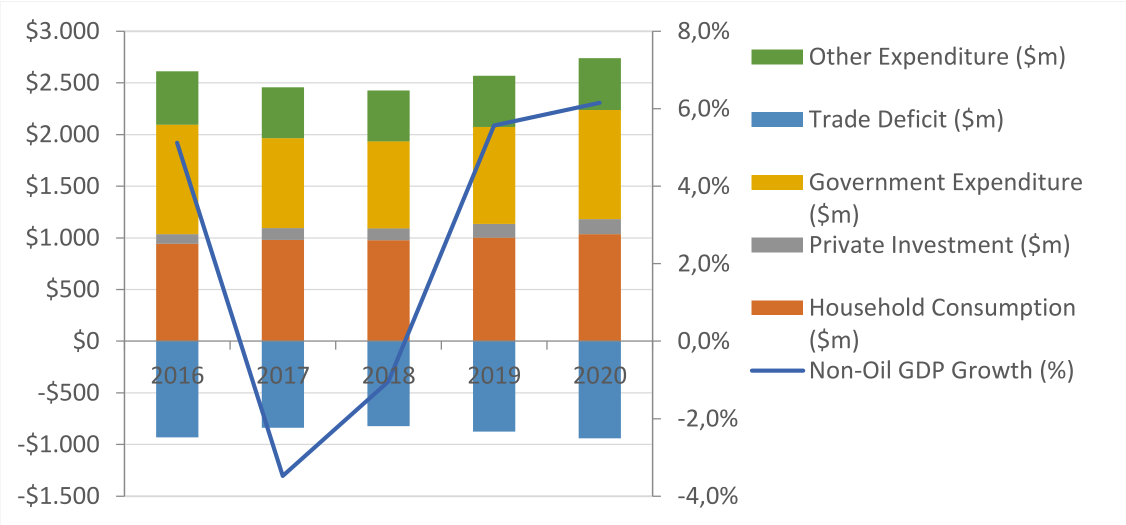
Source: Timor-Leste National Accounts 2000-2017, General Directorate of Statistics and Economic Forecasts, National Directorate of Economic Policy, Ministry of Finance, 2019.

Living standards are expected to improve with household consumption growing as it returns to the trends seen in previous years. Steadily growing consumption is boosted by a low inflationary environment. Looking forward across the medium-term, this environment is likely to continue given regional growth rates, the world commodity price outlook and exchange rate projections.

Public sector investment is expected to provide a strong contribution to growth. Infrastructure projects, especially in education, health, and water & sanitation will commence. These will improve social capital as well as providing jobs and economic activity during construction. Road and bridge projects continue to be built or improved and with greater momentum in 2019, providing better and lower cost transportation within the country. The infrastructure assets resulting from this public investment as well as legal reform will create an environment conducive to strong growth in the private sector, boosting growth into the future.

Large-scale private sector investments will result in a significant increase in private sector investment. 2020 will see continued construction on the Tibar Bay Port, and the expansion of existing commercial and retail properties throughout the country. Such investments are consistent with the Government's economic strategy, alongside continued investments in human capital and education, to attract investors and consequently creating jobs domestically.

Figure 7: Components of non-oil GDP, 2016-2020



Source: Timor-Leste National Accounts 2000-2017, General Directorate of Statistics and Economic Forecasts, National Directorate of Economic Policy, Ministry of Finance, 2019.

Risks and Uncertainty

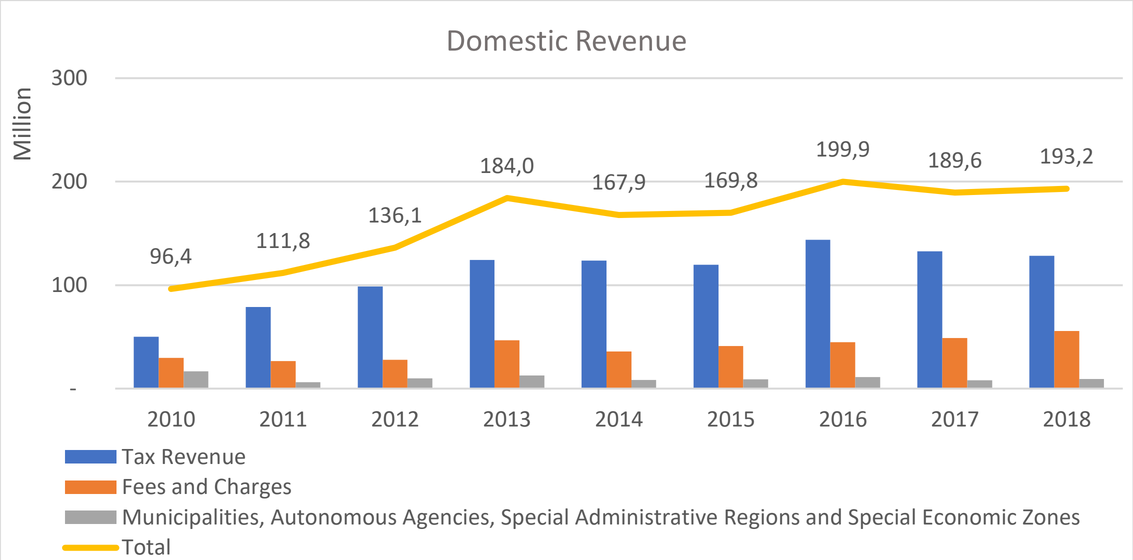
Forecasts provide a current view on the most likely growth trajectories, but are always uncertain and subject to revision. The main downside risk to the forecast comes from imports. If the new government spending is particularly import-dependent, meaning that much of the new spend goes to goods and services from outside Timor-Leste, the forecasts for future years may be reduced downwards. This depends on the absorptive capacity of the Timor-Leste economy.

4.4 Domestic Revenue

4.4.1 Historical Trends

Domestic Revenue has been rising fairly steadily from 2010 until 2016. Revenue growth has been primarily driven by higher Tax receipts (representing around 70% of the total), followed by Fees and Charges collected from line ministries, driven by electricity receipts. Revenue from SFAs have been quite volatile and contribution to the total has been significantly less sizeable than for other categories. It should be noted that some SFAs have become State Owned Enterprises (SOEs), and as such have stopped contributing to domestic revenue. Nevertheless, in recent years the number of SFAs has considerably increased (23 as of 2019), but no increase in receipts has followed. Only 15 SFAs are actively collecting revenue as of 2019.

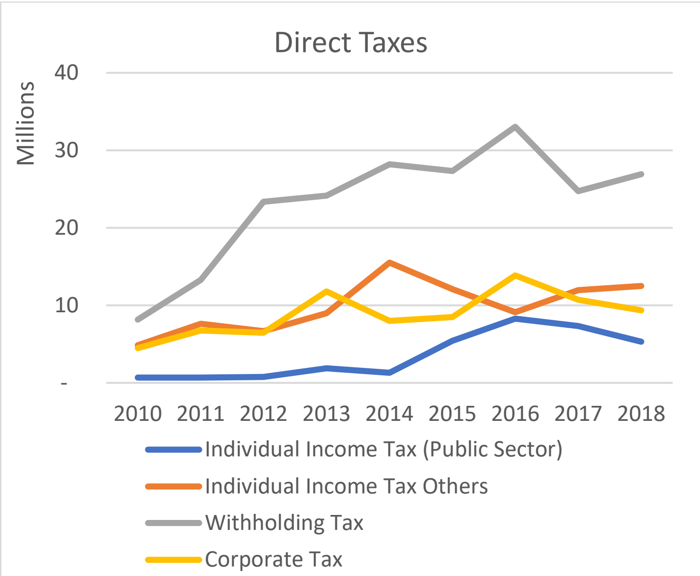
Figure 8: Domestic Revenue 2010-2018, Aggregate and by Sub-Component



Source: Ministry of Finance, National Directorate of Economic Policy, June 2019.

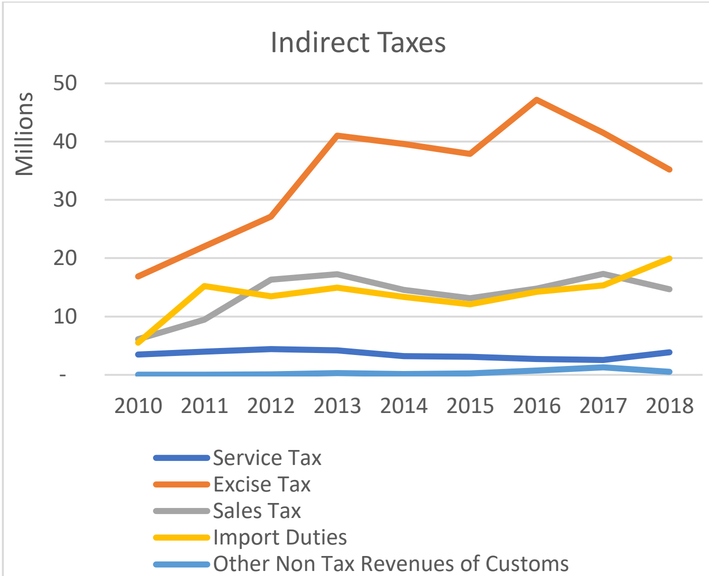
The protracted political uncertainty brought down tax receipts in 2017 by 5%, which remained flat in 2018. This let led to an overall reduction of total collection, highlighting the dependency of domestic revenue from government spending and performance, through taxes. In particular, Withholding Tax fell by 25.2% in 2017 due to delays in government-funded construction projects, and only partially recovered in 2018. Similarly, decreasing Corporate, Excise and Sales Tax collection might also be a consequence of the slow-down in economic activity. Over the same period, other types of taxes remained flat.

Figure 9: Direct Taxes, 2010-2018



Source: Ministry of Finance, National Directorate of Economic Policy, June 2019.

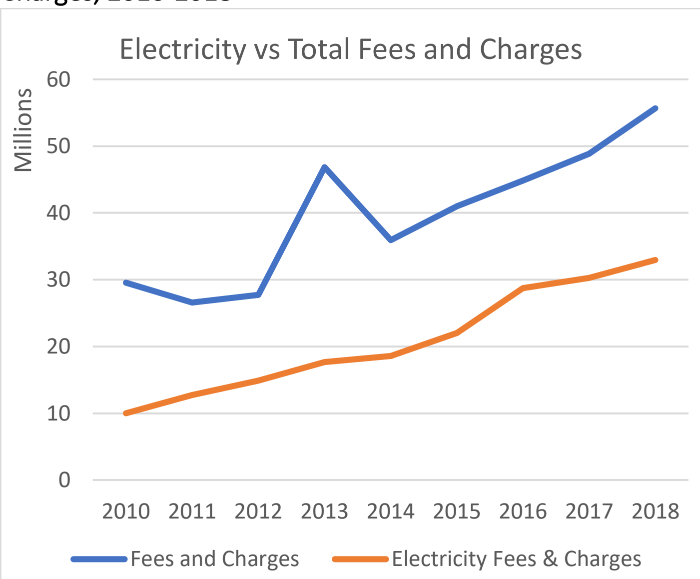
Figure 10: Indirect Taxes, 2010-2018



Source: Ministry of Finance, National Directorate of Economic Policy, June 2019.

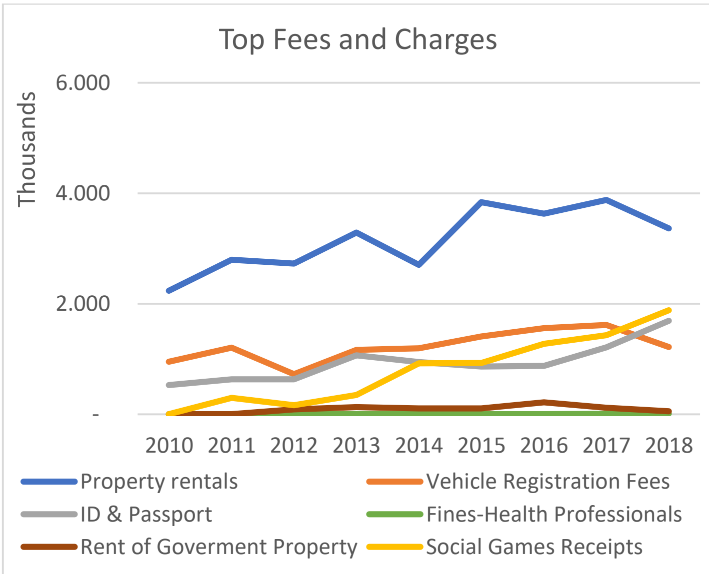
Within Fees and Charges, Electricity receipts make up 60% of the total on average, with $33.0m in 2018. The GoTL makes every year very large investment in the electricity sector ($88.7million in 2018), for the fuel supply, operation and maintenance of the Hera and Betano generators. Besides electricity receipts, other significant, yet much lower, contributions come from Dividends, Profits and Gains, the Ministries of Justice, Interior, Petroleum and Natural Resources and Transport. Both the amount of fees and their amount has increased quite steadily over the years.

Figure 11: Electricity Fees and Charges vs. Total Fees and Charges, 2010-2018



Source: Ministry of Finance, National Directorate of Economic Policy, June 2019.

Figure 12: Highest Fees and Charges (excluding electricity), 2010-2018



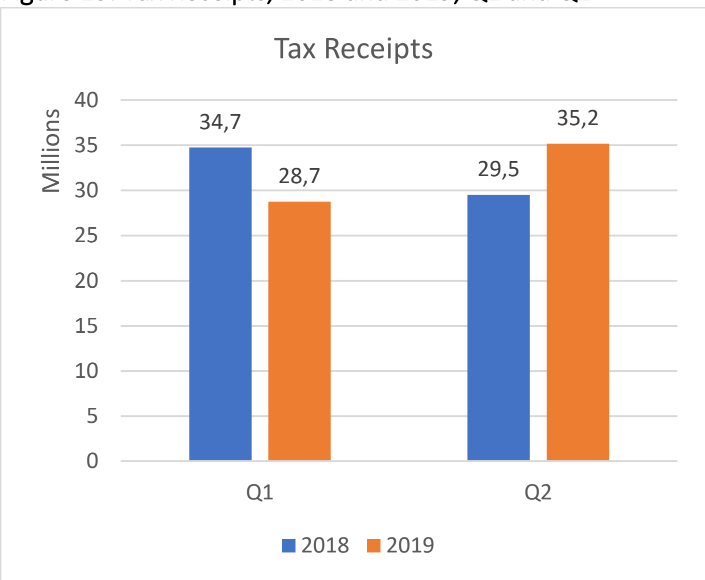
Source: Ministry of Finance, National Directorate of Economic Policy, June 2019.

SFAs and Municipalities' revenue makes up about 5% of the total, with the largest receipts coming from the Dili Port Authority, Timor-Leste's National University, the National Communication Authority and the National Logistic Centre. Receipts from the Special Social Market Economy Zone, ZEESM, include Taxes (which are part of total taxes, above), over $4million, and Fees and Charges, about $0.8m. Both have been constantly increasing, since collection started in 2016.

4.4.2 Mid-Year Analysis

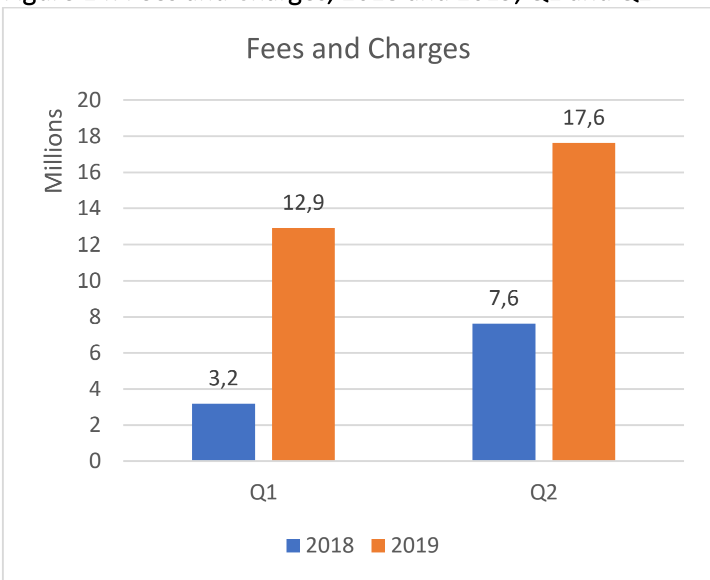
Mid-year actual domestic revenue collection reached $96.8m in 2019 ($41.7m in Q1 and $55.1m in Q1) which represents a 25% improvements compared to 2018. Such improvements is mainly led by higher receipts in the second quarter. Indeed, as it can be observed from the graphs below, Q2 2019 outperforms Q2 2018 across all main subcomponents of revenue (Taxes, Fees and Charges, SFAs and Municipalities receipts). Q1 2018 reports higher collection only for Taxes and Revenue from SFAs and Municipalities. The trend is driven by 2019 Q1 Withholding Taxes, recorded to be $5.7m lower than in 2018. Reasons for this are likely delays in government-funded contracts. Such lower collection however, is fully recovered in the second quarter.

Figure 13: Tax Receipts, 2018 and 2019, Q1 and Q2



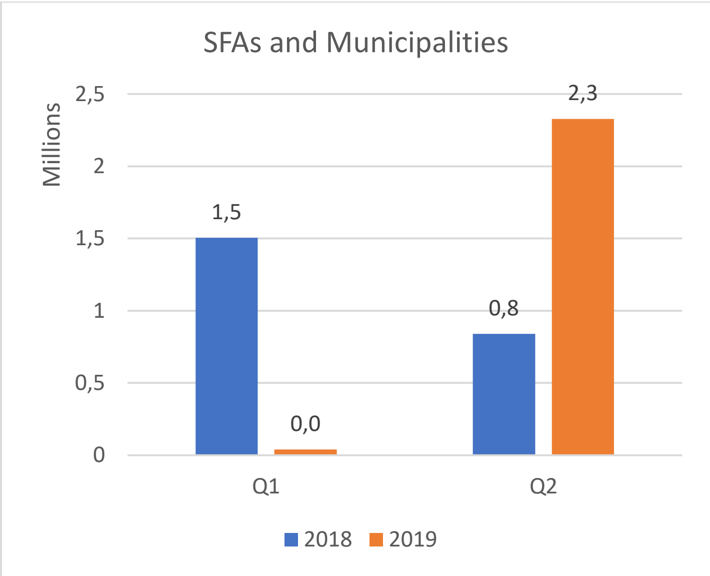
Source: Ministry of Finance, National Directorate of Economic Policy, June 2019.

Figure 14: Fees and Charges, 2018 and 2019, Q1 and Q2



Source: Ministry of Finance, National Directorate of Economic Policy, June 2019.

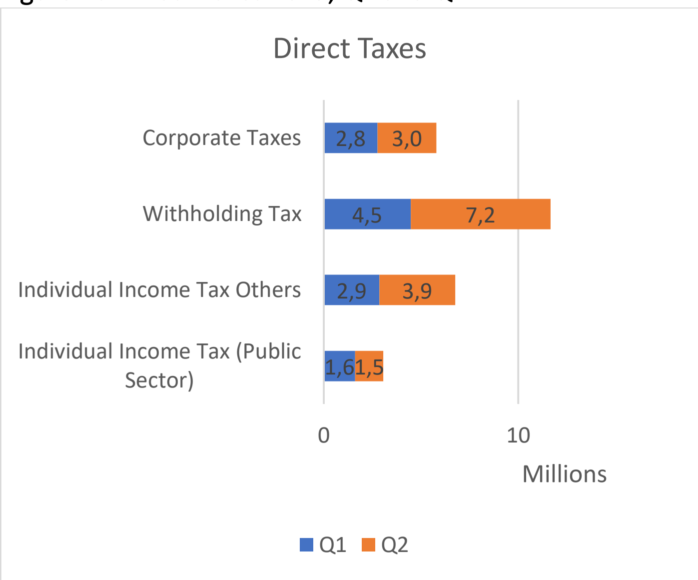
Figure 15: SFAs, 2018 and 2019, Q1 and Q2



Source: Ministry of Finance, National Directorate of Economic Policy, June 2019.

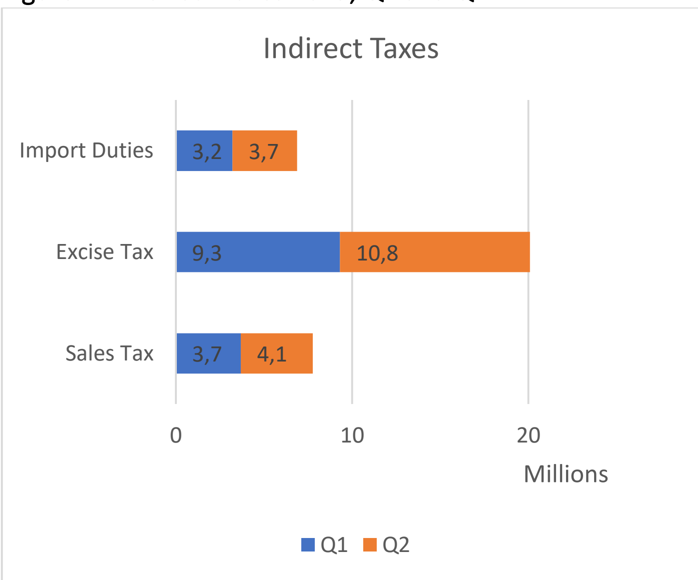
Focusing now on 2019, Q2 outperformed Q1 by over 30%. Delays in the approval of the General State Budget 2019 and in the release of funds to the line ministries, and the cyclicality of some revenues are likely drivers of such performance. As for taxes, higher collection involves all sub-components (see Figure 17 and Figure 18), especially in the case of Withholding tax which grew almost $3.0m.

Figure 16: Direct Taxes 2019, Q1 and Q2



Source: Ministry of Finance, National Directorate of Economic Policy, June 2019.

Figure 17: Indirect Taxes 2019, Q1 and Q2

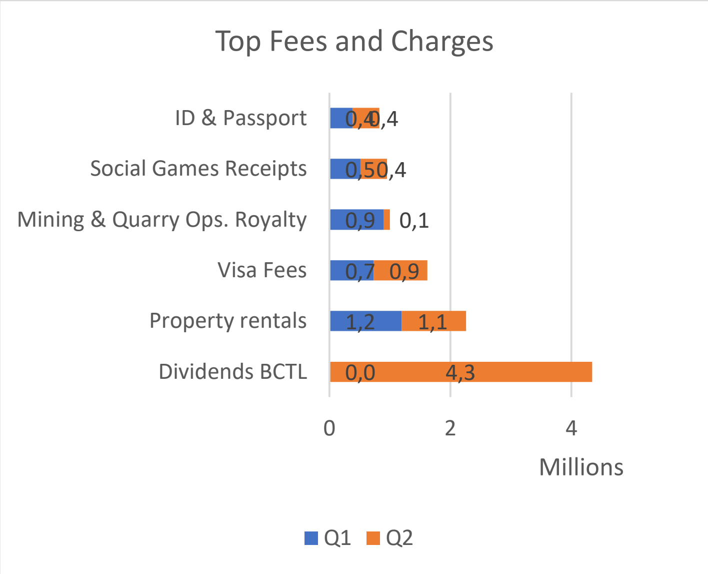


Source: Ministry of Finance, National Directorate of Economic Policy, June 2019.

As for fees and charges, Q2 collections flatten (Figure 19) with the exception of electricity fees, reaching $8.5m, $1.0m higher than Q1, and $4.3m of BNCTL Dividends. Besides these two items, property rental, fees from visas, and royalties from quarrying and mining are the main contributors to the total. As for fees and charges, Q2 collection flattens with the exception of electricity fees, reaching $8.5m, $1.0m higher than Q1, and $4.3m of BNCTL Dividends. Besides these two items, property rental (MT), fees from visas (MI), and royalties from quarrying and mining (ANPRM) are the main contributors to the total.

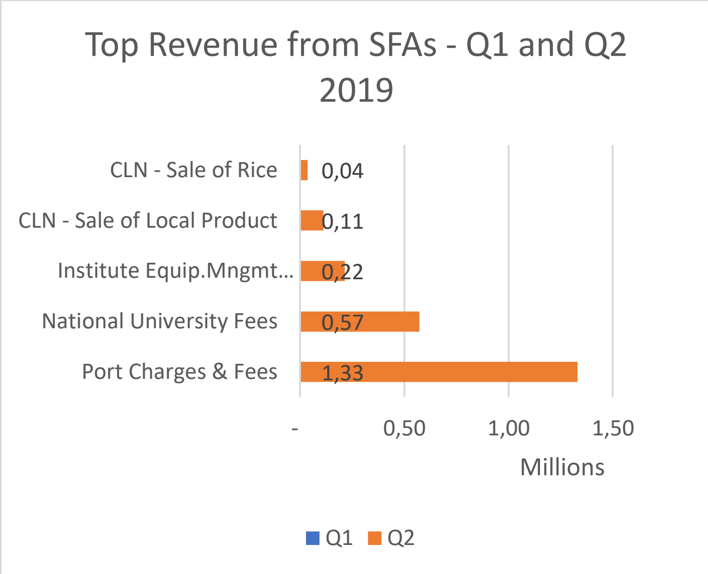
As for SFAs, there seems to be issue of delays in reporting from these institutions as the reasons by nearly zero collection was reported in Q1. In Q2, the Dili Port, followed by the National University and the Institute of Equipment Management, make the largest contributions. Finally it should be noted that Municipal Authorities are increasingly collecting revenue (advertising and parking fees), even though they remain small in size. To date, only Dili, Covalima and Baucau Municipalities report collection

Figure 18: Top Fees and Charges, 2019, Q1 and Q2



Source: Ministry of Finance, National Directorate of Economic Policy, June 2019.

Figure 19: Top Revenue from SFAs, 2019, Q1 and Q2

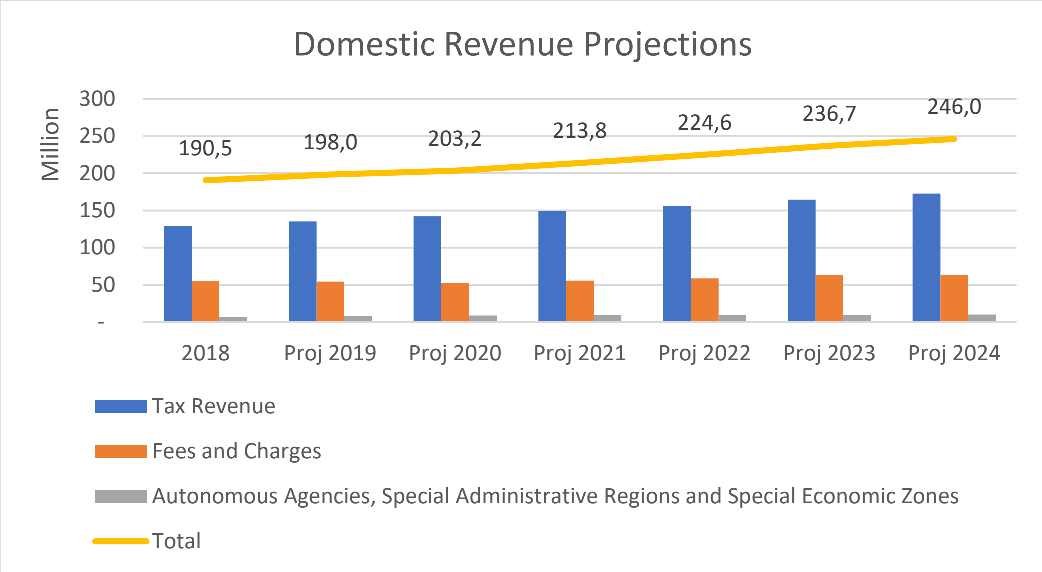


Source: Ministry of Finance, National Directorate of Economic Policy, June 2019.

4.4.3 Domestic Revenue Projections

Preliminary forecasts for 2019 expect domestic revenue to pick up, reaching $198.0m, approaching the pre-impasse levels. Such growth will affect all main sub-components of revenue. Starting 2019, non-oil receipts are set to be on a growth trend nearing $250m by 2024, provided that macro-economic conditions hold. Reforms in the area of tax, such as the introduction of the VAT, as well as improvements in collection efficiency in line ministries and SFAs and introduction of new fees to the public could improve collection in outer years beyond current forecasts.

Figure 20: Domestic Revenue Projections, by Sub-Component, 2014-2018



Source: Ministry of Finance, National Directorate of Economic Policy, June 2019.

4.5 Petroleum Fund Revenue

The Petroleum Fund (the Fund) revenues remain the main source of funding for the state budget each year. The Fund's revenues consist of petroleum revenue and investment income.

The petroleum revenue is currently originated from one major project – the Bayu Undan field. Despite its natural declining production profile, the BU field is expected to continue generate revenues to Timor-Leste until its PSCs depleted in 2021/22. Production beyond 2022 will depend on contract negotiation and whether the remaining reserve is economically profitable. Other exploration licenses, i.e. for research and drilling, has been awarded both in the Joint Petroleum Development Area - JPDA (e.g. JPDA 11-106) and in on/offshore of Timor-Leste Exclusive Area-TLEA (e.g. PSC TL-S0-15-01, PSC TL-OT-17-08 and PSC TL-OT-17-09).[3] The new treaty to establish for the first time permanent maritime boundaries signed between Timor-Leste and Australia in March 2018 and with the acquisition of 56.56% of participating interest in the Greater Sunrise JV through the Timor GAP E.P will allow Timor-Leste to influence the decision on the upstream and downstream development of the GS. This potential revenue will be included in the estimate of the present value of the petroleum revenues when they are declared proven and approved for development.

The petroleum revenue is mainly driven by three major factors: oil price, production and costs. The projections in the State Budget 2019 were based on the EIA's projected Brent price in January 2018. The production and costs information were provided by the Operator in August 2018 for Budget 2019. The new information will be available in August 2019 which will be incorporated in calculating the ESI for Budget 2020 and projecting future revenues.

The oil price has been averaging between $60 to 70/b since it declines in mid-2014 and up from its lowest level at $30/b in early 2016. The actual average oil price of Brent in 2018 was $71.3/b, higher than $63.0/b estimated in the Budget 2019. The actual production in 2018 was 37.7m

[3] Please see ANPM's Annual Report for 2018 for more details. Most of the current JPDA area will fall within the TLEA once the new Treaty on Maritime Boundaries is ratified in August 2019.

barrel of oil equivalent, which is around 17 per cent higher than estimated in Budget 2019. The higher production was mostly driven by the positive outcome of Bayu Undan Infill Well project in second half of 2018.

These higher than estimated oil price and production pushed the actual total petroleum revenue collected in 2018 of $510.1m, compared to $421.7m in 2017. A total amount of $63.3m was transferred from the Petroleum Fund to the Kitan Field contractors as refund of taxes overpayment for FY 2011-2013. Hence, the net petroleum revenues for 2018 was $446.7m. This is 15 per cent higher than the estimated $389.4m.

Table 13: Petroleum Fund Revenues 2018-2019 ($m)

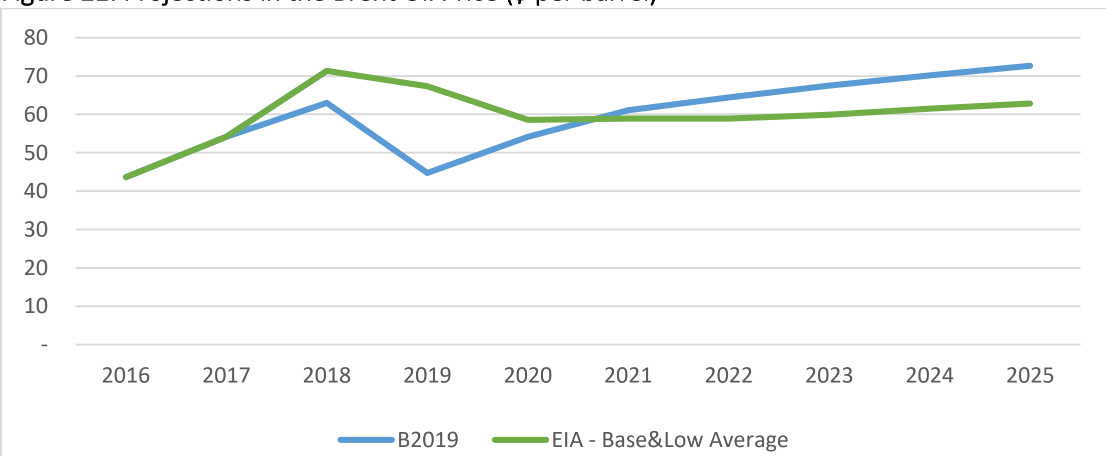
	2018 Budget	2018 Actual	2019 Budget	Q2 2019 Actual
Total Petroleum Fund Revenue	**672.8**	**(13)**	**970.1**	**1,907.2**
PF Investment return, net	283.4	(460)	626.5	1,429.3
Petroleum Revenue	**389.4**	**446.7**	**343.7**	**477.9**
Petroleum Taxes *	175.9	230	121.7	193.9
Royalties and Profit oil	244.7	244	194.1	284.0
Other Taxes payment **	(31.2)	(27)	27.9	-

*Source: PF Administration Unit, BCTL, ANPM and National Directorate for Petroleum and Mineral Revenues * Petroleum taxes includes petroleum income taxes and additional profit tax. ** Other taxes payment includes Withholding Tax, BU Value Added Tax, Wages Tax, other taxes minus tax refund.*

The Budget 2019 projections for total petroleum from the sale of oil and gas are $343.7m. As of July 2019, receipts from the sale of oil and gas amounted $477.9m has been paid into the PF account. The benchmark oil price (Brent) was higher than estimated, averaging about $66 per barrel between January to July. Thus, it is expected that the revenues for 2019 will be higher than estimated. The new estimated revenue will take place in August 2019.

The Budget Book 2019 shows projections for Petroleum Revenues for 2020 and beyond. The EIA has published a revised oil price forecasts which is slightly higher for period 2019-2020 before it converge in 2021 onward compared to the projections used in the Budget (Figure 2.4.2.2). Oil price projections are uncertain, especially over the longer horizons shown here.

Figure 21: Projections in the Brent Oil Price ($ per barrel)



Source: Ministry of Finance, Petroleum Fund Administration Unit, 2017.

Investment returns in 2018 were negative at $459.9m, which represents a return of negative 2.6 per cent. The equity allocation (40% of the Fund) returned -8.3%, while Bonds (60%) returned

0.8%. The negative performance in 2018 was mostly driven by uncertainty about the outlook for economic growth, including the pace of monetary policy tightening in the US, a trade dispute between the US and China and uncertainty regarding the UK's exit from the EU. As of June 2019, the Fund's return is 9.02%, which translates to $1,429.3m, with equity posting 17.5 per cent and the fixed income allocation posted 3.9 per cent. This again highlights the importance of the equity allocation for growing the Fund. The final return for 2019 will depend on market movements over the coming months; a downturn in markets will erode the return. Returns vary significantly over short horizons and for long-term investors such as the Petroleum Fund, it is better to think of returns over long horizons.

4.6 Petroleum Wealth and ESI calculation

According to the Petroleum Fund Law, the Estimated Sustainable Income (ESI) is the maximum amount that can be appropriated from the Petroleum Fund in a fiscal year and leave sufficient resources in the Petroleum Fund for an amount of the equal real value to be appropriated in all later years. The ESI is set to be 3 percent of the Petroleum Wealth. However, the Government can withdraw an amount from the Petroleum Fund in excess of the ESI given an explanation that it is in the long term interest of Timor-Leste and that is approved by the National Parliament.

The ESI is only updated once a year as part of the main budget process. Consequently, the ESI of $529.0m in the 2019 Budget is maintained. Table 14 shows that the estimated Petroleum Wealth and the ESI from 2018 and 2019.

Table 14: Petroleum Wealth and the Estimated Sustainable Income (ESI)

	2018 Budget	**2019 Budget**
Estimated Sustainable Income (PWx3%)	**544.8**	**529.0**
Total Petroleum Wealth (PW)	**18,159.6**	17,633.6
Opening PF Balance	16,605.2	16,489.6
Net Present Value of Future Revenues	1,554.4	1,144.0

Source: Ministry of Finance, Petroleum Fund Administration Unit, 2019.

The revised Petroleum Fund balances are shown in Table 15 and take into account the actual result in 2018 and 2019 discussed above.

Table 15: Petroleum Fund Savings 2018-2019($m)

	2018 Proj.	**2018 Actual**	**2019 Budget**	**Q2 2019 Actual**
Opening PF Balance	**16,799.3**	**16,799.3**	**16,489.6**	**15,844.3**
Petroleum Revenue (excluding PF Interest)	389.4	446.7*	343.7	477.9
PF Interest, Net	283.4	(459.9)	626.5	1,429.3
Total Withdrawals	(982.5)	(982.5)	(1,196.4)	(220)
Closing PF Balance	**16,489.6**	**15,803.625**	**16,263.4**	**17,490.8**
Net inflows	(309.67)	(995.67)	(226.28)	1,687.2

Source: Petroleum Fund Administration Unit, Ministry of Finance, 2019. * Petroleum revenues after deducting tax refund to Kitan operators $63.3m in 2018*

The proposed withdrawal for the FY 2019 remains as in Budget 2019: $1,196.4m. This is more than two times the 3 per cent ESI. Up until July, $220m has been transferred to the State Budget and the Balance of the Petroleum Fund is $17.5bn.

5 Expenditure Analysis

5.1 Historical Trends

5.1.1 Total level of expenditure

Timor-Leste executes its budget primarily through the Consolidated Fund of Timor-Leste (CFTL). In 2018, 90.7% of the CFTL allocation was executed. The highest government expenditure was in 2016 at $1.64 billion. While 2017 was a duo-decimal year, the government's execution of CFTL (85%) was comparable to previous years. Hence, overall execution did not decrease but the issues that line ministries and Self-Funded Agency (LM/SFAs) faced were due to the piece-meal execution of the budget which delayed procurement, contracting etc.

Table 16: Government execution of the final budget (2014-2018)

Appropriation Category	2014 Execution	2015 Execution	2016 Execution	2017 Execution	2018 Execution
Capital & Development	81.37%	69.07%	69.79%	71.15%	85.44%
Goods & Services	96.31%	86.96%	89.73%	85.99%	90.27%
Minor Capital	88.40%	82.51%	84.26%	66.26%	42.68%
Salary & Wages	91.75%	94.54%	94.45%	91.75%	95.96%
Transfers	94.11%	96.01%	98.56%	95.67%	95.60%

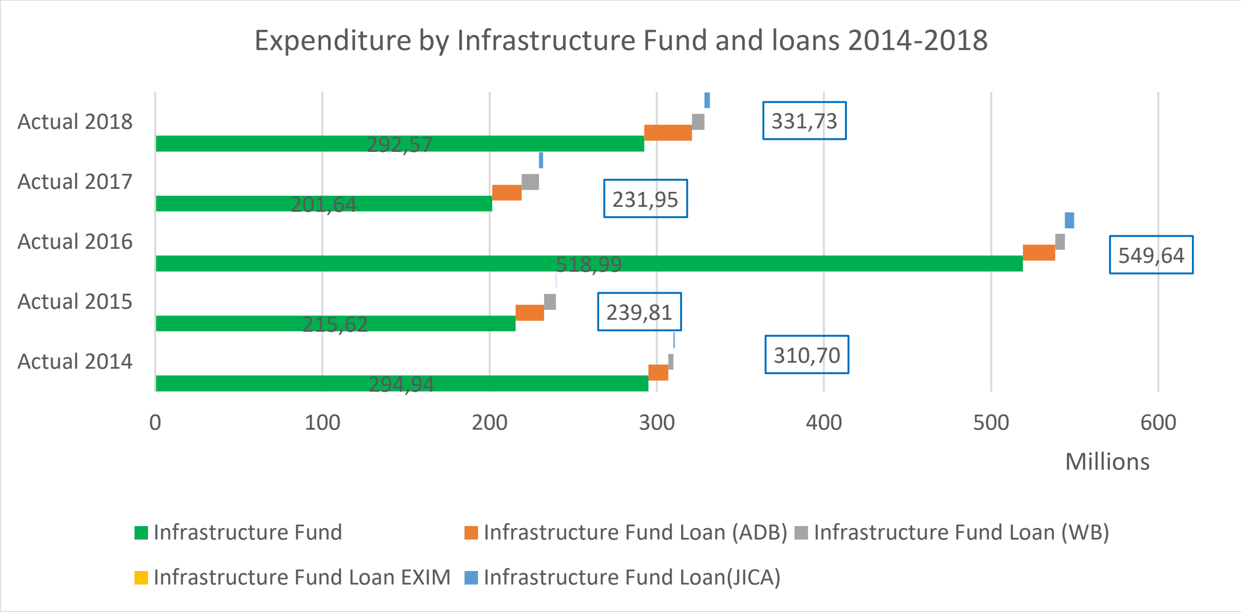
Source: Ministry of Finance, National Directorate of Budget, May 2019

5.1.2 Expenditure by Funds

The Infrastructure Fund (IF) and the Human Capital Development Fund (HCDF) are two independent funds which deal with big infrastructure projects, and skill building respectively. IF received under $340m on average between 2014-2019. It executed between 70-75% of its budget in 2015-2018. In 2018, its execution was 86%, driven down by its JICA loan execution at 34%.

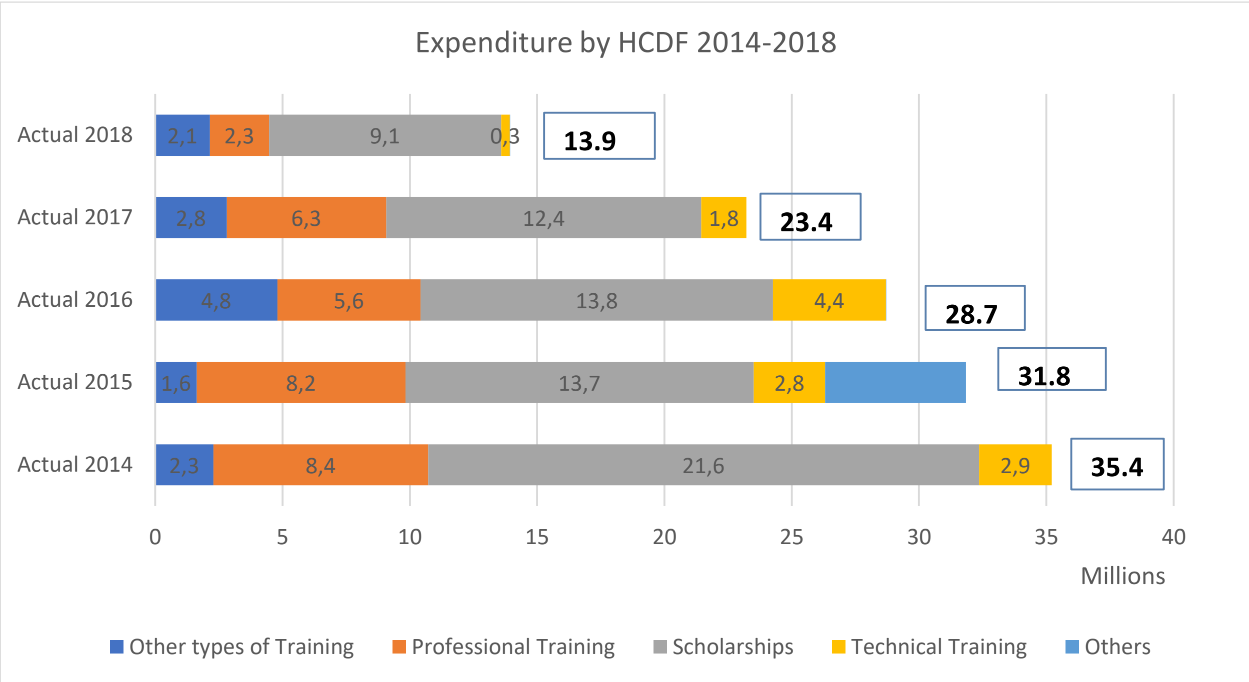
HCDF received an increasing budget allocation each year in 2014-2018, with a big increase in State Budget 2019 at $20m. HCDF executed 88-84% of its allocation from 2014-2018, with a slightly lower execution of 77% in 2015. All of its budget is allocated to trainings and workshops.

Figure 22: Expenditure by Infrastructure Fund, 2014-2018



Source: Ministry of Finance, National Directorate of Budget, May 2019

Figure 23: Expenditure by HCDF, 2014-2018



Source: Ministry of Finance, National Directorate of Budget, May 2019

5.1.3 Expenditure by economic classification

Capital

Capital development (CD) has been a stated policy objective in Timor-Leste. Trends from 2014-2018 show that it receives the highest allocation in Timor-Leste. On average, it receives 30% of the total budget allocation of the government. There was a budget increase in 2016 was due to a rectification budget which allocated an additional $390k to the Infrastructure Fund for important infrastructure projects. In State Budget 2019, it received $400.7m.

The total expenditure on CD follows the trend of IF which is the main implementer of all big infrastructure projects. Its execution follows the same trends. It was under 70% (2015-17) and 86% in 2018. From 2014, minor capital has received an overall decreasing budget allocation (1-4%) and hence decreasing actual spend.

Figure 24: Capital expenditure, 2014-2018

Source: Ministry of Finance, National Directorate of Budget, May 2019

Recurrent

Recurrent budget (salary and wages, goods and services, and transfers) final allocation has remained between 65-73% from 2014-2018 (with 2016 as an exception with only 56% allocation). In 2019, recurrent budget was 71% of the total allocation.

Goods and services receive 22-32% of the total allocation and it shows a declining trend year on year as the government tries to identify and mitigate superfluous spending.

9-16% of the total fiscal envelope is allocated to Salary and Wages (SW) on average. There was an increase in the 2017 SW expenditure due to retroactive payments for teachers from 2011-16 and recruitment of health professionals. The 2016 spike in Transfers expenditure was driven by allocation to ZEESM project development.

Figure 25: Recurrent expenditure, 2014-2018

Source: Ministry of Finance, National Directorate of Budget, May 2019

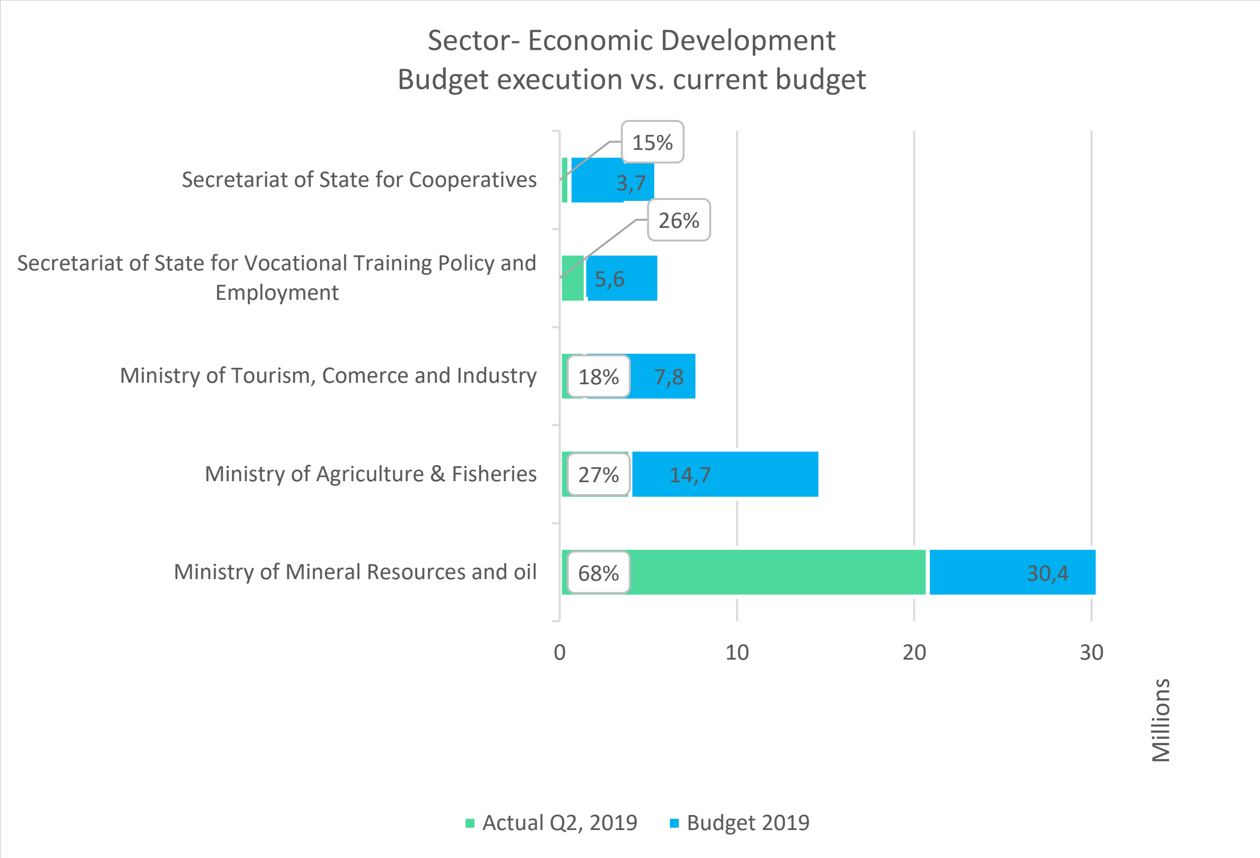
5.2 Functional classification analysis

The State Budget for 2019 is $1.482 billion including loans. The materiality directive[4] of Timor-Leste states that the government must spend 50% of the budget by the second quarter (Q2). The total government execution in Q2 (by current budget which includes transfers, virements and contingency transfer) is 33%. The Infrastructure Fund (IF) and Human Capital Development Fund (FDCH) execution for Q2 stands at 22% and 23% respectively. Municipalities stood in the 33-40% range, with Ermera with the highest execution at 42%.

This section describes budget execution using the Strategic Development Plan (SDP) classification of Timor-Leste. Five ministries in each sector, with the highest budget allocation in State Budget 2019, are displayed in the following graphs. Historical trends are also explained.

4 Ref no: 44/DGT/III/2016 Ministerial Directive on Materiality in Budget execution analysis and conduct of financial reviews.

Figure 26: Q2, 2019 execution for SDP Sector-Economic Development

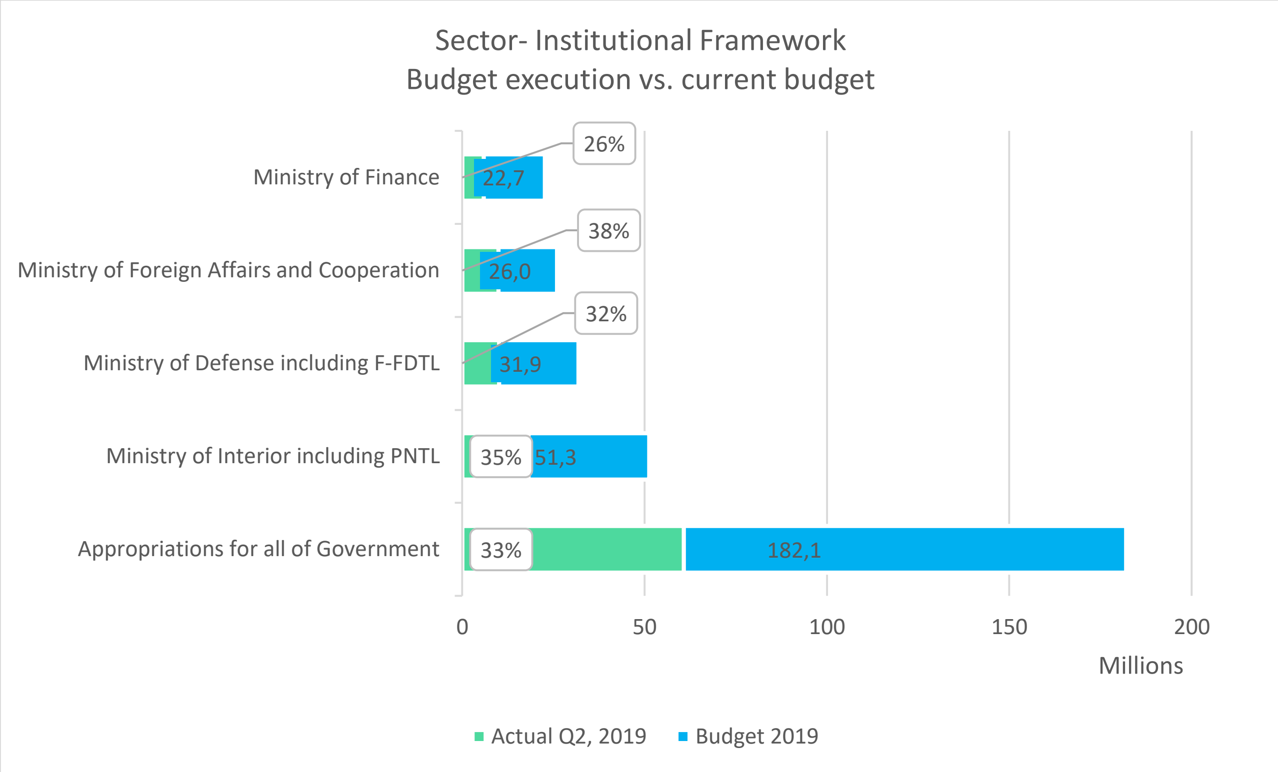


Source: Ministry of Finance, National Directorate of Budget, June 2019.

This sector saw decreasing budget allocation from 2014-2018 but received a boost in the 2019 budget again. Ministry of Agriculture and Fisheries showed an improvement in overall execution in 2018, in comparison with its 2016 and 2017 execution which stood at 84%. SEPFOPE executed 99% of its Goods and Services budget in 2018 and has steadily decreased its use of virements from 2016. Ministry of Oil and Mineral Resources (106%) over-executed in 2018 because of a contingency transfer of $1m.

In Q2, 2019 Ministry of Oil and Mineral Resources had the highest budget in the Economic Development SDP sector and its execution is 68% which was driven by a 71% execution of its Transfers budget (transferred to ANPM, Timor Gap, IPG).The rest of its AppCat budget execution is under 25%. The low execution of all other ministries in the graph is driven by low Goods and Services (GS) execution- all under 35%.

Figure 27: Q2, 2019 execution for SDP Sector-Institutional Framework



Sources: Ministry of Finance, National Directorate of Budget, June 2019.

The Institutional Framework sector received an increasing budget allocation till 2016, after which there was a decreasing trend till 2019. In 2019, the budget allocation for this sector again increased. Appropriations for Whole of Government which also falls under the Institutional Framework sector had a final budget of $183.7m in 2018 executing 91.2% of the same. Ministry of Finance over-executed its budget in 2014, 2015 and 2019 (120%, 107% and 103%).

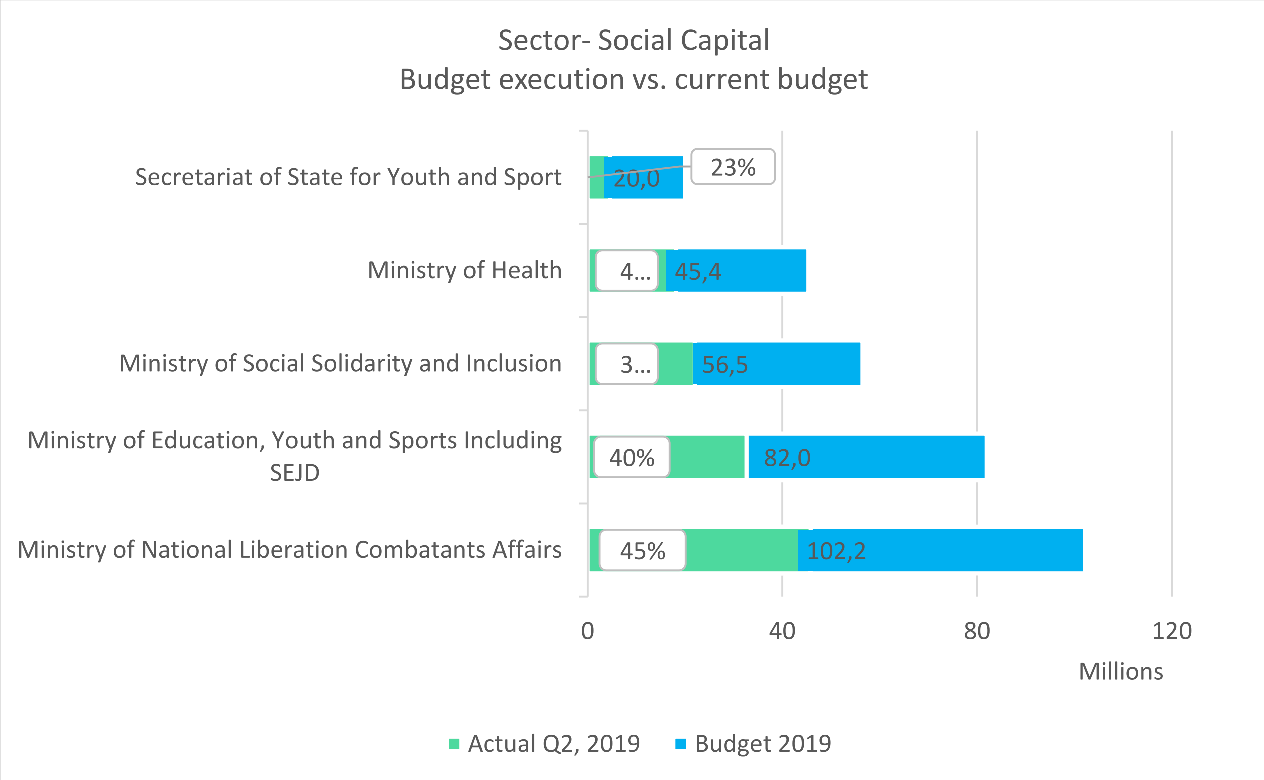
In Q2 2019, the ministries with the highest Institutional Framework allocation had execution less than 40%. Appropriations for Whole of Government had the highest Institutional Framework allocation in State Budget 2019. However, its execution is based on requests from other implementing agencies as most of its budget is Public Transfers (PT). Ministry of Interior-including PNTL, Ministry of Finance (MoF), Ministry of Defence – including F-FDTL executed under 15% MC budget in Q2. MoF only had a 24% GS execution in Q2 which offset its 42% SW execution bringing its total execution to 26%.

Municipalities

Municipalities were granted autonomous status in 2017. In the first year all of them executed between 65-75% on average. However this can be attributed to start-up issues and the duo-decimal regime in 2017. In 2018, Manufahi performed best executing 90% of its budget, this trend continued in Q1 of 2019 (20%).

In Q2 of 2019, Municipalities stood in the 33-40% range, with Ermera with the highest execution at 42%. Municipalities do not have a Capital & Development budget allocated to them. Lautem, Manufahi, Covalima, Liquica and Aileu executed 100% of their Minor Capital (MC) budget by Q2.

Figure 28: Q2, 2019 execution for SDP Sector-Social Capital

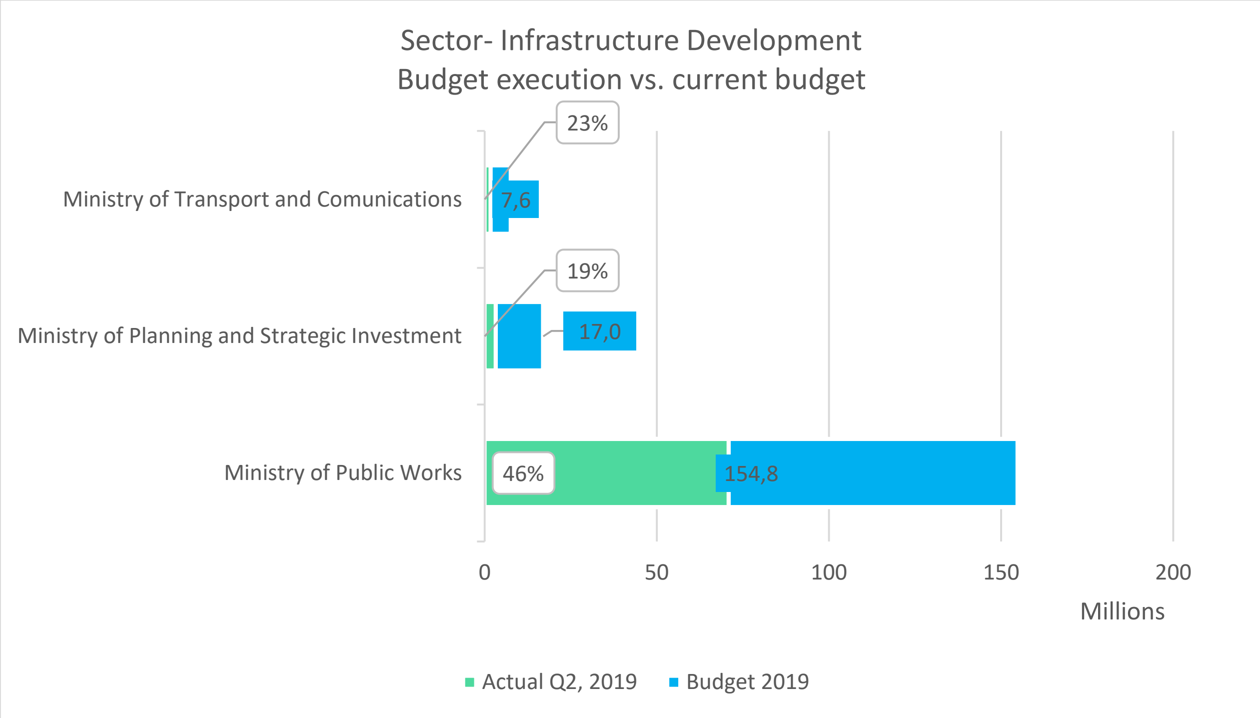


Source: Ministry of Finance, National Directorate of Budget, June 2019.

Social Capital sector received over a 10% increase in budget allocation in 2019 compared to 2018 final budget. Important social sector ministries for education, health and social solidarity have consistently high execution across years. There has been a steady improvement in the same: (i) Ministry of Health's 2018 execution was 95.5%. This was higher than its 91-92% execution since 2014. (ii) MSSI had the highest execution across all LMs, much better than 2017 where it only managed to execute 77% of its Goods and Services budget. MACLAN's high execution is driven by pension transfers. Ministries like Ministry Of Health and Ministry of Education also make high virements each year using the contingency fund options

In Q2, 2019 all the highest allocation Social Capital ministries had a GS execution of under 20%. The Ministry of National Liberation Combatant Affairs (MACLAN) with the highest budget allocation in Social Capital, spent 45% of it in Q2. Its highest execution is in Transfers (47%), driven by veteran pensions. Ministry of Education spent 40% in total. Ministry of Health has executed 63% of its PT in Q2 (invoices for overseas treatment). Secretary of Youth and Sport has an execution lower than 25% In Q2, driven by its low PT execution of 25%.

Figure 29: Q2, 2019 execution for SDP Sector-Infrastructure Development



Source: Ministry of Finance, National Directorate of Budget, June 2019.

Infrastructure Development sector received a decrease in budget allocation in 2017 but has increased 2018 onwards. The Ministry of Public Works (MoPW), along with the IF, consistently gets the highest allocations in Infrastructure development. MoPW's execution performance as a whole has improved over time however, large differences exist across Directorates, some of which have been showing consistently deteriorating trends. In 2018, a large virement was made to settle outstanding debt to electricity contractors, financed by the Contingency Fund.

In Q2 2019, Ministry of Public Works had the highest budget allocated in the Infrastructure Development (excluding Infrastructure Fund) sector in State Budget 2019. It executed 46% of its budget, just under the 50% target driven by a 52% execution rate of its GS budget. Ministry of Planning and Strategic Investment's (MPIE) and Transport and Communications (MTC) execution rate stood at 19% and 23% respectively. CD execution was low in Q2 as well- MoPW(3%) and MPIE (11%).

6 Loans and Public Private Partnerships

6.1 Loans

The Government currently still depends on foreign loan to meet its borrowing needs for concessional loans. As established in the Strategic Development Plan 2011-2030 and regulated by public debt regime law No.13/2011, the primary objective of taking concessional loans should be related to the construction of strategic infrastructure for the development of the country.

6.1.1 Terms of Loans

At present, external loans are mainly provided by international multilateral banks such as Asian Development Bank and World Bank including one bilateral loan from JICA. By creditor category, ADB is currently the major lender to TL and its loans accounts for nearly 70% of the total loan amount followed by WB and JICA. Below are the terms of the loans:

Table 17: Terms of Loans

Creditor	Currency	Original Amount (million USD)	Grace Period (year)	Initial Amortization (year)	Year Complete	Interest rate FY 2018
ADB	USD, SDR	270.28	5.4	20	2044	2.08%
WB	USD, SDR	75.20	6	20	2042	2.50%
JICA	JPY	52.78	10	20	2042	0.70%
Total		**398.26**				

Source: Ministry of Finance, PPP&LU, June 2019.

These are loans that have a considerable degree of concessionality and compare favourably to the opportunity cost of withdrawing funds from the petroleum fund. A key advantage is that the financial cost of concessional borrowing (2.06%) is currently lower than the return on the Petroleum Fund (4.2%) ensuring that the future debt repayments remain well within the country's capacity to pay.

Table 18: **Cost of borrowing vs PF return**

Description	2012	2013	2014	2015	2016	2017	2018
Cost of borrowing (effective rate)				1.02%	1.42%	1.68%	2.06%
PF historical return	3.9%	6.6%	3.3%	-0.1%	4.1%	10.4%	TBC

Source: Ministry of Finance, PPP&LU, June 2019.

6.1.2 Portfolio Management

The management of public debt plays a critical role in determining the sustainability of fiscal policy. Due to change in methodology[5], TL's debt carrying capacity is now rated higher than

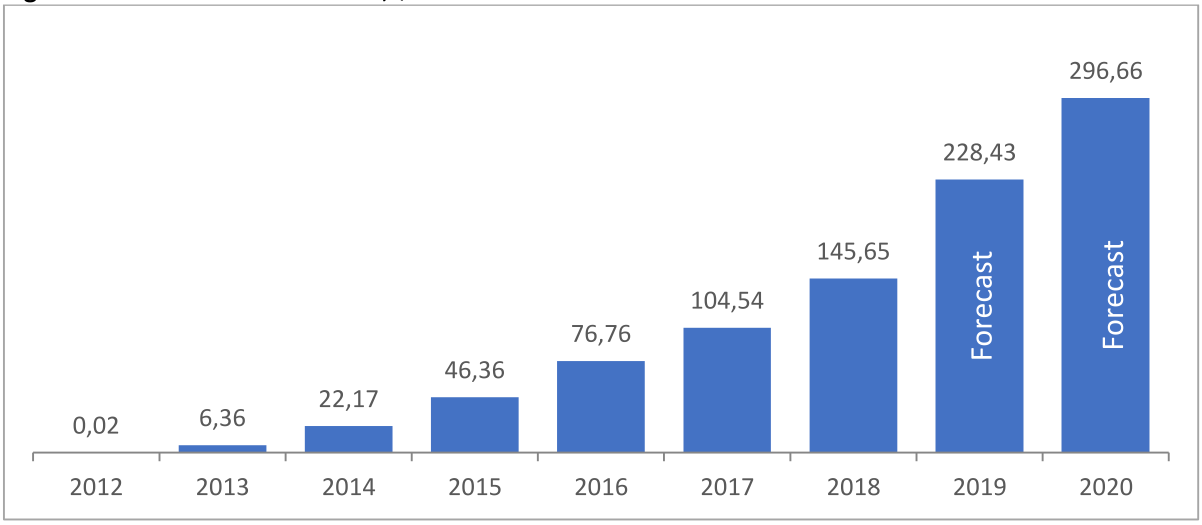
[5] In evaluating debt sustainability, Ministry of Finance is utilising a method jointly developed by the World Bank and International Monetary Fund, known as Low Income Country Debt Sustainability Analysis (LIC-DSA). As set under the new guidelines, a country's debt carrying capacity is classified into one of the three categories: weak, medium and strong based on its composite indicator score (CI).

previous by the IMF article IV assessment held in 2019 increased from weak to medium; thus, risk of external debt distress was also lowered from medium to low.

Changes in External Debt Stock

As end of the fiscal year, the stock of external debt increased to USD 145.65m from $104.38m at the end of 2017. The 40% increase is attributable to the total new disbursement of $41.82m from multilateral and bilateral institutions including ADB, WB and JICA for ongoing and new projects. Interest repayments for the period increased from $1.51m in 2017 to $2.58m as at end of 2018. This amount is relatively small compared to the amount currently the Government owes to these lenders.

Figure 30: Stock of External Debt, $ms



Source: Ministry of Finance, PPP&LU, June 2019.

Given the stages of project progress, it is expected that disbursement will continue to increase in 2019 despite a slight decline in 2020. The impact is a rather significant increase in interest payment in 2019.

Debt Indicators

TL's debt ratios increased over the years, marginally. Despite this, total public debt remained sustainable over the year reflecting the Government's prudent management of the debt.

Table 19: **External Debt Indicators for the period 2012-2018, % of GDP and Revenue**

	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Total Debt to GDP							
External Debt to GDP	0.00	0.11	0.55	1.47	3.02	4.20	5.58
Total Debt Service to Revenue							
External Debt Service to Revenue	0.02	0.04	0.07	0.12	0.28	0.69	1.27
External Debt Service to GDP	0.00	0.00	0.00	0.01	0.02	0.05	0.08
In millions of US Dollar, unless otherwise indicated							
Memorandum items							
External Debt	0.02	6.36	22.17	45.33	75.72	104.38	145.65

External Debt Service	0.03	0.06	0.11	0.21	0.55	1.31	2.19
GDP	6,661.70	5,637.60	4,041.61	3,092.63	2,503.59	2,487.42	2,611.79
Revenue	135.88	151.10	170.23	173.69	200.51	188.84	171.89

Source: Ministry of Finance, PPP&LU, June 2019.

External Debt to GDP - The size of external debt to GDP during the period was relatively small when compared to the debt burden threshold and benchmarks as established under the debt sustainability frameworks for low income countries[6]. While the ratio constantly increased marginally from 0.11 percent in 2013 to 5.58 percent in 2018, the values are far below 40%. This marginal increase was due to an increase in disbursement and external downward growth trend in GDP. While there was a slight recover during 2017-2018, the percentage increase in external debt was still higher than GDP growth, hence, higher external debt to GDP ratio.

Debt Service to Revenue – The debt service to revenue ratio started to increase more than two times in 2015. This increase was primarily due to an increase in debt service payments while revenue declined from 2017-2018. Repayment of principal started in September 2017 for ADB loan 2857. Despite the increase from 0.69 in 2017 to 1.27 percent in 2018, this percentage of debt service to revenue is still well-under the threshold 18 percent.

Debt Service Forecast – Annual debt service is calculated on each loan to cover the repayment of principal, interest and other miscellaneous charges on a debt for a particular period.

Table 20: **Debt Service Forecasts, $m**

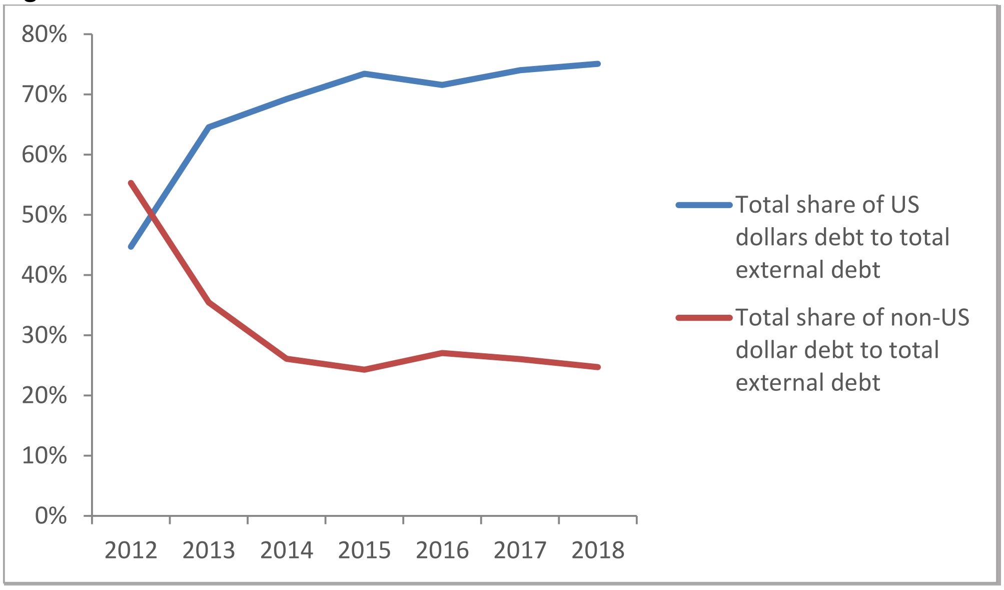
Year	2019	2020	2021	2022	2023
Debt Service	7.5	10.8	14.6	24.2	27

Risk Indicators

Foreign Exchange Risk – Complying with the loan policy note, the US dollar has remained the dominant currency in the Government's external debt portfolio. Given the country's highly dollarized economy, the large share of US dollar currency debt in the portfolio 75 percent in 2018 cushioned the Government from extreme exchange rate movements. The policy to retain a larger share of US dollars debt continues at least in the short to medium term.

[6] Further reference on this subject: "Guidance Note the Bank-Fund Debt Sustainability Framework for Low Income Countries" , February 2018.

Figure 31: US dollars debt vs non-US dollars debts

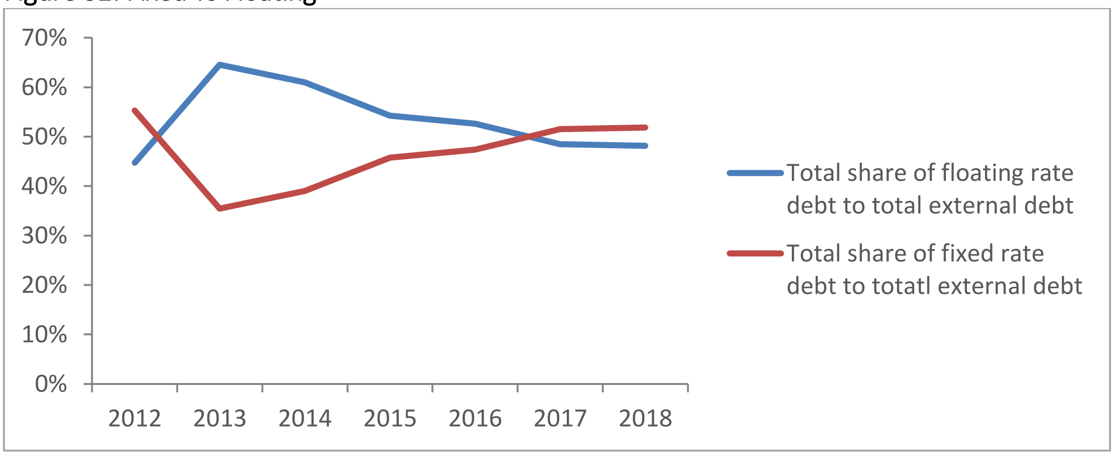


Source: Ministry of Finance, PPP&LU, June 2019

Interest rate risk – From 2013, the total share of fixed rate debt started to increase until it comprised the majority share of the debt portfolio, in 2017 and 2018 consecutively. The change occurred as a result of the ability of the Government in managing interest rate risk independently by converting the priority for disbursement from variable rate to fixed rate taken into account market interest rate fluctuation.

The cost of borrowing is expected to continue to rise as TL is now classified as a blend country[7] and is slowly being phased out from concessional financing by its external creditors. To limit the exposure to interest rate shocks, there needs to expand the use of more concessional financing from bilateral loan providers.

Figure 32: Fixed vs Floating



Source: Ministry of Finance, PPP&LU, June 2019

[7] Being a blend country, TL has a limited access to concessional lending with a fixed interest rate.

6.1.3 Current Project Status

There are currently 15 ongoing road projects funded by concessional loans of which 6 projects had already been completed. These include roads connecting Tibar-Liquica/Tibar-Gleno, Manatuto-Laclubar junction and Solerema-Ainaro corridor. Other projects that most likey to be concluded by 2019/2020 are roads from Laclubar junct.-Natarbora, Manatuto-Baucau, and Dili-Manatuto bringing the total numbers of projects completion to over 60% by end the year.

Total capital contribution made by this investment is $365mm which is by a ratio of total investment, concessional loans accounted for approximately 62%. Of this, $126m has been disbursed leaving a balance of $103m to be spent for next 1-2 years in accordance with project construction periods. On the other hand, state contribution to the overall budget of Civil Works contract was $136m with an estimated remaining $31m for further disbursement.

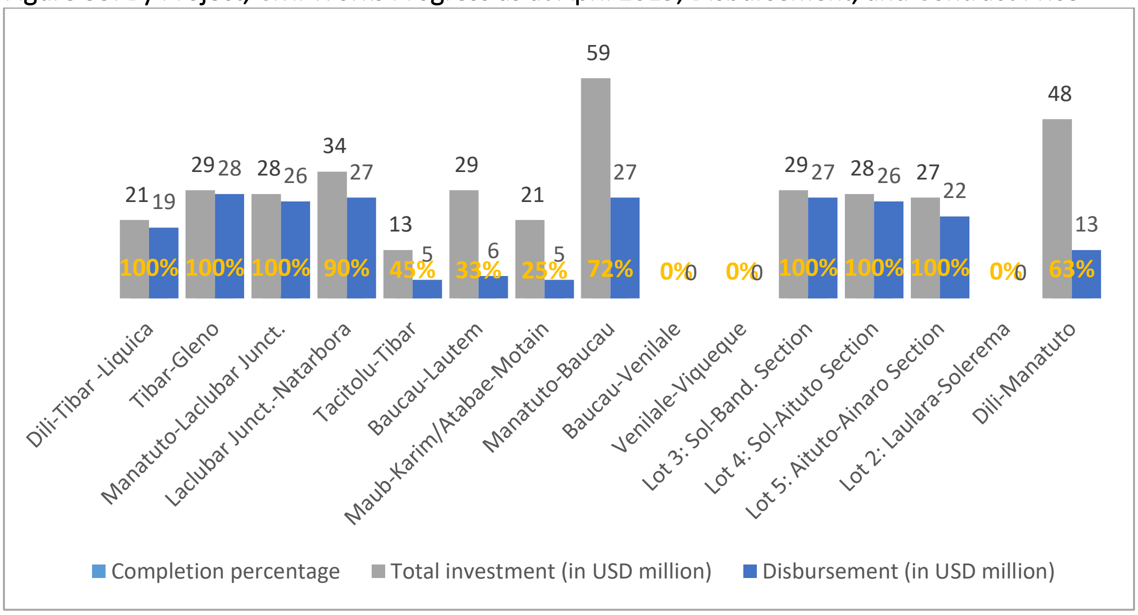
New projects included road section from Baucau-Venilale/Venilale-Viqueque and Laulara-Solerema. The key challenges in project implementation were mainly relating to the release of social safeguard documents by relevant line ministries including delay in environmental licensing and resettlements and payment delays. As for the latter, it explained the trends illustrated in the graph below for road section Dili-Manatuto and Manatuto-Baucau. While projects progress was relatively high disbursements were significantly low relative to the contract amounts.

Table 21: Total investment in Civil Works

Source of Fund	Total Investment in Civil Works (USD million)	Disbursement as at April 2019 (USD million)	Contract Balance (USD million)
Loan Fund	229	126	103
State Contribution	136	105	31
Total	**365**	**231**	**134**

Source: Ministry of Finance, PPP&LU, June 2019.

Figure 33: By Project, Civil Works Progress as at April 2019, Disbursement, and Contract Price



Source: Ministry of Finance, PPP&LU, June 2019

There is about $40m loan saving from ADB ongoing loan -funded projects. The cost reduction increases year by year as a result of the number of participating bidders also increases in public procurement; hence, bringing down the prices by approximately 40% . This includes surplus in civil works, consulting services and unallocated loan contingencies. By projects, Baucau-Lautem/Maub-Karim/Atab-Motain contributed over $25m in saving while other projects such as Manatuto-Natabora, Baucau-Viqueque, Manatuto- Baucau, and Tacitolu-Tibar accounted for the remaining balance.

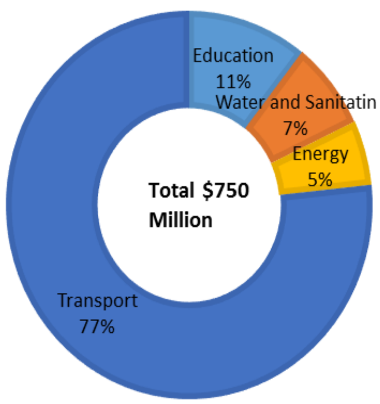
As a borrower, the Government can decide whether to fully utilise the saving or simply cancel the amount by complying with public debt law No.13/2011 and other relevant laws. For this purpose, the Government has already requested ADB to maximise the use of some of this saving to fund for the construction of three (3) bridges: Seical Bridge, Borouai causeway and Malailada causeway with a total estimated cost at $14m a long Baucau-Lautem road section and mitigate the pressure on the state budget.

6.1.4 Future Loans

Infrastructure development would remain to play a key role in the country's economic development success in the medium term. New strategic sectors such as water, education, telecommunication, and air transports should receive concessional financing. This would help unleash the growth potential of other key economic activities; hence, inclusive economic growth and poverty reduction.

In this respect, annual loan ceiling is required for parliamentary approval, in the context of the State Budget Law, prior to implementing all these programs. The amount is set according to project cost estimates and debt sustainably analysis. On the DSA, based on the MOF internal analysis, the country's external debt stock to GDP remained relatively low in 2018 which is 5.58%. IMF staff completed the country's 2019 article IV consultation by stressing the need for making effective use of concessional borrowing for continued investment in infrastructure. In light of all the above, the Government is therefore, proposing a ceiling of $750m for new concessional foreign loans to be negotiated in 2020.

Figure 34: Sectoral Allocation of Proposed Loan Ceiling for 2020



Source: Ministry of Finance, PPP&LU, June 2019.

6.2 Public Private Partnerships

6.2.1 Overview of Public Private Partnerships in Timor-Leste

In general terms, the Public Private Partnership (PPP) refers to arrangements in which the private sector build infrastructure assets and provides services that traditionally have been provided by the State.

DL 8/2014 stipulates the formation of PPPLU, a PPP facilitation agency under the Ministry of Finance to take on the task of managing and implementing the PPP Project Cycle in coordination with line ministries and Council for Administration of Infrastructure Fund (CAFI). An important role of the PPPLU is to promote and create environment for attracting foreign direct investment (FDI) through PPP modality, while at the same time looking for ways of encouraging local private sector involvement in PPP projects by pursuing policies that will allow for development of small to medium scale PPPs. One Sector that have high potential for this is the Tourism Sector.

Tourism is thought to be one of several strategic sectors with potential to further diversify Timor-Leste's economy. Due to its close linkages to other sectors, improvement to the tourism sector requires wide range of intervention, e.g. in transport infrastructure, water and sanitation, agriculture, health infrastructure and education and training.

6.2.2 Existing PPPs Projects

Currently, one PPP project is in **Implementation and Operation Stage** (Tibar Bay Port PPP), one in **Procurement and Negotiation Stage** (Medical Diagnostics) while another one in early **Feasibility Stage** (Affordable Housing).

Tibar Bay Port PPP Project

The PPP modality chosen for Tibar Bay Port was a 30-year concession, including the design, partial financing, construction, operation and maintenance of the port infrastructure. Concession Agreement was signed in June 2016 while financial closing was reached in August 2018. The project is currently in construction phase with construction yard and offices have been installed, general design already approved, detailed design on-going, dredging and reclamation on-going while preparation of next work items including equipment tendering is on-going. Currently, it is estimated that commencement of operation will happen in August 2021.

Medical Diagnostics PPP

Medical diagnostics PPP is currently in preparation of tender documents and other necessary structures (e.g. accessible data room) which are the early steps in the **Procurement and Negotiation Stage**. Previously, the Feasibility Study and Transaction Structuring Report (TSR) have been approved by CAFI on 11 July 2019 after clearance from the Ministry of Health in June 2019. The TSR recommended that the project upgrade imaging and laboratory diagnostic services in the National Hospital, all referral hospitals and 8 Community Health Centers (CHCs) to achieve a demand coverage of 98.2% of the total population. Concession period is recommended at 11 years to consist of 1 year of upgrading and construction of selected facilities and 10 years operation period. Potential bid parameter and bid evaluation criteria have also been recommended.

Dili Water Supply PPP

Dili Water Supply PPP project is currently in the finalization of FS phase II where options for PPP modalities selected during the phase I (lease, reduced-risk lease and management contract) will be examined in greater detail from the technical, financial, economic and legal perspectives. The main objective of the on-going study is to provide information and analysis that will enable the government to decide whether and how to involve the private sector in the water supply services for the capital city. However, recent change in government policy regarding reform of the sector will likely make this project difficult to turn into a PPP project. Hence, no further budgetary allocation has been made for this program.

Affordable Housing

The affordable housing project is in the process of finalizing its pre-feasibility study awaiting site identification and formal designation from National Directorate of Land, Property and Cadastral Service (DNTPSC – Portuguese Acronym). Upon adjustments to several conceptual parameters based on available sites, results will be re-submitted to the Minister of Public Works for clearance. Subsequent step is to secure CAFI approval before the project can proceed to Feasibility Study phase where deeper analysis of the technical, legal, commercial as well as social and environmental terms are conducted.

6.2.3 Budget Estimate

Tibar Bay Port PPP project involved the provision of Viability Gap Funding (VGF) of $129.5m in 2016 (recorded as 2016 expenditure) for earthwork, construction and equipment purchase. Private sector contribution to this project is around $155.0m meaning that the Government's VGF contribution stood at about 45% of total project cost.

To hold the VGF until disbursement, the Government was contractually required to deposit the full amount in an Escrow Account. For this purpose, a three party Escrow Agreement was reached between the Government, Timor Port SA and the United Overseas Bank (UoB) of Singapore in November 2016. First disbursement from the Escrow Account is planned in the third quarter of 2019.

The Escrow Account is earning interests. As of 13 August, 2019, interest earned amounted to **$5.35m**, deposited in the Escrow Interest Account. The Escrow Agreement stipulated that the interest earned can only be transferred to the Government after the closing of the account and/or termination of the Escrow Agreement.

Actual expenditure for 2017 and 2018 for PPP projects consisted of budget for the PPPLU and Tibar Bay Port Project Management Unit (TBP PMU), payment of Financial Advisory Service Agreement for TBP PPP, medical diagnostics and Dili water supply PPPs, as well as payment for Independent Engineer service. The 2019 budget contains similar provisions with addition of studies for the development of roundabout for Port access and EDTL substation for electricity connection to TBP.

Estimated budget for 2020 will contain a rapid increase due to the capital expenditure from the construction of roundabout, EDTL substation and Medical Diagnostic service payment. In addition, due to the promulgation of Ministry of Finance organic law, the PPP and Loan programs are now structurally separate divisions. Therefore, 2020 budget for the PPP and Loan has been separated. TBP PMU and Medical Diagnostics PMU (Health PMU) are under the PPP. For the

PPP, in the near future, more increase in the budget is projected for 2021 and 2022 if affordable housing PPP materialize. New initiatives in tourism sectors are likely to require allocation of budgets from 2020 onward.

Table 22: Actual, 2019 Budget and Estimated Budget for 2020 – 2023, $ Millions

	2017 Actual	2018 Actual	2019 Budget	2020 Estimate	2021 Estimate	2022 Estimate	2023 Estimate
Combined Sources Budget	**1.3**	**1.28**	**4.14**	**22.85**	**50.33**	**55.06**	**29.85**
MoF Budget							
PPPLU	0.51	0.46	**0.78**	0.86	0.96	1	1.1
PMU	0.45	0.36	**0.79**	0.67	0.5	0.45	0.35
SUB TOTAL	**0.96**	**0.82**	**1.58**	**1.53**	**1.46**	**1.45**	**1.45**
Infrastructure Fund							
TBP PPP							
*PT FASA**	0.15	0.15					
IE payment*		0.31	**0.32**	0.32	0.32	0.06	
Roundabout			**1**	2			
EDTL substation			**1**	15			
SUB TOTAL	**0.15**	**0.46**	**2.32**	**17.32**	**0.32**	**0.06**	**0**
Medical Diag. PPP							
*FS FASA**	0.1		**0.2**				
Audit & prep. of supporting facility				1			
PT FASA				0.3			
Service Payment					17.9	17.9	17.9
IM payment*					0.5	0.5	0.5
SUB TOTAL	**0.1**	**0**	**0.2**	**1.3**	**18.4**	**18.4**	**18.4**
Water Supply PPP							
FS	0.09		**0.05**				
Affordable Housing PPP							
FS & TSR FASA				1.2			
Resettlement – Site Clearance				1			
Construction (VGF)					25	25	
Resettlement – slum clearance						5	
PT FASA					0.15	0.15	
SUB TOTAL	**0**	**0**	**0**	**2.2**	**25.15**	**30.15**	**0**
Tourism PPP							
FS & TSR*				0.5			
Construction					5	5	10
SUB TOTAL	**0**	**0**	**0**	**0.5**	**5**	**5**	**10**

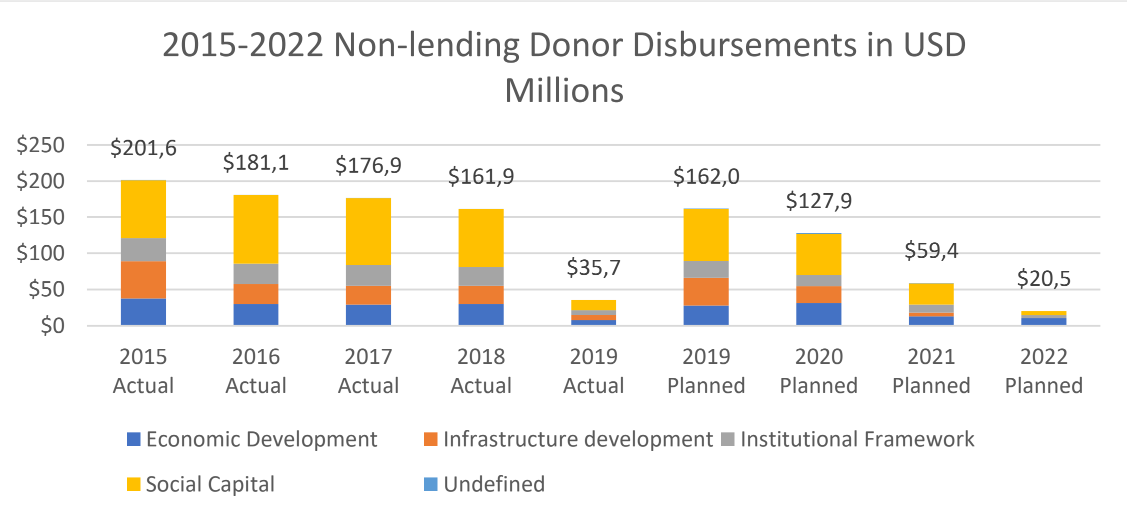
*Source: Ministry of Finance, PPP&LU, August 2019. *PT FASA = Post Transaction Financial Advisory and Service Agreement; IE = Independent Engineer; FS FASA = Feasibility Study FASA; IM=Independent Monitoring; TSR = Transaction Structuring Report.*

7 Development Partners

7.1 Grant Forecasts

The graph below shows steadily declining rates of donor support from 2015 until 2018, averaging a 7% decrease by year. This decline is scheduled to subside in 2019. On average, Social Capital represents the highest concentration area of donor support, averaging 44.7% of all donor disbursements. In addition, forward year estimates show a sharp decline in development partner non-lending assistance, however, two important points should be noted: (*i*) historically, development partner multi-year indicative future spending tends to be underreported; (*ii*) the Aid Transparency Portal collects information at the project level, meaning that if funds have not yet been committed to a project they will not be included in the analysis. For example, many of Australia's programs conclude in 2021; this however does not mean that Australia will no longer support Timor-Leste in 2021.

Figure 35: 2015-2022 Non-lending Donor Disbursements, $ Millions



Source: Aid Transparency Portal, report generated on June 21, 2019.

Table 23: Planned Disbursements by Donors group for 2019-2020, $ Millions

Donor Group	2019	2020	2 year Total
Government of Australia	56. 5	47.5	*103.9*
European Union	25.0	22.4	47.4
Government of Japan	24.2	5.1	29.3
United Nations	11.8	11.2	23.0
Portugal	9.7	9.2	18.8
United States of America	4.1	13.8	17.9
World Bank	5.1	4.8	9.9
Germany	5.7	3.8	9.4
The Global Fund to Fight AIDS, Malaria, and Tuberculosis	5.0	3.6	8.7
People's Republic of China	3.6	4.6	8.2
Asian Development Bank	3.8	1.6	5.3
New Zealand	3.1	0.5	3.5
Vertical Funds	3.4	-	3.4

Korea	1.1	-	1.1
Others	0.03	-	0.03
TOTAL	**162.0**	**127.9**	**289.9**

Source: Ministry of Finance, DPMU, June 2019.

Table 24: Planned Disbursements by SDP Sub-pillar and Pillar for 2019-2020, $ Millions

SDP	SDP Sub-pillar	2019 Planned	2020 Planned	2 year total
Social Capital	Education and Training	30.4	21.0	$51.4
	Health	23.9	21.8	$45.7
	Social Inclusion	12.6	13.2	$25.8
	Environment	4.2	0.4	$4.6
	Undefined	0.8	0.5	1.3
	Culture and Heritage	0.2	0.2	0.4
Subtotal		**72.1**	**57.0**	**129.1**
Infrastructure Development	Roads and Bridges	26.0	19.0	45
	Sea Ports	8.1	1.2	9.3
	Water and Sanitation	3.7	2.9	6.6
	Airports	0.6	-	0.6
Subtotal		**38.4**	**23.1**	**61.5**
Economic Development	Agriculture	18.6	13.4	32
	Tourism	0.1	11.8	11.9
	Rural Development	4.6	2.5	7.1
	Undefined	3.1	2.2	5.3
	Private Sector Investment	1.6	1.5	3.1
Subtotal		**27.9**	**31.4**	**59.3**
Institutional Framework	Public Sector Management and Good Governance	16.4	11.1	27.5
	Security	4.3	4.3	8.6
	Justice	1.9	0.1	2.0
	Defence	0.4	-	0.4
	Foreign Affairs	0.1	0.1	0.2
Subtotal		**23.1**	**15.5**	**38.6**
SDP Undefined		0.6	0.9	1.5
TOTAL		**162.0**	**127.9**	**289.9**

Source: Ministry of Finance, DPMU, June 2019.

Table 25: Top 10 Projects 2019-2020, $ Millions

Project Title	Development Partner	SDP Sub-pillars	2019 & 2020 Total
Australia—Timor-Leste Partnership for Human Development	Australia	• Social Inclusion • Health • Education and Training • Water and Sanitation	$36.4
District Roads Rehabilitation and maintenance project in Timor-Leste	ADB with EU funds	Roads and Bridges	20.6
Governance for Development	Australia	Public Sector Management and Good Governance	13.4
Escolas de Referência de Timor-Leste Centros de Formação	Portugal	Education	12.9
Tourism for All	USAID	Tourism	11.8

NGO Cooperation Program	Australia	• Agriculture • Water and Sanitation • Justice • Public Sector Management and Good Governance • Education and Training • Health • Social Inclusion	10.5
Roads for Development Phase II	Australia with ILO	Roads and Bridges	9.9
Ai ba Futuru – Partnership for Agroforestry Project	EU and Germany with GIZ	Agriculture	9.6
Enhancing Rural Access Agro-Forestry (ERA Agro-Forestry): Improving access to agro-forestry areas	EU with ILO	Roads and Bridges	9.1
Timor-Leste: Sustainable Agriculture Productivity Improvement Project (SAPIP)	World Bank	Agriculture	9.0

Source: Ministry of Finance, DPMU, June 2019.

7.2 Policy Developments

On the 4th of July 2019, the DPMU led the organization of the annual Timor-Leste Development Partners Meeting. The event focused on the importance of Deepening Coordination for Financing Development. One of the main topics of discussion was the Foreign Aid Policy - Policies and Procedures Governing Non-lending Assistance that was approved by the Council of Ministers on 26th of June. The policy calls on donors for greater alignment to government programs and priorities. In addition, it clearly states Government preferences in terms of how assistance should be provided.

One of the objectives of the policy is to encourage development partners to work directly with Government and to align their activities with greater specificity, i.e. at the annual action plan level, the Government sub-program level, and the SDP sub-pillar level. The DPMU hopes that this will gradually result in improved coordination, an increase in knowledge transfer, and improved accounting for development partner funded activities in the budgeting and planning processes over the next coming years.