

**THE DEMOCRATIC REPUBLIC OF TIMOR-  
LESTE  
COMBINED SOURCES BUDGET  
2004-05**



Draft Budget/Background Paper

*For Discussion at the Timor-Leste Development Partners' Meeting  
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# **PART 1- USER GUIDE**

## **INTRODUCTION**

The purpose of the Combined Sources Budget 2004-05 is primarily to inform the National Parliament and interested parties of the reasons for inclusion of proposed provisions in the 2004 05 Appropriations and to provide an outline of the medium-term fiscal strategy.

The major role of the Budget is to explain requests for funds from the Consolidated Fund for East Timor (CFET) Budget Appropriation Bills. The Budget Paper provides sufficient information, explanation and justification to enable the National Parliament and interested parties to understand the purpose of each appropriation item.

This draft Budget and Background Paper No.1 has been circulated to the Dili Timor-Leste development partners Meeting (TLDPM), 17-19 May 2004, for discussion. Following the TLDPM the 2004-05 Annual Budget Law, Budget Paper No.1 and Budget Paper No.2 will be formally submitted to the National Parliament for consideration.

Budget Paper No.2 provides the budget detail for each programme by the main Treasury account line-items. This is primarily an internal working document and available on request as well as on the Government Website (<http://www.mopf.gov.tp>).

Readers are also referred to: the National Development Plan (NDP) for detail on the Government's medium to long term sectoral visions, goals, strategies and policies; The Road Map (for the Implementation of NDP Programmes); and to the Annual Action Plans (AAPs) and Quarterly Reporting Matrixes (QRMs) for each programme.

## **STYLES AND CONVENTIONS USED**

The following notations may be used:

- - (nil)
- \$m (\$ million)
- \$'000s (\$ thousand)

All currency figures are in US dollars. Current prices are used for 2003-04 and 2004-05 and constant 2004-05 prices are used for all other years. Budget year refers to 1 July 2004 to 30 June 2005. Figures in tables and in the text may be rounded. Discrepancies in tables between totals and sums of components are due to rounding.

## **FUNDING SOURCES**

An explanation of the main sources of funding for Timor-Leste is provided below. Appendix 4 provides an overview of the combined sources funding structure. A full list of acronyms is provided at Appendix 5.

### **Consolidated Fund for East Timor**

The Consolidated Fund for East Timor (CFET) is the central account of Government, structured to reflect revenue, operating and capital income budget.

Revenues are derived from Government taxes, Timor Sea revenues and direct budget support from donor countries.

Direct budget support is provided through a financing mechanism called the Transition Support Programme (TSP), coordinated by the World Bank. As set out in Table 5.1 of the main document, the

following donors have indicated they will provide direct funding support to the 2004-05 CFET via TSP, they are; the Australia, Canada, Finland, Ireland, New Zealand, Norway, Portugal, Sweden, the United Kingdom, the United States and the World Bank.

### **Trust Fund for East Timor**

The Trust Fund for East Timor (TFET) provides grants for economic reconstruction and development activities in Timor-Leste that are prepared and supervised by the World Bank and the Asian Development Bank (ADB). The World Bank is the trustee. The ADB administers TFET projects in the sectors of roads, ports, water utilities, telecommunications, power and microfinance, with the World Bank responsible for TFET projects in the sectors of health, education, agriculture, private sector development and economic capacity building. All TFET projects are implemented by government departments.

TFET receives funding from Australia, the European Commission, Finland, Ireland, Italy, Japan, New Zealand, Norway, the United Kingdom and the World Bank TFET is scheduled to finish in 2006-07

### **Bilateral and Multilateral**

Bilateral and Multilateral funds are provided by donor governments or one of the International Financial Institutions (IFIs) for specific projects defined under a grant agreement. The project and funding is managed by the relevant donor.

### **United Nations Assessed Contribution**

United Nations (UN) Assessed Contributions are the estimated cost of core UN paid personnel working directly in the Government of the Democratic Republic of Timor-Leste (RDTL) operations.

### **Non Government Organisations**

Numerous Non-Government Organisations (NGOs) operate in Timor-Leste providing direct services to the community across all sectors but primarily in health, education and water and sanitation.

## **ENQUIRIES**

Enquires should be directed to: The Director, Budget Office, Ministry of Planning and Finance, Democratic Republic of Timor-Leste.

## PART 2 - OVERVIEW

### COMBINED SOURCES BUDGET

The Combined Sources Budget includes CFET, TFET, UN assessed and bilateral/multilateral components of expenditure, revenue and financing. Table 2.1 summarises the Combined Sources Budget and Financing Requirement.

**Table 2.1**  
**Combined Source Budget and Financing Requirements (\$m)**

	2003-04	2004-05	2005-06	2006-07	2007-08	4 Yr Total
<b>Total Combined Sources Expenditure</b>	<b>218.5</b>	<b>245.4</b>	<b>245.9</b>	<b>248.4</b>	<b>243.3</b>	<b>983.0</b>
CFET	74.6	75.1	78.9	81.9	84.2	320.1
Bilateral/Multilateral	143.9	170.3	167.0	166.5	159.1	662.9
<b>Available Financing</b>	<b>213.5</b>	<b>195.4</b>	<b>116.0</b>	<b>107.9</b>	<b>83.4</b>	<b>502.7</b>
CFET	74.6	75.1	59.0	81.4	74.3	289.8
Donor Support (Grants)	35.7	30.8	0.0	0.0	0.0	30.8
CFET Revenues (excluding FTP)	52.8	41.3	59.0	81.4	74.3	256.0
Change in CFET Reserves (- increase)	-13.9	2.9	0.0	0.0	0.0	2.9
Bilateral/Multilateral	138.9	120.3	57.0	26.5	9.1	212.9
TFET	34.6	24.4	11.5	1.1	0.0	37.0
Bilateral/Multilateral Projects	96.3	88.9	45.5	25.4	9.1	168.9
UN Assessed Posts	8.0	7.0	0.0	0.0	0.0	7.0
<b>Additional Financing Required</b>	<b>5.0</b>	<b>50.0</b>	<b>129.9</b>	<b>140.5</b>	<b>159.9</b>	<b>480.3</b>
CFET	0.0	0.0	19.9	0.5	9.9	30.3
Bilateral/Multilateral	5.0	50.0	110.0	140.0	150.0	450.0

The most significant change since the 2003-04 MYBU to the Combined Sources Budget has been to the CFET financing requirement. This has been revised to \$30.3m in the 2004-05 Budget from \$126.3m in the 2003-04 MYBU largely due to:

- changes in Government's policy, particularly substantial expenditure reductions and improved revenue compliance; and
- developments in petroleum revenues.

Despite this large and timely progress, very substantial risks remain that threaten the security of core CFET expenditure. The overall level of assistance sought from development partners for budget support has been reduced from \$70m over the next three years to \$60m. Timor-Leste now requests:

- no additional assistance in 2004-05 beyond the ongoing programme of approximately \$30m; and
- an extension of this programme at about the current levels into 2005-06 and 2006 07.

The three reasons for this request, are to:

- help fund the CFET financing requirement of \$30.3m;
- help manage the very large (over \$100m) downward risk to revenue; and
- help fund the CFET component of implementation, maintenance and recurrent cost implications for new programmes being developed under the Sector Investment Packages (SIPs) that are not yet able to be quantified or included in CFET expenditures.

Finding additional CFET financing is the highest priority of the Government and is the focus of the May 2004 Timor-Leste development partners Meeting (TLDPM).

The additional financing requirement for bilateral/multilateral projects has also changed because Government and development partners have made good progress towards developing the Sectoral Investment Programs (SIPs). This ongoing work on SIPs both defines the required expenditure and the funding sources to best achieve NDP objectives. Work to date suggests that Timor-Leste will avoid absorption problems by maintaining the disbursement level of the SIPs programme within the past levels of development partner assistance. The finalisation of SIPs will also reveal the implications of any implementation, maintenance and running cost implications for the CFET budget. SIPs will be the focus of future TLDPMs and eventual new bilateral support from countries and institutions.

## MEDIUM-TERM CFET POSITION AND FISCAL OPTIONS

The medium-term CFET position is shown in Table 2.2.

**Table 2.2**  
**CFET Budget 2003-04 to 2007-08 (\$m)**

	2003-04	2004-05	2005-06	2006-07	2007-08	4 Yr Total
<b>Revenue</b>	<b>57.4</b>	<b>67.1</b>	<b>86.4</b>	<b>110.7</b>	<b>103.9</b>	<b>368.1</b>
Domestic Revenues	26.1	23.0	23.8	25.0	26.6	98.4
Timor Sea Revenues	31.3	44.1	62.6	85.7	77.3	269.7
Tax Revenues	26.7	18.3	35.2	56.4	47.7	157.6
FTP Royalties & Interest	4.6	25.8	27.4	29.3	29.6	112.1
FTP	4.5	25.5	26.1	26.9	25.9	104.4
Interest	0.1	0.3	1.3	2.4	3.7	7.7
<b>CFET Expenditures</b>	<b>74.6</b>	<b>75.1</b>	<b>78.9</b>	<b>81.9</b>	<b>84.2</b>	<b>320.1</b>
Salary and Wages	26.1	28.2	28.9	29.5	30.0	116.6
Goods and Services	38.2	36.8	37.8	39.6	40.4	154.6
Minor Capital	3.4	1.7	2.9	2.7	2.8	10.2
Capital Development	7.0	8.4	9.3	10.1	10.9	38.7
<b>Overall Balance (-deficit)</b>	<b>-17.2</b>	<b>-8.0</b>	<b>7.5</b>	<b>28.8</b>	<b>19.7</b>	<b>48.0</b>
<b>Financing</b>						
Donor Support (Grants)	35.7	30.8	0.0	0.0	0.0	30.8
Change in CFET Balances (-increase)	-13.9	2.9	0.0	0.0	0.0	2.9
Timor Sea Savings	-4.6	-25.8	-27.4	-29.3	-29.6	-112.1
<b>Financing " Gap"</b>	<b>0.0</b>	<b>0.0</b>	<b>-19.9</b>	<b>-0.5</b>	<b>-9.9</b>	<b>-30.3</b>

In the 2003-04 MYBU and at the December 2003 TLDPM, the Government presented estimates of the medium-term financing gap. The Government committed to searching for measures on expenditure, revenue and asset sales to contribute to filling the financing gap. It also asked development partners for an additional \$70 million of assistance through an expanded and extended TSP programme.

Table 2.3 shows how the fiscal gap of \$126.3m over 4 years has changed since the 2003-04 MYBU as a result of contributions from: Government responsibilities, including for domestic revenue and expenditure; changes in CFET cash balances; Timor Sea developments; and budget support from development partners.

**Table 2.3**  
**Changes in the Fiscal Gap from 2003-04 MYBU to 2004-05 Budget (\$m)**

	2004-05	2005-06	2006-07	2007-08	4 Yr Total
<b>2003-04 MYBU</b>	<b>-20.5</b>	<b>-59.8</b>	<b>-46.0</b>	<b>0.0</b>	<b>-126.3</b>
Total Changes	20.5	39.9	45.5	-9.9	96.0
Govt. Responsibilities	10.2	12.4	17.9	0.0	40.5
Timor Sea Revenue	8.6	27.5	27.6	-9.9	53.8
Development Partners	1.7	0.0	0.0	0.0	1.7
<b>2004-05 Budget</b>	<b>0.0</b>	<b>-19.9</b>	<b>-0.5</b>	<b>-9.9</b>	<b>-30.3</b>

The Government has made a very significant contribution of \$40.5m to closing the 2003-04 MYBU financing gap from policy and administrative measures on domestic revenue and expenditure. This has been achieved by focussing on measures which reduce cost overheads (efficiency savings) but do not impact on services delivered to the community.

The Government's contribution is almost as large as the contribution of \$53.8m from improved Timor Sea developments. While part of this arises from improved compliance with tax laws, most comes from higher world oil prices, improved production volumes and changes in the commencement of depreciation deductions for tax purposes. Higher contributions from development partners arising from greater commitments and exchange rate adjustments have also reduced the fiscal gap by \$6.2m. Despite these significant improvements a financing gap of \$30.3m remains.

Timor Sea taxation revenues are highly volatile and difficult to forecast. They are influenced by factors beyond the control of Timor-Leste. This leaves Timor-Leste significantly exposed to shifts in its CFET budget. Table 2.4 shows the impact on the CFET fiscal gap as a result of scenario analysis of Timor Sea revenues, using a high case scenario and a low case scenario.

**Table 2.4**  
**Fiscal Gap Under Different Scenarios (\$m)**

	2004-05	2005-06	2006-07	2007-08	4 Yr Total
Budget Estimates	0.0	-19.9	-0.5	-9.9	-30.3
High Case Scenario	10.7	11.2	33.4	34.7	90.0
Low Case Scenario	-2.8	-47.0	-44.4	-43.9	-138.1

If the high case scenario for Timor Sea revenues eventuated then there will be no financing gap in any future year and \$90.0m would be available for savings or additional expenditure. In this case, the Government would be inclined to save the additional revenue in its petroleum fund and spend any unused budget support on capital and development projects agreed with development partners.

If the low case scenario for Timor Sea revenues eventuates then the financing gap will increase to \$138.1m over the next four years. This is well beyond the scope of Timor-Leste's current resourcing to manage unassisted. This possibility is one of the reasons that Government is requesting an extension of the budget support provided by TSP beyond 2004-05 and into 2005-06 and 2006-07.

The very real possibility that Timor Sea revenues are substantially (over \$100m) lower than those contained in the 2004-05 Budget also supports the Government's strong savings policy. Timor Leste needs to plan to keep sufficient reserves to fund core CFET expenditure against the possibility that Timor Sea revenues could be very low. Table 2.5 shows the Budget estimates of the balance of FTP savings under current policies and the balance of CFET reserves.

**Table 2.5**  
**Estimates of Timor-Leste Savings**

	2003-04	2004-05	2005-06	2006-07	2007-08
First Tranche Petroleum Fund	14.0	39.8	67.2	96.5	126.1
CFET Retained Earnings	30.0	27.1	27.1	27.1	27.1
<b>Total</b>	<b>44.0</b>	<b>66.9</b>	<b>94.3</b>	<b>123.6</b>	<b>153.2</b>

These reserves would also include any potential to fund spending from petroleum fund savings and concessional loans. While no decisions have yet been taken, this suggests that these options be held in reserve and not used at this stage .

Policy on saving or spending the FTP petroleum savings will be made in the context of the establishment of a petroleum fund. A petroleum fund advisor is expected to provide advice in early 2004-05 and leading to the establishment of the fund in law by the end of 2004-05. Decisions about concessional loans will be made after the Government has received a feasibility study that was requested from the World Bank on IDA loans in September 2003.

As reported in the 2003-04 MYBU, decisions on petroleum savings and concessional loans will also be contingent on the decision by development partners about their contributions to filling the CFET financing gap, whenever these are less costly than other options in regard to public investment.

## **CONTRIBUTIONS FROM GOVERNMENT POLICIES AND ADMINISTRATION**

In the 2003-04 MYBU and the December 2003 TLDPM, the Government committed to searching for measures on expenditure, revenue and asset sales as its contribution to filling the financing gap.

Since then, policy and administrative decisions have contributed to reductions in the financing gap that total \$42.4m over the three years 2004-05 to 2006-07. Of this, \$10.1m arises from higher domestic revenues and \$31.3m arises from lower expenditure levels, which is partially offset by \$0.9m less use of CFET balances. Table 2.6 shows the changes in these estimates over the next three years.

**Table 2.6**  
**Government's Contribution to Closing the Financing Gap (\$m)**

	2004-05	2005-06	2006-07	2007-08	4 Yr Total
<b>Domestic Revenue</b>	<b>3.0</b>	<b>3.3</b>	<b>3.8</b>	<b>Na</b>	<b>10.1</b>
<b>Expenditure</b>	<b>8.1</b>	<b>9.1</b>	<b>14.1</b>	<b>Na</b>	<b>31.3</b>
Salary and Wages	0.2	0.9	1.1		2.2
Goods and Services	4.4	5.3	6.9		16.6
Minor Capital	2.5	2.1	2.9		7.5
Capital Development	0.8	0.9	3.2		4.9
<b>Use of CFET Balances</b>	<b>-0.9</b>	<b>0.0</b>	<b>0.0</b>	<b>Na</b>	<b>-0.9</b>
<b>Total</b>	<b>10.2</b>	<b>12.4</b>	<b>17.9</b>	<b>Na</b>	<b>40.5</b>

The increases in the domestic revenue estimates arise from improvements in administration and are based on strong revenue collections in recent months.

The reductions in expenditure are across all categories of expenditure. They are lightest in the categories of funding for capital development and salaries. This minimises the impact on government employment and on long-term growth prospects. They are correspondingly heaviest in the categories of goods and services and minor capital.

The Government has worked very quickly to undertake significant reductions in expenditure. These reductions have focussed on overhead expenditures that are, in the main, not directly related to service delivery. Having made these policy decisions, the Government has exhausted the potential for further expenditure reductions as any further reductions in expenditure will significantly affect the level of government services to the Timorese population.

There has also been a small offset to the Governments contribution to closing the CFET financing gap for 2004-05 from less use of CFET balances.

## TIMOR SEA DEVELOPMENTS AND RISKS

The Timor Sea revenues are based on many assumptions, including for world oil prices and production quantities. As reported in the 2003-04 MYBU, “the appropriate assumptions to use for forecasting change as new information becomes available and as conditions change”.

For the 2004-05 Budget, the key changes in assumptions have been:

- an increase in assumed world oil prices (West Texas Intermediate basis) to an average of about \$24 dollars over the rest of the decade (increases revenue estimates);
- an increase in production volumes in 2004 from 11.8 mmbbl to 15.5 mmbbl (increases revenue estimates);
- a delay in the commencement of tax depreciation from January 2004 to April 2004 (increases revenue estimates); and
- an increase in construction costs largely associated with a weaker US dollar (decreases revenue estimates).

Given that there will be changes to these assumptions in future, scenarios have also been constructed. The high case scenario is based on a world oil price of \$28bbl and the “high case” quantity scenario of the project operator that is based upon probable reserves. The low case scenario is based on a world oil price of \$22bbl, the “low case” volume scenario of the operator and a closure of the EKKN field in April 2004. Table 2.7 shows the Timor Sea tax revenues in the Budget estimates and also for the high case and low case scenarios.

**Table 2.7**  
**Timor Sea Tax Revenues – Scenario Analysis (\$m)**

	2004-05	2005-06	2006-07	2007-08	4 Yr Total
2004-05 Budget Estimates	18.3	35.2	56.4	47.7	157.6
High Case Scenario	29.0	66.3	90.3	92.3	277.9
Low Case Scenario	15.5	8.1	12.5	13.7	49.8

The 2004-05 Budget estimates of Timor Sea revenue are for \$157.6m over the next four years. However, if the high case scenario eventuates then Timor Sea revenues will be \$277.9m. In contrast, if the low case scenario eventuates then Timor Sea revenues will be only \$49.8m over the next four years.

There are very large risks to Timor Sea revenues over the next four years. Revenue could be over \$100m lower than the 2004-05 Budget estimates or it could be over \$100m higher. In addition, these scenarios are not the maximum or minimum for revenue – the variation in revenue could be greater than that shown in the scenarios. For example, the low case scenario is based on an assumed price of \$22 per barrel, but oil prices could be much lower – they have varied between \$18 and \$36 over the last five years and averaged about \$19 from 1986 to 1999. Timor-Leste must manage these very large risks by putting in place appropriate policies, such as building up a sufficient level of reserves. Timor-Leste seeks assistance from development partners to enable it to do so.

## **SUMMARY OF SECTOR INVESTMENT PACKAGES (SIP) PROCESS AND IMPLICATIONS**

The process of finalising SIPs is underway and already there are three key messages emerging.

First, SIPs will make a very important contribution to the development of Timor-Leste and the delivery of services to its people.

Second, the annual level of SIPs envisaged will be within the previous levels of development and technical assistance provided by development partners. This is to enable Timor-Leste to avoid absorption problems that might otherwise arise.

Third, the SIPs will have recurrent cost implications for the CFET budget that are not yet included in the budget estimates. These will arise because of the need for CFET to contribute towards the implementation, maintenance and running costs of SIPs. The magnitude of these implications will emerge as the SIPs process is finalised and will then be brought into the budget estimates.

Work is underway on fourteen SIPs. The nine SIPs that were drafted in November 2003 were analysed by the respective Ministries concerned and are in the process of being revised.

Work on the five governance SIPs was launched in January 2004. First working drafts have been prepared for all but the External Relations SIP. Work has started on the latter and a first working draft of the others ready for internal review and discussion.

Individual ministries are continuing to have increasing ownership of the SIP process and are becoming familiar with the analysis and approach. The Government remains focussed on finalising the SIP exercise soon in order that clear priorities can be established for expenditures within sectors and across sectors.

The Government is aiming to complete the first full set of SIPs in ample time to factor the results of the work into the 2004-05 MYBU and the next round of TLDPM discussions. This will also provide enough time for a systematic round of discussions with individual donors on the programmes and sectors that they can support. This should ensure a much more informed discussion at the likely TLDPM in December and clearer indications of development partner support over the medium term.

## **IMPROVING EXPENDITURE OUTCOMES IN THE 2004-05 BUDGET**

As outlined in the 2003-04 MYBU a major component of the Government's budget strategy was to restrain expenditure in order to:

- manage the significant financing gap projected at the time;
- improve the quality of expenditure; and
- reduce the projected growth in CFET expenditures to a sustainable level over the medium term.

The Government has clearly demonstrated its intent to implement strong fiscal discipline to ensure the long term sustainability of its operations. In this regard the Government has undertaken a concerted programme of expenditure reductions, based on the following principles:

- reductions to be targeted at overhead costs, with a focus on improving efficiency and maintaining and improving service delivery, particularly within districts;
- salaries and wages to be isolated from reductions to facilitate the implementation of service delivery and ensure the capacity and development of the civil administration is not adversely affected;
- reductions to goods and services, mainly through reducing overhead costs;
- reductions minor capital, given that the major fit out costs of government offices have occurred in the previous two years, and in light of the expected handover of substantial assets from the UNMISSET mission and other bilateral contributions; and

- protection of funding for capital and development from the majority of reductions and gradually increased as a proportion of CFET expenditure over the period of 2004-05 to 2007-08 to ensure continued economic growth within the nation.

Taking into account emerging priorities within the nation, and the commitments made through the TSP, the Government has achieved its budgetary goal, meeting a range of funding priorities, while achieving a significant reduction in recurrent expenditure over the medium term.

Funding for the capital and development programme has been quarantined from major reductions it has been maintained at a similar proportion of total Government expenditure to that forecast in 2003-04 (approximately 11% in 2004-05, increasing to 13% by 2007-08).

Within recurrent expenditure, funding for salaries and wages has been reduced from previous estimates over the medium term as Government expenditure on salaries stabilises due to the civil services approaching its mature size. However, some provision has been made for increases in salaries of approximately 6% over the forward estimates period. This is included to allow for promotion of staff and a possibility of increased salary costs.

Goods and services remain steady as a proportion of recurrent expenditure at approximately 55% over the budget and medium term, while increasing in dollar terms by approximately 10% over this period. This will provide a sustainable increase in line with the rising level of capacity within the civil service. Categories providing the majority of projected expenditure growth over this period are directly related to service delivery, and include:

- operational materials and supplies (this item provides for poverty reducing items such as agricultural, medical and school supplies);
- maintenance of equipment and buildings ; and
- other services (this item provides a variety of services such as routine road maintenance, routine maintenance of water and sanitation, and provision of services within hospitals).

Expenditure on minor capital has also been reduced substantially from that forecast in the 2003-04 Budget. The Government has undertaken this reduction in response to the expected handover of a substantial amount of equipment from the UNMISSET mission, and the high levels of equipment introduced over the previous two to three years. Particular areas of reduction have been:

- EDP equipment (Information Technology);
- furniture and fittings; and
- vehicles.

The need for continued high levels of minor capital has been reduced. In the forward estimates, minor capital expenditures remain steady at approximately 4% of the recurrent budget, providing a steady level of funding targeting asset replacement.

# **PART 3 – STATE OF THE NATION**

## **GENERAL DEVELOPMENTS**

### **Suco Elections**

Several important steps have been taken in preparation for the election of Suco Councils and Chiefs. These will be the nation's first elections since the hand over of governance by UNTAET to the National Government on 20 May 2002.

Legislation has been established with the promulgation of the Law for Suco elections, the Law governing political parties and a decree-Law defining the roles and functions of the Suco Councils and Chiefs.

On 19 March 2004 the President of the Parliament empowered the National Commission of Elections. The Commission is presided over by a Timorese elected by the Parliament and is from by the FRETILIN bench. The Commission will compose 13 members 7 of whom will be women.

The elections must be undertaken in phases, beginning in the last quarter of 2004, in three districts.

The biggest task in the preparation for the elections is associated with the register of eligible voters. This is scheduled to commence at the end of May 2004, with the final list of voters being published at the end of September of 2004. The elections will be a logistic challenge for the Government, considerable assistance will be crucial for this activity to be concluded successfully.

The National Parliament has approved the Civil Service Act and the Provider of Human Rights and Justice Act. The Laws will come into force after promulgation by the President of the Republic and consequent publication in the Journal of the Republic. Organic laws for the FALINTIL-fdtl and the PNTL have been approved by the Council of Ministers and promulgated by the President of the Republic.

### **Open Government**

The Government recognises the importance of an informed population, free of mistrust and to fear, particularly in the districts, sub districts and sucos, to promote their involvement in development and commitment to the implementation of the National Development Plan.

The Government has organised the Open Government forums in the districts, sub districts and sucos with the intention of showing leadership, to institute simple and direct forms of mutual communication, and to listen to the people; to take into account their concerns in the development of programs; and to select the level of participation and commitment of the people to programs and projects of the Government and other actors in the process. Mechanism involving various Ministries was established to pursue and implement outcomes arising from the Open Governance forums, with the pretext of rational management of scarce resources. The first round of Open Government forums in the 13 Districts should be completed around July or August this year.

### **National Dialogue**

The Office of the President of the Republic continued, for its part, with the initiatives to promote national stability through the participation of different parts of society in the process of national dialogue.

During February 2004, the office organised a series of forums in the districts, which culminated in a four-day national dialogue on the justice system during 5-8 March 2004. The President of the Republic, the Prime Minister, the President and Members of the Parliament, relevant Government Ministries and Agencies, the Judiciary, various interest groups, and representatives of UN Mission in Support of East Timor (UNMISSET), other development partners and the Commission for Reception, Truth and Reconciliation (CAVR) participated in this important event.

The dialogue focussed on the importance of the justice system in ensuring the rule of law, protection of the rights of the citizens and promoting an open and harmonious society. The proceedings of the dialogue were broadcast live on radio and television throughout the nation.

## **Security**

The security situation in the country remained largely stable except for reports of sightings of armed gangs and criminal elements in districts bordering West Timor. In December 2003, some 42 soldiers were dismissed by the Timor-Leste Defence Force (F-FDTL) for various disciplinary infractions including prolonged unauthorised absence. In January 2004, an altercation between elements of the F-FDTL and the National Police (PNTL) occurred in Lautem.

The issue is being analysed by an Independent Commission created by the President of the Republic. Disciplinary and criminal procedures are being handled through competent areas of the Government and the justice system.

Contrary to 2002, the period of the beginning of 2003 until now has seen small and peaceful political demonstrations, mainly in relation to the maritime borders which are subject to negotiations between Timor-Leste and Australia.

The transfer of executive responsibility of internal security from the UN Police to the PNTL has proceeded apace and is largely complete, with the final and complete transfer taking place on midnight, 20 May 2004.

Despite a number of institutional weaknesses, the PNTL, with the support of UNMISSET, continues to make progress in implementing the 2003-04 institutional strengthening action plan on key administrative and procedural issues. They include measures to improve liaison between the PNTL and other institutions. Also, they covered the extension of basic training of new police recruits, in-service training, the inclusion of human rights in all police training, and an initial comprehensive review of police procedures. Following the hand-over of executive authority for policing to the PNTL, the role of UNMISSET support to the police would be transformed from a combination of operational and training duties, to a focus on mentoring and capacity building.

## **Reconciliation**

The Commission for Reception, Truth and Reconciliation (CAVR) continued with its work during the past five months. From 15 to 18 December 2003, the Commission held a national public hearing on the Timorese Political Conflict of 1974-76. Prominent Timorese leaders including the President of the Republic, the President of the National Parliament and the Prime Minister gave testimony as participants in the internal conflicts of 1975 and the illegal occupation of the country later that year. The objective was to talk openly about the facts, to dispel doubts and contribute towards reconciliation and the establishment of a peaceful and tolerant society.

During 15-17 March 2004, the CAVR organised a public hearing on "Self-Determination and the International Community". The forum heard testimonies about the roles of governments, the United Nations, international assistance groups, and the Timorese in the diaspora. The hearings were intended to promote public education on the involvement of the international community on East Timor's fight for independence. The witnesses included staff of UNAMET, staff of the Governments of Australia and the USA (at the time), representatives of international advocacy groups from Indonesia, Portugal and the USA, and some members of the Timorese diaspora. The proceedings were broadcast on the radio and TV.

The Commission conducted its final national public hearing from 29 to 30 March 2004 on the theme of "Children and the Conflict." Testimony was offered by survivors of children forced to provide logistical support to the Indonesian combat forces, survivors of the massacres, and children taken away from their families by the Indonesian military.

31 March marked the conclusion of CAVR's community reconciliation activities. The report will include recommendations for future action in relation to justice, reconciliation and ongoing work with victims of violations. The CAVR is expected to submit its report to the President of the Republic in October 2004, when the mandate for CAVR concludes.

## **Presentation at UN Economic and Social Commission**

In mid-March 2004, the Vice Minister in the Ministry of Planning and Finance co-chaired the High-Level Segment Preparatory Meeting on Resource Mobilisation for Implementation of the Brussels Programme of Action for Least Developed Countries, organised by the UN Economic and Social Commission (ECOSOC) in New York. This is the first time that Timor-Leste has co-chaired such a meeting. Together with the Senior Deputy Resident Representative of the UNDP, the Vice Minister made a comprehensive presentation on:

- the milestones in the evolution of an independent Timor-Leste;
- the national development vision and their linkage to the Millennium Development Goals (MDGs);
- the trends in international development assistance against resource needs; and
- the efforts being made by the Government in promoting economic growth and achieving the MDGs.

The presentation of the Vice Minister was warmly received by the various representatives of the development partners.

## **UNMISSET**

Considerable progress has been made by the UN Mission in fulfilling its mandate in the country, which focuses on the three priority areas of:

- ensuring security from external threats and stability,
- maintaining public order and strengthening the PNTL, and
- providing support to the public administration and promoting democracy and justice.

At the same time, it is recognised that the nascent local institutions are still fragile and the Timorese personnel require further nurturing and support to build confidence and perform in an effective manner. Accordingly, the Government of Timor-Leste requested the UN for continued support for a further 12 months beyond the current two-year phase, which is scheduled to conclude on 20 May 2004.

Based on consultations with the Government and development partners, the UN has prepared a set of proposals, which were incorporated in the February 2004 Report of the UN Secretary General to the Security Council. The report recommended an extension of UNMISSET for another year with a modified mandate. The priority focus of the Mission during the one-year extension period would be to provide assistance to the:

- justice system and to core administrative structures critical for the viability and political stability of the country;
- continued development of the PNTL; and
- Government in regard to maintenance of security and stability.

The proposals on administrative support were formulated based on the "most critical" functions identified by the Government, augmented by UNMISSET and UNDP analyses. They envisage the provision of up to 58 international advisers under UNMISSET for another year (as a follow-up to the 100-positions). The positions will be in the priority areas of:

- finance (17);

- other key ministries (18);
- justice (15 including 4 international judges-mentors for District courts); and
- other organs of the Government such as the Offices of the President and the Prime Minister (8).

Also, support for the serious crimes process, with a view to bring it to an orderly and successful conclusion is envisaged during the period. In addition, the Government, together with UNMISSET and UNDP has identified some 99 “critical” positions to be filled by international advisers for which funding would be sought from bilateral and other sources (as a follow-up to the 200-posts).

The executive authority for law enforcement in the one-year “consolidation phase” will rest with the PNTL. UNMISSET support in the next phase is expected to focus on advice, training and mentoring for the police force by about 157 international police advisers. In addition, it is proposed to provide military assistance to help the Government in the maintenance of security and stability. It is expected to comprise a total of about 350 personnel, including an infantry company of 120 and 42 military liaison officers, to be deployed in the border areas. It is also foreseen that a component of the police consisting of approximately 125 police officers will be integrated in the UN peacekeeping force. The Secretary General’s report and the proposals are under consideration by the Security Council, whose decision is expected in May 2004.

## **Capacity Development**

Some significant activities have been undertaken as a follow-up to the discussion on capacity development at the December 2003 meeting with development partners. They included the completion of the Diagnostic Clinic Workshops covering between 57% and 86% of the staff in Levels IV to VII in the Ministries and the Office of the Prime Minister. A report containing the preliminary results of the Diagnostic Clinic Workshops was circulated in mid-February 2004.

In preparation for the request to the UN for continued assistance for a further 12-month period, the Government organised jointly with UNMISSET and UNDP, a workshop on Institutional Capacity Development on 16 February 2004. The workshop participants included Government officials including Ministers and international advisers. The SRSG and the Prime Minister opened the workshop, in the presence of representatives of development partners. Key Government Ministers and heads of Agencies presented their preliminary plans of action for institutional capacity development, with ultimate focus on exit strategies for international advisers. They covered not only topics such as transfer of technical and managerial skills but also the institutional culture (bureaucracy), work ethics and integrity for efficient delivery of public services. The discussions were lively with active participation of policy makers, Government functionaries and international advisers.

The workshop has been a good start on the way to formulation of a medium-term strategy for capacity development. Further work is planned to be undertaken in the coming months drawing upon the decision of the UN Security Council on civilian support and the formulation of the follow-on capacity development project (successor to the 200-posts project) by UNDP.

## **EXTERNAL RELATIONS**

### **General Activities**

After the restoration of independence, the Democratic Republic of Timor-East adhered to the Charter of the United Nations as well as the Universal Declaration of the Human Rights. Equally, Timor-Leste has adhered to the Conventions On the Disarmament of Nuclear Weapons and its protocols, as well as the International Treaty on Human Rights and its respective protocols.

Timor-Leste has signed agreements and protocols of cooperation with various countries in the region, Europe, the Americas, Africa, as well as countries where Portuguese is the official language.

Timor-Leste has established formal diplomatic relations with 89 countries, of which 46 had accredited Embassies to Timor-Leste, 15 of which have Ambassadors resident in Dili. Timor-Leste has opened eight embassies overseas, Washington, New York, Lisbon, Brussels, Kuala Lumpur, Jakarta, Canberra, Maputo and a general consulate in Sydney. Timor-Leste has assigned honorary consuls in Melbourne and Manila. Embassies in Beijing, Tokyo and Bangkok will be opened still during the next fiscal year.

Joint Ministerial commissions with Indonesia and Brazil have been established, in view of the reinforcing bilateral relations and cooperation, with a focus on the areas of education, health, transport and communication, and Agriculture. Identical Ministerial commissions will be created future with other countries.

At the regional level, Timor-Leste has been given the status of Special Observer in the South Pacific Forum, having been admitted as 78th member of the ACP (Africa, Carribean and Pacific) and adhered to the Agreement of Cotonou in May of 2003.

Timor-Leste is a co-founder of the South Western Forum of the Pacific, together with Australia, Indonesia, New Zealand, the Phillipines and Papua New Guinea.

Timor-Leste participated in the Conference on People Smuggling, Trafficking in Persons and Related Transnational Crime held in Bali which is a regional cooperative initiative to prevent and to deal with the issues of contraband and people smuggling. This will enable Timor-Leste to improve its border management and identifying fake identification via shared information with others in the regional network.

Timor-Leste also participated in the regional meeting in Bali on counter-terrorism. The main objective of which is to fight terrorism, through effective coordination, exchange of information between the affected countries. As well as identifying forms in which to strengthen antiterrorist cooperation within countries of the region and to encourage more effective contributions within the different agencies of the countries involved.

Timor- Leste also participated actively in the inter-Governmental consultations of Asia and the Pacific on refugees, the dislocated and immigrants. Trilateral meetings have been carried out between Australia, Indonesia and Timor-Leste.

Timor-Leste has been invited as a guest to the Permanent Committee of the Association of the Nations South Eastern Asia (ASEAN) in 2002 and 2003. Timor-Leste has revealed its desire of becoming a full member of the regional forum of ASEAN as well as in adhering to the ASEAN Treaty of Friendship and Cooperation.

Besides being an effective member of the Community of Portuguese Speaking Countries (CPSC) and the Movement of Non-Aligned states, Timor-Leste has equally adhered to more than 30 regional and international organizations and specialised agencies such as the Atomic Energy Agency, the International Monetary Fund (IMF) , the World Bank, the International Labour Organisation (ILO) and International Court of Justice.

## **Relations with Immediate Neighbours**

The excellent communications with Indonesia continued during the period, with commitment to good relations at the highest political level on both sides. However, progress on resolving a number of pending bilateral issues has been slow. Some 16,000 former refugees remain in West Timor. Also, a durable solution is yet to be found for the outstanding cases of East Timorese children separated from their families. The target date of 30 November 2003 for the two governments to finalize a provisional border demarcation line was not met, although technical work continued in spite of some logistical and other difficulties. There is a continuing need for communication and dialogue between the security agencies of Timor-Leste and Indonesia to guard against misunderstandings and undesirable unilateral actions.

The first round of negotiations with Australia on the maritime boundaries concluded on 22 April 2004. Timor-Leste presented significant material in support of its position, but there was little progress.

Although Timor-Leste proposed the next round of discussions in May 2004, the Australian delegation preferred to wait until September 2004 to resume the talks. A fair delineation and just distribution of the Timor Sea mineral resources would strengthen the relations between the two countries and contribute to the improved economic well-being of Timor-Leste. Australia, however, continues to promote and emit licences for oil and gas exploration in zones that are situated in areas of overlapping claims and recognised as areas joint exploration by Dili and Canberra

## **THE CENSUS**

The National Statistics Directorate of the Ministry of Planning and Finance is undertaking the first national Population and Habitation Census of Timor-Leste. There have been major changes since September 1999 with some people leaving the country or others returning from abroad, namely after the Restoration of Independence. There has also been a high, but unknown, rate of population growth and also rural exoduses in which many people are moving towards the cities, in particular to the capital.

The launching campaign of the Census took place at 14 February 2004 Census, in a public ceremony that had the presence of the President of the Republic, Prime Minister, due to the fact that the Census encompasses all of the country, District Administrators, Subdistrict Administrators, Members of the Government and representatives of several international agencies were also present.

A team of 3,500 census supervisors and interviewers will visit some 180,000 households in every village to collect information on the number of people in Timor-Leste and the conditions in which they live. The questions concern family members, education, religion, income, health etc and are designed to give the government important information for planning development projects in every area.

The 2004 Census will allow to fill the information gap by providing the latest statistics on population and socio-economic conditions in all areas of the country, thus helping the Government to better plan the reconstruction and development in a way that focuses more accurately on the needs of the people.

To ensure that all questions are answered truthfully, there is a law ensuring confidentiality of all information revealed in the census.

The Government requires all citizens to participate in the Census as a national exercise.

The purpose of the Census is best summed up in the words of the census slogan "*Hamutuk ita hari futuru*", together we can build the future. The rising sun in our Census logo shows the promise of a new future for a new nation. Census Day is on July 11, 2004.

## PART 4 – TSP (PROGRESS -TSP II & PROPOSALS - TSP III)

### CURRENT TSP FINANCING

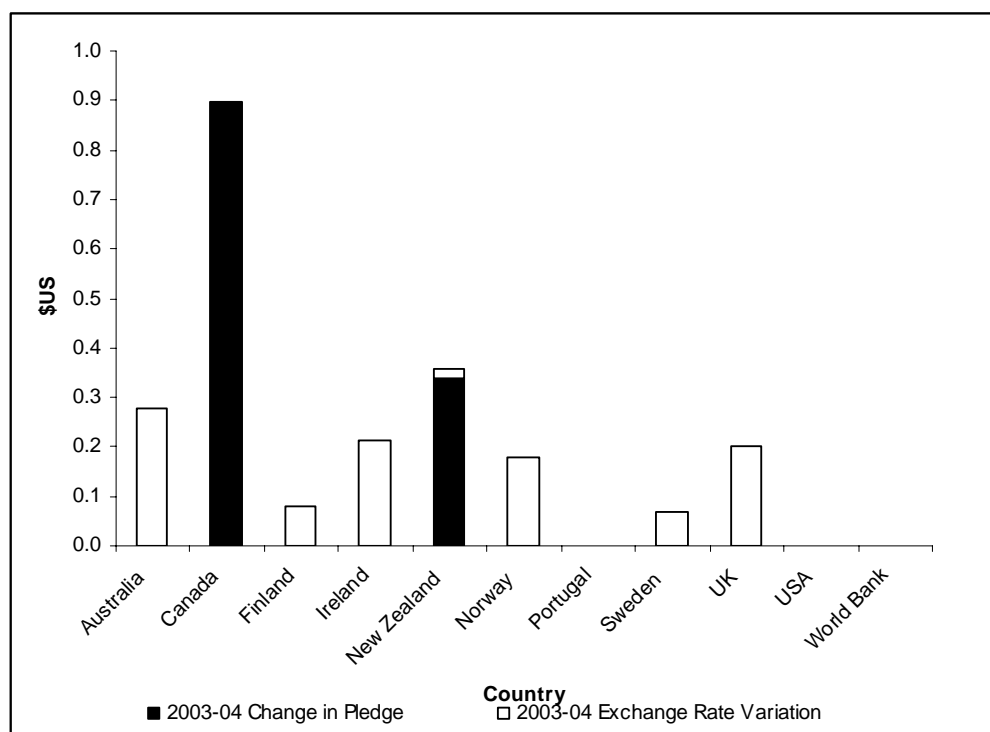
The expected level of direct budget support from the TSP programme is set out in Table 5.1. The figures have been revised since the 2003-04 MYBU. Changes the 2003-04 MYBU are in Chart 4.1.

**Table 4.1**  
**TSP Financing (\$m)**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	Total
Australia	5.6	5.9	4.4	0.0	0.0	0.0	15.9
Canada	0.7	0.9	0.0	0.0	0.0	0.0	1.6
Finland	1.6	1.3	1.3	0.0	0.0	0.0	4.2
Ireland	1.0	4.2	2.4	0.0	0.0	0.0	7.6
New Zealand	0.5	0.3	0.3	0.0	0.0	0.0	1.1
Norway	3.6	3.7	3.7	0.0	0.0	0.0	11.0
Portugal	3.0	3.0	3.0	0.0	0.0	0.0	9.0
Sweden	0.0	1.4	0.0	0.0	0.0	0.0	1.4
United Kingdom	6.1	6.9	6.9	0.0	0.0	0.0	19.9
United States of America	3.9	3.9	3.9	0.0	0.0	0.0	11.7
World Bank	5.0	4.2	4.9	0.0	0.0	0.0	14.1
<b>Total</b>	<b>31.0</b>	<b>35.7</b>	<b>30.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>97.5</b>

TSP funding is estimated to increase from \$33.8m in 2003-04 to \$35.7m as a result of favourable exchange rate variations and confirmation of financing from Canada (\$0.9m in 2003-04). In 2004-05 estimated TSP support has risen by \$1.7m as a result of an increase in the pledge made by the World Bank (\$0.9m in 2004-05) and favourable exchange rate movements. TSP support from 2003-03 are shown in Table 4.1.

**Chart 4.1**  
**Changes to TSP Financing Since 2003-04 MYBU (\$m)**



## **PROGRESS UNDER TSP II (2003-04)**

The TSP actions have been fully internalized in the Government's annual action plans (AAPs) and quarterly reporting matrices (QRMs). In fact, the TSP II actions have been drawn from the 2003-04 AAPs of the Ministries and Agencies, forming an important sub-set. Progress on the TSP actions is monitored and reported as a part of the quarterly reports on implementation of the AAPs. Actions under TSPs I and II have been rather ambitious, given the fledgling state of the Government institutions and the limited capacities of the civil service. Also, the emphasis has been on establishment of institutions and enactment of laws, although delivery of education and health services has been highlighted. The main thrust of the programs has been to accomplish specific tasks, within the one-year time frame of each program.

Overall, significant progress has been made in the implementation of the actions under TSP II. The progress has been good in the areas of service delivery in education and health and preparation and adoption of organic laws for various ministries and agencies.

In the area of governance the Government made secure progress in the creation of supervisory mechanisms. The law initiated by the Office of the Prime Minister to establish the Office of the Provedor has been approved by the National Parliament.

This was all completed in less than two years, a "world record". Also as a result of the effort between the Government, the National Parliament and the President of the Republic, the Court of Appeal was re-established.

However, It has been slower than expected, particularly in regard to the capacity of the Courts. The first instance Courts still function with probationary judges who have little experience and the Court of Appeal in its function of Constitutional supervision, and in the exercise of its functions as the Court of Administration and Accounts, completes the area of governance, in respect to the establishment of supervisory mechanisms.

Also, there were considerable delays in the preparation and enactment of laws, particularly as there were capacity limitations. Delays were often occurred by the necessity and accomplishment of wide consultations with respective participants, particularly in satisfying demands which were out of context regarding the need to draft the laws in a more appropriate manner.

We urge that concrete support is provided for the reinforcement of institutions, such as, the Office of the President of the Republic, the National Parliament, the Courts, the Office of the Prosecutor General and the Office of the Inspector General.

## **GOOD GOVERNANCE (TSP II)**

The organic law for the Office of the Provedor was approved by the Parliament in April 2004. The Office of the Inspector General (reporting to the Prime Minister) has actively pursued a programme of inspections and has submitted reports recommending administrative measures to strengthen internal controls and, in one case, referral to the Prosecutor General. Dissemination of the reports is planned to be resumed in 2004-05.

The Government's legislative programme for 2003-04, including legislation that was carried over from the previous year, has proven to be ambitious. Some progress has been made in prioritisation and scheduling, with the pace of legislation passing through the Council of Ministers accelerating. It is expected that less than half the legislation scheduled will be finalized and submitted to the Parliament this year.

The legislative programme of the Government for 2003-04, including legislation carried from the previous year, it translated the need to adapt for the real demands of governance. The programme is considered by some to be ambiguous, in this regard technical assistance received was not always qualified.

The Parliament approved the Civil Service Statute in April 2004. It provides the framework for public sector personnel management systems and disciplinary procedures. A manual covering basic personnel transactions (such as leave, transfer and promotion) has already been prepared. The Ministry of State Administration has made some progress in establishing hard copy personnel files for each agency – other than those with delegated personnel management registers, including the Ministry of Education, Culture, Youth and Sports – using a simple template. Options for computerisation of the personnel system are currently under review.

Following the local government options study, the Government has commissioned a comparative study of experiences in three developing countries. Follow-up work including the selection of a preferred option, detailed design and financial assessment, policy development and legislative drafting will not be completed in 2003-04. The phased approach is appropriate given the significant fiscal, institutional and human resource implications of the decentralisation process.

In the justice sector, the decree laws on the Notary and Civil Identification have been approved by the Council of Ministers. Drafts of the Civil Registration Code and the Public Prosecutors organic law have been submitted to the Council of Ministers. Regular meetings of the Superior Council for the Judiciary (SCJ) and the Council for Coordination of the Judiciary have taken place to facilitate coordination between the independent arms of the judiciary (Ministry of Justice, SCJ and the Courts, Public Prosecutors Office, and Public Defenders Office). However, the backlog of cases and intermittent functioning of some courts continue to be issues of concern.

One of the reasons will be the poor functioning of the Courts rests with the applicable Laws, particularly the Criminal, Criminal Procedure, Civilian and Civil Procedure Codes. The relevant drafts have already been completed and ploughs being initial consideration by the Council of Ministers.

In the area of public expenditure management, the Government has made significant progress in expenditure control and disciplining the budget formulation process, and some progress in strengthening the procurement system. However, progress on institutional development milestones identified in TSP II has been lagging. The 2004-05 budget submissions by line Ministries and agencies were in line with the TSP parameters as regards allocations for education and health, primary education and hospitals. The timeliness for processing procurement requests seemed to have deteriorated, paradoxically due to the efforts of the Procurement Unit to rationalize purchases through government-wide batching.

The revised Procurement Decree Law was submitted to the Council of Ministers for approval, the law required improvements on the Governments part. It will be resubmitted to the Council of Ministers in forthcoming sessions. The draft of the revised Finance and Financial Management Law is being considered within the Ministry of Planning and Finance and is expected to be submitted to the Council of Ministers soon. Progress on the development of a Human Resource Development strategy for financial management functions has been hampered by delays in mobilisation of the necessary technical assistance.

The power sector management contract was signed in November 2003 and the management team was fielded in January 2004. The team took over management of the power utility, EDTL, by the end of March 2004. Revenue collections showed an upward trend with realisations at or above the level of collections in 2002-03, but significantly below the 2003-04 MYBU budgeted target of US\$4.3 million (which in turn is US\$1 million lower than original budget estimates). Installation of the 10,000 pre-payment meters has initially met considerable resistance, but the pace of installation has accelerated in recent months, now that meters, with more than 7,000 meters installed by the end of April 2004. These measures, together with those aimed at reducing costs through load shedding, are expected to lead to significant improvement in the sector's financial position before the end of 2003-04. Service provision remains patchy, particularly outside of Dili. Baucau, the second largest town has now been without electricity for more than three months following the breakdown of the generator. This was as a result of a failure to maintain the equipment on he part of the operator.

## **SERVICE DELIVERY FOR POVERTY REDUCTION (TSP II)**

The Ministry of Health has made good progress in the development of micro-policies and in achieving quarterly performance targets for service delivery, albeit with significant variation in performance between districts. Utilisation of health services is low and the Government recognizes that this is partly due to demand factors, such as distance to facilities and availability of personnel and medical supplies. The Ministry has now established annual district health plans as a routine tool for decentralized management of health services, updating the planning guidelines based on the experience of the past two years. Hospital expenditures are thought to be broadly in line with the TSP limit of 40 percent of recurrent spending, though the Ministry notes that there are difficulties in assigning expenditures to levels of service. The Ministry has also revised its staffing requirements to provide for a gradual reduction in the number of expatriates as Timorese assume responsibilities and transferring some of the personnel costs from TFET to the CFET budget. The Framework legislation for the Autonomous Medical Supply System has been approved.

Following a National Congress in November 2003, the Ministry of Education, Culture, Youth and Sports has finalized an education sector policy framework and preparation of the legal framework for the sector is well advanced. The Government has established curriculum working groups and prepared a draft primary curriculum, which should be finalized during 2004-05. The three-year training programme for pre-secondary education teachers has been launched, with 1,000 teachers – or around one in four – participating, which is well above the 300 originally planned. Some progress has also been made on the development of a financial model for decentralized financial management by schools and Parent Teacher Associations (PTAs), with preparations underway for the launch of the pilot programme by the end of 2003-04. However, the scheduled training for senior management and district personnel in financial management procedures has yet to take place. Lack of financial management skills continues to hinder programme implementation; with budget execution rates for education significantly lower than the Government-wide average, particularly on goods and services for basic education.

The registration and identification of veterans has been largely completed on schedule by the end of March 2004. Following public debates in each district in February 2004 to solicit public input on criteria for recognition of veterans, the lists of ex-combatants and veterans are being compiled and a final report is being prepared for submission to the President of the Republic in mid-May 2004.

## **JOB CREATION (TSP II)**

Progress across most of the private sector development actions has been good, notably in the preparation of enabling legislation, such as the Company, Investment, Bankruptcy and Insurance Laws. The law on commercial entities has been approved by the Parliament and was promulgated the President. The Investment Law had been drafted and was to be presented for review by the Council of Ministers, a draft of the bankruptcy law was before an inter-ministerial committee for review, and BPA has completed a full draft of the insurance law and a series of accompanying instructions. Drafts laws for the leasing of private and Government land had been prepared and approved by the Council of Ministers for submission to Parliament. In addition, the second phase of the Land Law Project had produced a draft policy in land and property dispute mediation, underpinning a draft law, which was already under Government review, with expectations for enactment before the end of 2003-04. Improved execution of the community-based road maintenance programme was achieved during the course of 2003-04.

Government continued its efforts, as part of its normal exchanges with the Timor Sea operating companies, to encourage investment by those companies in onshore non-oil and gas sectors. Currently, the petroleum code and the Law of Mineral Exploration are currently being drafted and are in their concluding stages.

With the support of a short-term UNDP adviser, the administrative systems required for the Emigrant Workers Programme have been prepared and a further mission to Malaysia was being planned by the Secretariat of Labor and Solidarity to organize the dispatch of the first batch of Timorese workers.

The Ministry of Agriculture, Forestry and Fisheries (MAFF) has made good progress in the development of the sectoral policy and strategy, which is planned to be completed by June 2004.

However, the consultations with different stakeholders and supporting analytical work are likely to delay the finalisation of the policy framework to early 2004-05. The law decree and the regulation on fisheries were approved by the Council of Ministers, and at this moment the MAFF is establishing the necessary mechanism and structures so that the licensing process can begin on the second semester of 2004. MAFF has also prepared a draft forestry and watershed management policy and strategy, which has undergone extensive stakeholder consultation. Programs on industrial crops, such as coconut and candlenut oil are progressing slower than originally anticipated, but this is justified by the need to complete a feasibility study prior to field training and piloting.

## **PROPOSALS UNDER TSP III (2004-05)**

As in the case of TSP II, the TSP III (2004-05) actions are based on the priorities and policies identified in the Government's strategic planning instruments, including the National Development Plan and sector policies and Sector Investment Programs. The priorities are reflected in the 2004-05 AAPs and budgets and the TSP III actions form a subset of these.

Building on the experiences under TSPs I and II and the Government's policy and planning initiatives, the TSP III adopted a medium-term perspective within the framework of a combined sources budget approach. It introduced the mainstreaming of gender with increased emphasis on capacity building. It focuses on systems performance by making greater use of quantitative performance indicators. It was agreed that the three focus areas of good governance, service delivery for poverty reduction and job creation will be continued under TSP III and successor operations. Most of the activities identified in these areas follow-up on measures launched under TSPs I and II, including some actions that were not completed and have been rolled over to TSP III.

## **GOOD GOVERNANCE (TSP III)**

### **Governance Issues**

In preparation for the TSP III appraisal mission and with the knowledge of the Government, the World Bank prepared a draft paper on "Timor-Leste: Key Issues in Governance," which played a catalytic role in the discussions in the Governance area. The paper highlighted the strength of the Executive (or the Government) relative to the other three state organs – the President of the Republic, the Parliament and the Judiciary. It argued for strengthening the latter through, among others, adequate budgetary resource allocations, to enable them to better fulfill their functions as visualized in the country's Constitution.

The Government indicated its willingness to protect the budgetary allocations to these independent institutions and include a provision in the draft Budget Law along those lines. However, the Government feels it unnecessary to take steps into a void. And to that effect the priority should be given to the creation of a solid base of capacity, primarily in the Courts of first Instance and the Court of Appeals, in order to improve the performance of their functions as foreseen in the Constitution.

The Government requests development partners provide greater assistance and adequate support to the institutions mentioned above in order for them to better perform their functions.

### **Guidelines for Policy and Legislative Process**

The need for a well-defined policy and legislative process to ensure effective management of a heavy policy and legislative workload and provide opportunities for public consultation has been recognized under TSP II. The Secretariat of State for the Council of Ministers is in the process of mobilising the necessary technical assistance to accomplish this task. Procedures will be defined during 2004-05, as well as the routine scheduling instrument that constitutes the legislative program.

## **Provedor**

As indicated above, the organic law for the Office of the Provedor, drafted by the Office of the Prime Minister was approved by the Parliament in April 2004, and is has been promulgated by the President. The Parliament is responsible for the selection of the Provedor. Once appointed, the Provedor is expected to operationalise the office through systematic collection of information on human rights abuses and administrative malpractices, including corruption, together with information campaigns to increase public awareness of citizens' rights and means of redress. Strengthening the office of the Provedor would be a priority. The World Bank and UNDP are expected to provide technical assistance to the office.

## **Public Service**

Preparations are under way for implementation of the recently approved Civil Service Statute. This would include the formulation and approval of supporting decree laws and regulations. The establishment of functioning personnel registries at agency level remains a priority. A UNDP project currently provides training and support in the administration and recording of routine personnel transactions at agency level. The Ministry of State Administration is now reviewing options for computerising this system. However, computerisation is only viable once hard copy files have been prepared. The compilation of hard copy agency registries will continue during 2004-05. The Government intends to formulate human resource development strategies in key ministries, including the Ministry of Planning and Finance and Ministry of Justice. One of the key issues is to ensure adequate representation of women in the public service, especially in managerial and decision-making positions.

The Civil Service Statute provides a framework for disciplinary procedures. Guidelines and training on the application of these procedures will be prepared in 2004-05. The organic law for the Office of the Inspector General is expected to be presented to the Council of Ministers in early 2004-05.

The office, which functions in the office of the Prime Minister, will have to be fortified in its internal audit of Government role in order to be able to continues its programme of inspections and disseminate its reports. However, it should never duplicate the functions of the Office of the Provedor. Also, it will have to continue within prescribed procedures and to vigorously report where there is suspicion of criminal acts or acts of bad-faith to the Prosecutor General.

## **Justice Sector**

The Government recognizes the need for further work on the legislative and oversight framework for the judiciary, including the organic laws for Public Prosecutors and Defenders. The Superior Council for the Public Prosecution is planned to be established during 2004-05. Also, greater attention will be paid to improving the efficiency of the court system and reducing the backlogs, through, among others, recruitment of a few expatriate judges/mentors and prosecutors. Regular functioning of District Courts is critical for improving access and service delivery. In order to ensure adequate oversight, support services and coordination, the Superior Council for the Judiciary will initiate inspections and monitor the performance of judges. The preparation and submission to Parliament of legislation on domestic violence is seen as a priority in this regard.

By initiative of the Office of the Prime Minister through the Adviser for the Promotion of Equal rights, and after ample consultation at the national level a law on domestic violence was drafted. The draft was submitted a number of times to the Council of Ministers for consideration, and was sent to the Ministry of Justice to ensure conformity with the processes and penalties in the criminal code.

## **Police**

Improving the relations between the police and the communities will continue through training including on gender sensitivity. Pilot programs on community awareness will be carried out on such aspects as domestic violence. A national strategy for community awareness programme will be prepared incorporating the results of the pilot programs. The law on the police discipline will be published, and the policies and procedures of the Professional Standards Unit of PNTL will be adjusted to be compatible with the law. Investigations into citizen complaints against the police are planned to be facilitated through the creation of an independent review commission. The members of the commission would comprise stakeholder representative including from the civil society. The Government plans to develop a policy on policing in consultation with all stakeholders, and prepare for its promulgation.

## **Planning and Public Expenditure Management**

The formulation of Annual Action Plans (AAPs) and Quarterly Reporting Matrices (QRMs) will continue. Gender mainstreaming is proposed to be piloted in the 2005-06 AAPs of the Ministries of Education, Culture, Youth and Sports, Health and Justice and PNTL. The legal framework for management of public finances needs to be updated to reflect changes in institutional arrangements after Independence and recent improvements in procedures. A draft Financial Management Law has been prepared. The draft would be finalized and submitted to Parliament in 2004-05. The Procurement Decree Law will be approved by the Council of Ministers. In addition, TSP III will focus on the implementation and monitoring of routine budget and planning activities, including the continued timely publication of a comprehensive state budget, finalisation of the Sector Investment Programs (SIPs) including prioritisation and sequencing within and across sectors; preparation of the 2004-05 Mid-Year Budget Update and formulation of the 2005-06 CFET budget within the framework of a combined sources approach incorporating the SIPs; regular procurement reporting, with improvements in processing times; timely publication of comprehensive, detailed quarterly budget execution reports and financial statements; and timely publication of the audit report and management letter.

In the medium-term, one of the key determinants of sustainability in the financial management system is progress in capacity building, particularly as regards skills transfer. Accordingly, the Ministry of Planning and Finance was to formulate a human resource development strategy, which has been a commitment under both TSP I and TSP II. The Ministry has been reviewing the initial drafts and plans to complete the strategy including succession plans and commence training of the Ministry's staff in 2004-05.

## **Power Sector**

TSPs I and II focused on improving the financial position of the nation's electric utility, EDTL, by strengthening its capacity through a management contract, improving cost-recovery through the installation of pre-paid meters and, most recently, competitive tendering for fuel supplies. These arrangements will continue to be implemented during 2004-05. Now, attention has turned to the investments needed to improve EDTL's performance from the supply side, especially upgrading the generation capacity and distribution lines. The Government is preparing the Sector Investment Programme (SIP) to lay the foundations for future power sector development. Actions contemplated during 2004-05 include measures to support the establishment of the legal, regulatory and institutional framework for the power and on-shore petroleum sectors; and preparation of plans for the exploitation of indigenous energy resources and long-term plans for rural electrification. The Government will continue to closely monitor progress in improvement of EDTL's financial position, together with other management contract performance indicators for power generation and distribution reliability and efficiency.

## **Petroleum Fund**

During 2004-05, the Government plans to establish a petroleum fund. The fund which will be created after ample consultation, will be established on the principle of inter generational justice, would go to implement adequate governance provisions for proceeding with investments.

The fund will have to implement adequate governance and policy arrangements for Timor Sea revenue . The Government has been consistent with the principles of the so called “*Extractive Industries Transparency Initiative*”. The Government anticipates utilising these very same principles after the fund has been created.

The Government is conscious that it will be obliged to divulge completely the effective payments by operators to the Government. The IMF and the Government of the Norway are providing technical support in regard to the establishment of these arrangements In this context, the establishment of the petroleum fund is foreseen in TSP III.

## **Access to Information**

Alongside the above actions, the Government plans to introduce measures to improve access to information. It has established an information office in the Office of the Prime Minister. Also, the Prime Minister has invited local journalists to work with the Government on a freedom of information legislation.

## **SERVICE DELIVERY FOR POVERTY REDUCTION (TSP III)**

### **Health**

During 2004-05, the Ministry of Health will focus on developing and adopting sub-sector policies and strategies on primary health care, maternal health, child health and communicable diseases; maintain hospital expenditures at or below 40% of core CFET expenditures in the health sector; improve the management of hospitals through preparation and dissemination of annual activity plans for each hospital; and enhance monitoring of service delivery in districts through six-monthly reports on implementation of district health plans. In addition, as under TSPs I and II, the Ministry has set and intends to achieve key annual performance targets for DPT3 and measles immunisations, deliveries attended by skilled health staff, and number of outpatient visits to health centers per capita per year.

### **Education**

The Government is currently finalising its education sector policy, which will provide the broad framework for state interventions in the sector. The policy and a supporting Sector Investment Programme (SIP) are to be approved in 2004-05. The SIP will identify the priorities for external assistance to the sector, and the legislative framework for the sector, including an Education Law, an organic law for the Ministry, and a law on tertiary education including regulations governing private schools.

Internal efficiency of primary and pre-secondary education is to be improved through the identification of factors contributing to dropout and repetition and initiation of remedial measures. The quality of teaching is to be enhanced through distribution of teaching materials and guides to all primary schools and adoption of new primary education syllabuses. The pilot grants to schools scheme will be implemented through training and distribution of funds to the school committees. The Ministry’s low budget execution in the first three quarters of 2003-04 is to be improved through closer monitoring of expenditures in the divisions on a monthly basis and preparation of procurement plans of the Ministry in the first quarter of 2004-05.

## **Veterans**

Based on the work of the two Veterans Commissions and building on consensus on the criteria for identification of veterans, the Government intends to start work on the development of a policy on veterans and supporting legislation recognising the veterans, defining their rights and obligations. Decisions on the transfer and use of the database of veterans and the launching of a process of identifying and registering members of the clandestine resistance, including quadro civil, with particular attention to the registration of female veterans, are expected to be made by the President of the Republic during 2004-05.

Thus, the Government has undertaken initiatives in this direction, obtaining support from friendly countries, namely the People's Republic of China, to respond to the necessities of a more restricted group of Veterans of the Resistance on which there is no doubt of their uninterrupted participation in the fight for National Independence.

## **JOB CREATION (TSP III)**

### **Private Sector Development**

Both TSPs I and II placed particular emphasis on the establishment of a legal framework supportive of private sector development. The Government intends to maintain the momentum in developing the business regulatory environment, with due attention to the operation of institutions necessary for implementation of the framework, including in particular, activities aimed at stimulating new investment and expanding employment opportunities. Key legal instruments to be finalized and/or approved in 2004-05 include the company and investment laws; insurance, bankruptcy and insolvency, cooperatives, the banking system, contract and collateral laws; key regulations relating to land and property, and further regulations on the leasing of Government and private property. Activities related to the land and property registry, cadastre registry, and land and property dispute mediation mechanisms are to be pursued with the objectives of creating a private market in land and property sales, increasing the number of confirmed land and property titles, and commencement of concessions, licensing for use or operation.

The Government is also preparing to establish an Investment and Export Promotion Agency as the unique provider of information with a view to attract direct foreign and national investment that will contribute towards the creation of new jobs. Local entrepreneurship is to be developed through a national programme of entrepreneurship that will organize ongoing national entrepreneurship programs and forums, help incorporate entrepreneurship programs in secondary and tertiary business studies, structured training in entrepreneurship through business development centres, and public awareness campaigns. Basic elementary training in the area of small and medium business management and cooperatives has been initiated through the Ministry of Development and Environment

The Secretariat of State for Labor and Solidarity intends to pilot the Emigrant Workers Program, continuing the effort of finalising employment agreements with Malaysian companies and a memorandum of agreement with Malaysia. Also, the Secretariat plans to explore opportunities for also sending labor to South Korea.

Two basic objectives of the Government underlie this program: i) to create employment for thousands of young Timorese and, ii) to technically and psychologically enable the Timorese to participate and take on the great challenges of the future in obtaining the necessary qualifications and participating capably in those areas which are integral to the development of Timor-Leste.

The community-based road maintenance (and construction and repair of small infrastructure) programme will be continued in 2004-05, within the scope of the RESPECT project or other initiatives to reduce, although in a seasonal manner, the number of unemployed,.

## **Agriculture**

The Ministry of Agriculture, Forestry and Fisheries will finalize its sector policy and strategy, and Sector Investment Programme (SIP) in 2004-05, in consultation with stakeholders including development partners. The intention is to define the role of the Ministry in supporting agricultural and fisheries development, aligning the institutional structure and expenditures with the Ministry's service delivery and regulatory mandates. Thus, the medium-term priority actions will be clarified following the adoption of the policy and strategy and the SIP. Other short-term actions to be implemented during 2004-05 include development of departmental and sub-sectoral action plans, design and operationalisation of the management information system, issuance of licenses for off-shore fishing, monitoring the operations of the licensees, and preparation of a report on the operation of the fisheries licensing. Food production and food security are to be enhanced through focus on increasing yields of irrigated rice and multiplication and distribution of seeds which are appropriate for upland and mountainous areas, including tubers.

# PART 5 – THE ECONOMY

## CURRENT ECONOMIC OUTLOOK

### GDP Growth

The GDP of the country has not been measured since 2000. So all estimates are surrounded by a high degree of uncertainty. During the year, the economy continued to limp along with an expansion in Timorese activity, particularly in retail trade, small restaurants, transport and public and private construction mainly in Dili and other urban centers, stimulated, among others, by CFET expenditures. However, the simultaneous decline in the international presence including the scaling down of the PKF and other UN personnel, as well as a decline in some bilateral programs has an adverse impact on the level of economic activity. On balance, the latter is projected to dominate with the economy declining by about 2% in FY2003-04. The decline is projected to continue into FY2004-05 with a 1% contraction in economic activity during the year. Thereafter, the economy is expected to resume growth in FY2005-06 (by 2%) and pick up further in FY2006-07 (to 3%).

**Table 5.1**  
**GDP Growth Rate Projection (%)**

	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08
2004-05 Budget	-37	51	5	-2	-2	-1	2	4	5
2003-04 MYBU	-37	51	5	-2	-2	-3	2	3	NA

Partial indicators and anecdotal evidence suggest that the overall level of economic activity has declined only moderately since its peak in FY2001-02. This is supported by indications from the value of imports, particularly taxable imports by the private sector, and an increase in the number of taxpayers registered with the Timor Leste Revenue Service (TLRS). The composition of imports seemed to have been shifting from tax-exempt items under official development assistance to taxable ones for the private sector. As a result of this shift and the improved capture of the taxable imports under the Automated System for Customs Data or ASYCUDA, the revenues from customs duties and taxes increased significantly. Exports remain at a very low level with the share of coffee continuing to dominate the value of exports.

Growth in commercial bank lending to the private sector has accelerated, albeit from a relatively low base. Small loans from micro finance institutions too increased during the year. The Government in consultation with ADB and other development partners decided to maintain the micro-finance entity developed under TFET. However, there will need to be some redefining of the role of the State in the foundation of the institution. Further expansion in micro-finance lending is contingent on the future operations of the privatised entity and the policy to be adopted by the BPA on the status of the micro-finance institutions.

Inflation continues to moderate with the annual rate for March 2004 estimated at 2.8%. Wage rates continue to exhibit softness with the daily wage for unskilled labour hovering around \$3.00. Employment has not been expanding and may have contracted due to the decline in economic activity. Emigration of labour, especially the educated youth, has been relatively modest and is estimated to be running at around 800 per annum. This together with the annual addition of about 15,000 new entrants into the labour force may have contributed to increased unemployment, which is of major concern.

### Road Repairs

The onset of the rainy season resulted in significant damage to the roads and bridges, impeding access to several areas of the country. During the past three to four years, much of the periodic maintenance and rehabilitation work was undertaken by the engineering battalions of the UN Peace Keeping Force (PKF)

and contractors financed and supervised by TFET projects. With the scaling-down of the PKF and the impending departure of the remaining Force, winding down of TFET, and the tight CFET budget allocations in FY2003-04, the road maintenance operations have tailed off and road conditions deteriorated. Much of the allocated community-based and other road maintenance budget has been exhausted by December 2003, leaving very little for the second half of the fiscal year. The reductions in road maintenance and the deterioration in road access have adverse effects on off-farm employment in rural areas, access to markets and overall rural development.

## **Resource Flows to the Rural Areas**

International assistance has been directed not only to Dili but also to other districts, one should also note that a good part of these funds reaches the districts through exercises such as the Programme for Autonomy in the Communities and the Micro-Finance Program under the CFET, as well as other projects of rural development directly supported by bilateral and multilateral partners, such as RESPECT, SEP I and II.

## **Poverty Incidence**

The decline of the economy in recent years and next year as well as the projected modest recovery in the following two years (FYs 2005-06 and 2006-07) is likely to result in a small negative average growth in GDP during the Plan period (FY2002-03 to FY2006-07). At the same time, the population of Timor-Leste has been growing at around 3% per annum or by more than 15% during the Plan period. The impact of the declining economy and the growing population is likely to be significant, with a rise in the incidence of poverty both in terms of the number of poor people and their proportion in the total population. This is of significant concern to the Government and people of Timor-Leste as well as their development partners.

## PART 6 – REVENUE

Revenue estimates in the 2004-05 Budget for the next four years show an increase if compared with the 2003-04 MYBU. This expected increase in revenue is due to:

- an increase in the market price of oil;
- better than expected progress in the development of the Bayu Undan project; and
- improved administrative management of the Timor Leste Revenue Service (TLRS), Customs Service and other agencies.

This is against the background of negative implications on the economy of Timor-Leste due to the fact that the UN mission will substantially downsize in 2004 and international support is being withdrawn.

**Table 6.1**  
**Timor-Leste Total Revenue 2003-04 MYBU and 2004-05 Budget (\$m)**

	2003-04	2004-05	2005-06	2006-07	2007-08
Budget 2004-05	52.8	41.3	59.0	81.4	74.3
MYBU 2003-04	37.4	29.7	28.2	50.0	na
Change	15.4	11.6	30.8	31.4	na

The aforementioned increase in total revenue for Timor-Leste for the 2004-05 Budget includes First Tranche Petroleum (FTP) and revenue from autonomous agencies, and is compared with the estimates made in the 2003-04 MYBU.

**Table 6.2**  
**Timor Leste Total Revenue (\$m)**

	2003-04	2004-05	2005-06	2006-07	2007-08
Domestic Revenue	26.1	23.0	23.8	25.0	26.6
Timor Sea Taxes	26.7	18.3	35.2	56.4	47.7
<b>Total Revenue</b>	<b>52.8</b>	<b>41.3</b>	<b>59.0</b>	<b>81.4</b>	<b>74.3</b>
Memo: FTP & FTP Interest	4.6	25.8	27.4	29.3	29.6
Autonomous Agencies	6.2	8.3	10.1	11.1	11.7

The Timor Sea revenue is subject to large risks and Timor-Leste will face challenges in relation to the receipts of revenue. This could mean a reduction in revenue of \$100m over the next four years due to risks such as oil prices, quantity of oil production etc. However, revenue could be over \$100m higher than the estimates in the 2004-05 Budget if prices and production quantities are high. The magnitude of these effects on Timor Sea revenue is illustrated in the Table 6.3.

**Table 6.3**  
**Revenue Estimates for Timor Sea –Sensitivity Analysis (\$m)**

	2004-05	2005-06	2006-07	2007-08	4 Yr Total
2004-05 Budget Estimates	18.3	35.2	56.4	47.7	157.6
High Case Scenario	29.0	66.3	90.3	92.3	277.9
Low Case Scenario	15.5	8.1	12.5	13.7	49.8

Timor-Leste domestic revenue excludes Timor Sea revenue and is split into two components:

- tax revenue; and
- user charges and other revenue.

In the annual 2004-05 Budget, both components have been revised upward in comparison with the 2003-04 MYBU.

**Table 6.4**  
**Timor Leste Domestic Revenue (\$m)**

	2003-04	2004-05	2005-06	2006-07	2007-08
Border taxes	13.3	11.5	11.8	12.4	13.0
Service Tax	3.1	2.1	2.1	2.2	2.4
Income Tax	5.7	5.4	5.5	5.7	6.0
Fees, User Charges and Interest	4.0	4.0	4.4	4.7	5.2
<b>Total Domestic</b>	<b>26.1</b>	<b>23.0</b>	<b>23.8</b>	<b>25.0</b>	<b>26.6</b>

## TAX REVENUE

Tax revenue for the two tax collection departments, namely the TLRS and Customs service, in the 2004-05 Budget shows a significant increase in comparison to the 2003-04 MYBU.

While advances were made in tax increases for 2003-04, tax bases are expected to contract in 2004-05 following a decline in domestic economic activities in Timor-Leste, due to the withdrawal of international staff and assistance from Timor-Leste.

During the financial year of 2003-04, there was an improvement in the management systems used by the TLRS to conduct audits on the payment of tax by taxpayers who have neglected their obligations to pay tax during the previous few years.

Also, the TLRS has provided information and guidance about tax obligations to large and small business on how they should comply with their responsibility to pay tax. This has had a positive impact resulting in an increase of revenue for 2003-04. For the next few years revenue is expected to continue to experience an overall increase due to the improvement in the tax payment system.

Revenue from Service tax in the 2003-04 are higher based on collections to date, but estimates for 2004-05 are expected to decline because many hotels and restaurants will have less customers as many international staff will complete their duties in Timor-Leste. This is expected to negatively impact on Service tax as a component of domestic revenue.

Income tax revenue estimates in the 2004-05 Budget are expected to increase in comparison with the 2003-04 MYBU. After a reduction for 2004-05, this revenue is expected to continually increase for the next four years as entrepreneurs expand their businesses and comply with tax regulations.

The Customs service has increased its revenue by more strictly implementing a policy on importers to ensure their compliance with tax regulations. Also, the Customs service has carried out stricter policing of the border to reduce the amount of illegal imports. This has resulted in a very significant contribution towards revenue for Timor-Leste.

## FEES, USER CHARGES AND INTEREST

Estimates of fees, user charges for the 2004-05 Budget and interest on the CFET balances show an increase for each year in most areas and a decline in a few areas, as shown in Table 6.5.

**Table 6.5**  
**Timor-Leste User Fees and Charges Revenue (\$m)**

	2003-04	2004-05	2005-06	2006-07	2007-08
Visas	1.4	1.2	1.3	1.3	1.4
Land & Property	1.1	1.2	1.2	1.3	1.3
University	0.3	0.4	0.5	0.6	0.8
Passports	0.4	0.3	0.3	0.4	0.4
Land Transport	0.3	0.4	0.5	0.5	0.6
Business Registration	0.2	0.2	0.2	0.2	0.2
Post Office	0.1	0.1	0.1	0.1	0.1
Other	0.3	0.3	0.4	0.3	0.4
<b>Total</b>	<b>4.0</b>	<b>4.0</b>	<b>4.4</b>	<b>4.7</b>	<b>5.2</b>

- Visa revenue is expected to decline in the 2004-05 Budget in comparison with estimates made in the 2003-04 MYBU. This is due to the implementation of a new system for East Timorese citizens whose spouses are foreigners and for foreigners who work in the humanitarian sector in Timor-Leste.
- Land and property revenue is expected to increase in the 2004-05 Budget due to the amount of applicants wishing to rent houses or government buildings. In addition, in the 2004-05 Budget, a land measurement programme is expected to be implemented in Dili and the districts.
- The University of Timor-Leste over the next four years (2004 to 2007) is expected to experience an increase in revenue for each year, because many high school leavers will continue their studies at the tertiary level.
- Civil registration revenue in the 2004-05 Budget is expected to increase each year during the next four years (2004 to 2007), as the Civil Registration Department is expected to receive new revenue from things such as: birth certificates, marriage certificates, divorce certificates, certificates of citizenship and citizen identity cards.
- Business registration revenue estimates in the 2004-05 Budget for both major and minor trade, expect to have a registration fee of \$100 for large businesses and \$10 for individuals
- Land transport revenue estimates in the 2004-05 Budget expected to increase each year as various new systems are implemented, for example drivers licences, fines, transfers of registration, etc..

## **TIMOR SEA REVENUE**

The methodology used to generate numbers for the Timor Sea revenue estimates for the 2004-05 Budget over the next four years (2004-05 to 2007-08), was to meet with the project operator, in order to get information about their production estimates, and to consider world oil prices and the fall of the exchange rate of the US dollar. Also meetings were held with the Timor Sea Designated Authority, Timor Sea Office and the TLRS in order to analyse the information obtained from the operator to generate estimates that are as accurate as possible. Information given by the operator became an important base for Estimates on Timor-Leste revenue.

The Timor Sea forecasts were updated using the latest information for Bayu Undan from the operator on;

- higher oil prices;
- revised upstream investment costs;
- revised tax on upstream investment;
- revised LNG plant investment cost (including changing exchange rates);
- revised pipeline investment costs;

- higher production in 2004;
- later start date for tax depreciation;
- revised upstream operating costs;
- revised exchange rate on pipeline payment from Australia; and
- model refinements based on new data.

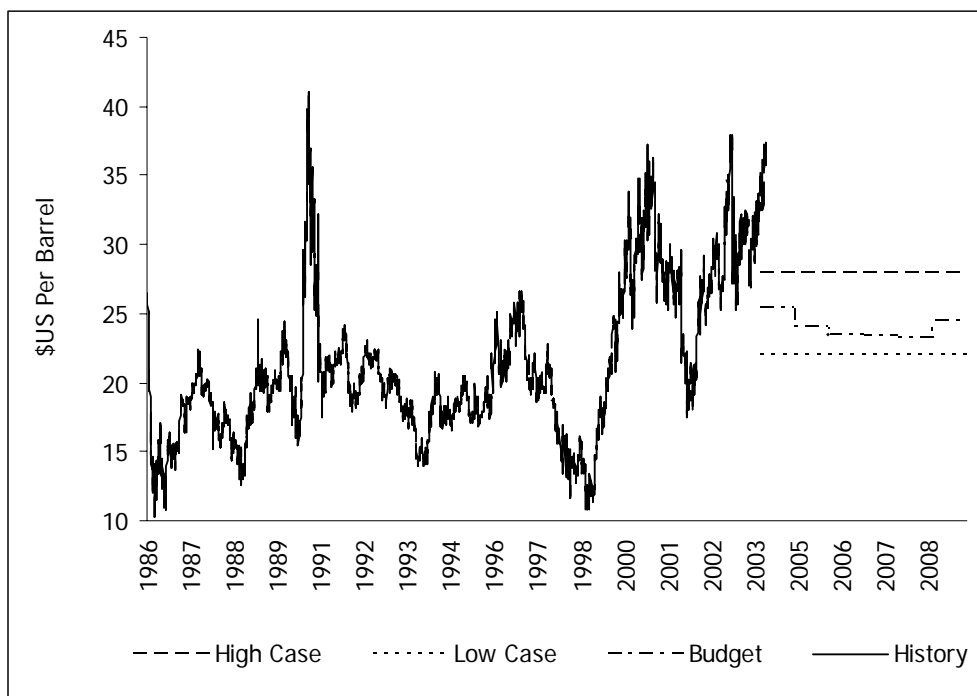
## Risks to Revenue

Every nation engaging in oil mining will continually face various types of risks and obstacles, especially those countries are themselves dependent on oil production. In relation to this point, the petroleum projects faces the following risks, amongst others.

The **world market prices** change on a daily basis, or in other words are continually increasing or decreasing, and such large fluctuations in price are expected to influence the amount of Timor Sea revenue received by Timor-Leste.

Chart 6 shows the fluctuations of world oil prices which are continuously changing, thus meaning that there is no certainty in determining an oil price for the Bayu Undan project.

**Chart 6.1**  
**World Oil Prices**



The Bayu Undan project is a **new project**, production has just started and until now the price of Bayu Undan condensate and LPG has not yet been established, because it has yet to be sold to a nation in demand. Each refinery seeking to purchase oil and gas has its own tastes and preferences, so the prices for Bayu Undan petroleum are only estimates.

The current **exchange rate** for the American dollar has weakened against the Australian dollar and Euro. This has impacted on development costs for the Bayu Undan project, as well as operating costs.

Currently, **production volumes** can only be estimated. It is not yet known for certain how many wells still need to be drilled or the efficiency of the equipment relating to production. Solutions are continually being sought to overcome any problems on the extraction of condensate and LPG from the gas. Currently

there is uncertainty about the date for achieving full production, and in addition the operator is hoping that the Bayu Undan project can be completed as soon as possible with no further problems emerging.

Under a self-assessment tax system, tax payers are obliged to interpret the tax law and their interpretation can differ from that of the tax authorities. The regime for **tax depreciation** has been interpreted differently and work is underway to reach a final agreement between the Timor-Leste Revenue Service (TLRS) and the operator on when to commence tax depreciation.

In the first phase of the project gas is re-injected into the well to maintain reservoir pressures and maximize the **extraction** of condensate and LPG. The extent to which this will be successful is unknown. This will influence the production of condensate and LPG, including during the second phase of the project when gas is delivered to Darwin by the pipeline from 2006.

The estimation methodology has adopted a discount of 15% for revenue from the Timor Sea, in order to provide a degree of security (but not certainty) that the revenue estimates will be obtained, given all of these risks. The 2004-05 Budget estimates of Timor Sea revenue will almost certainly be revised in the 2004-05 MYBU as new information becomes available.

## **Revisions to 2003-2004 Estimates**

The risks described above are illustrated by the revisions to the estimate for 2003-04. Estimates in the 2003-04 MYBU predicted total revenue from the Timor Sea taxation to be \$17.1 m. However in the revised estimates for the annual 2004-05 Budget Timor Sea revenue has increased significantly with a total estimate of \$26.7 m, or in other words an increase of \$9.6 m. This large increase in the estimates is based on high collections of \$12.3m in the month of March 2004.

This increase can be attributed to the TLRS continuing to improve its compliance and enforcement and provide guidance on tax laws to tax payers resulting in more tax payers adhering to tax regulations and paying an extra \$3.4m. The TLRS and a tax payer previously held conflicting views, but settlement of a dispute has now increased revenue by \$3.2m. The increase in production for Elang Kakatua Kakatua North (EKKN) totals \$1.9m because of higher world oil prices. Decisive collection action on once-off exploration of Kuda Tasi has provided total revenue of \$1m.

## **Budget Forecast and Scenario**

Timor Sea revenue estimates for the 2004-05 Budget are significantly increased in comparison with the 2003-04 MYBU. This expected increase can be attributed to several important factors which include, amongst others, world oil prices, expected production developments, the start date of tax depreciation and higher investment costs.

**World oil prices** continually fluctuate and this fluctuation impacts both positively and negatively on any nation which is particularly dependent on oil, such as Timor-Leste. Information obtained on New York Mercantile Exchange (NYMEX) quotations relating to the next five years suggests world oil prices will decline to 2008.

Based on this information there is an assumption that over the next five years world oil prices will decline, and then from 2009 will experience an increase of 2.5% per annum. Oil price assumptions based on a 2 year average of world oil prices from NYMEX are:

- 2004 \$25.41
- 2005 \$24.03
- 2006 \$23.49
- 2007 \$23.35
- 2008 \$23.26

- 2009 \$24.43 (Thereafter increasing 2.5% per annum).

The operator reports better than expected progress of activities relating to the expected production of Bayu Undan, where first liquids were extracted in February 2004. The Production for 2004 is now estimated to reach 15.5 million barrels, which is an increase on the figure of 11.8 million in the MYBU.

The **tax depreciation** for the Bayu Undan project is expected to commence later, though a general agreement has not yet been reached between the TLRS and tax payers.

**Investment costs** for the Bayu Undan Project are higher because the American dollar has weakened against the Australian and Euro currencies. This reduces revenue and is a partial offset to the three factors mentioned previously.

**Table 6.6**  
**Timor Sea Revenues (\$m)**

	2003-04	2004-05	2005-06	2006-07	2007-08
VAT	12.1	8.2	4.6	6.6	4.1
Income Tax	14.6	10.1	30.6	49.9	43.6
<b>Total Tax</b>	<b>26.7</b>	<b>18.3</b>	<b>35.2</b>	<b>56.4</b>	<b>47.7</b>

Estimates in the annual 2004-05 Budget for value added tax (VAT) from investors over the next few years is expected to decline, as the volume of investment activities for Bayu Undan is completed.

Income tax is yet to display signs of an increase as production on the Bayu Undan Project has only just begun. At this stage the product of Bayu Undan has not yet been sold on international markets. In addition, tax depreciation will significantly reduce taxable income for the next five years. The EKKN project is expected to experience a decline in production for the current year and next year and cease its production in 2006.

Income Tax is expected to experience an increase in revenue for 2005 caused by Bayu Undan starting to achieve its full production and being sold to the international market. Income tax collections are therefore expected to rise. They will also rise when the pipeline commences operations.

The large effect of the risks and uncertainties on Timor Sea revenue estimates is best illustrated by scenarios.

The high case scenario and low case scenario are based on better or worse outlooks than the assumptions used for the budget estimates. From the start of 2000, world oil prices (West Texas Intermediate) on the international market have ranged between about \$18 and about \$36 per barrel. For the previous period between 1986 and 1999 the average price was about \$19 per barrel. This can provide reference points for the current status of world oil prices. The revenue of Timor-Leste could be higher than that indicated in the high case scenario, or could be lower than that illustrated in the low case scenario.

There are several scenarios for revenue from Bayu Undan, namely the:

- high case scenario;
- low case scenario; and
- the 2004-05 Budget scenario.

These scenarios are based on variations in prices and quantities, where the price variations are only illustrative. Scenarios have been constructed as an illustration to show the effects of this range of world oil prices and changes in production volumes on Timor Sea revenue estimates.

In the estimates of the 2004-05 Budget, the budget base scenario was constructed on the basis of declining world oil prices as described above.

The high case scenario uses an assumption of a world oil price of \$28 per barrel. It also uses an assumption that reservoir volumes are higher than the budget assumption and are at the operator's

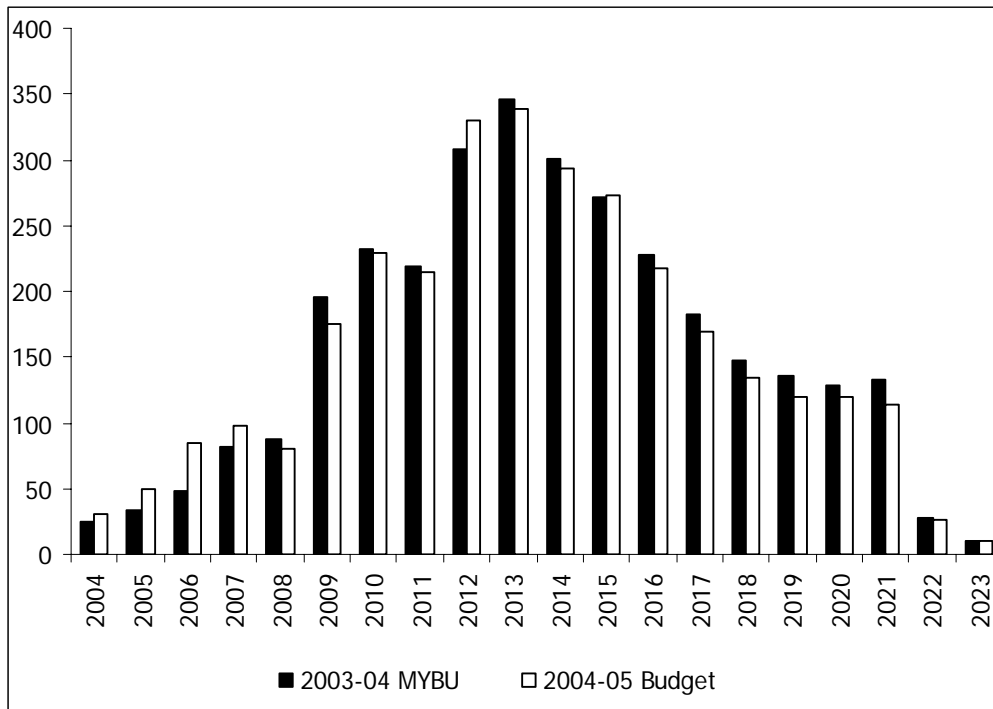
estimate of probable (P50) reserves. This high case scenario would provide considerable revenue for Timor-Leste. Based on this estimate, if the world oil price remains stable at \$28 per barrel, then the revenue of Timor-Leste for the next four years would be \$120.3m higher than the budget estimate.

The low case scenario uses an assumption of a world oil price of \$22 per barrel. It also uses an assumption that reservoir volumes are at the operator's pessimistic assessment of proven reserves. In addition, EKKN is assumed to close early. This low case scenario would provide considerable challenges for Timor-Leste. If world oil prices declined to \$22 per barrel then a reduction of \$107.8m in revenue relative to the budget estimates would occur.

The aforementioned scenarios are used as an illustration for Timor-Leste to understand the range of possibilities. Actual collections could be inside this range, or higher or lower.

Chart 6.2 and Table 6.2 shows the 2004-05 Budget estimates of the long term outlook for Bayu Undan revenues. These have not been discounted and include revenue from FTP. Revenues originating from the Bayu Undan Field will remain the largest portion of total Timor Sea revenue. This chart shows that long-term Bayu Undan revenue estimates have not changed much since the 2003-04 MYBU.

**Chart 6.2**  
**Bayu Undan Revenue 2004 to 2023**



**Table 6.7**  
**Bayu Undan Revenue 2004 to 2023 (\$USm)**

Year	2003-04 MYBU	2004-05 Budget
2004	25	30
2005	34	50
2006	48	85
2007	82	98
2008	88	80
2009	196	175
2010	232	229
2011	219	215
2012	308	330
2013	346	338
2014	301	293
2015	271	273
2016	228	218
2017	183	170
2018	148	134
2019	136	120
2020	128	119
2021	133	114
2022	28	27
2023	10	10

## FIRST TRANCHE PETROLEUM (FTP) FOR THE LONG TERM

The Government of Timor-Leste has adopted a policy to save all First Tranche Petroleum (FTP), which is the royalty component of Timor Sea revenue. The policy aims to secure savings for development in the future. This policy was implemented several years ago, and the latest estimates are shown in Table 6.8.

**Table 6.8**  
**FTP and savings from FTP (\$m)**

	2003-04	2004-05	2005-06	2006-07	2007-08
FTP	4.5	25.5	26.1	26.9	25.9
Interest	0.1	0.3	1.3	2.4	3.7
<b>Balance of FTP &amp; Interest</b>	<b>14.0</b>	<b>39.8</b>	<b>67.2</b>	<b>96.5</b>	<b>126.1</b>

Higher oil prices and the faster than expected development of Bayu Undan will contribute to a higher level of revenue for FTP from the Timor Sea for the Timor-Leste Government in the 2004-05 Budget compared to the 2003-04 MYBU. Interest generated by the FTP savings from the Timor Sea are expected to increase due to an increase in FTP savings. Also the bank interest is expected to increase annually.

Estimates indicate that savings accumulated from the FTP at the end of 2006-07 will reach \$96.3m, in comparison with the 2003-04 MYBU of \$91.6m. It is likely that Timor-Leste will have fluctuations in revenue. Timor-Leste could use its FTP savings to maintain desired levels of Government spending at some future time.

## AUTONOMOUS AGENCIES

2004-05 Budget estimates for autonomous agencies have increased in comparison with the 2003-04 MYBU.

**Table 6.9**  
**Autonomous Agencies (\$m)**

	2003-04	2004-05	2005-06	2006-07	2007-08
Ports	0.9	0.9	0.9	0.9	0.9
Airports	1.0	1.0	0.9	0.9	0.9
Electricity	4.3	6.5	8.3	9.3	9.9
<b>Total</b>	<b>6.2</b>	<b>8.3</b>	<b>10.1</b>	<b>11.1</b>	<b>11.7</b>

A significant contributor towards autonomous agency revenue in the 2004-05 Budget is the Electricidade de Timor Leste (EDTL), where revenue is generated from consumers using services relating to electricity.

EDTL over the last few months has implemented a new system of pre paid meters in Dili. It's management has been contracted to an international company.

Revenue estimates for the other agencies, Civil Aviation and the Maritime Authority, have also increased. For the next three years 2004-05 to 2006-07 they have risen to about \$5.4m, in comparison with the 2003-04 MYBU estimate of about \$4.3m.

However, in the 2004-05 Budget estimates of 2004-05 for the aviation and maritime agencies, it is forecast that for the next two years (2005-06 and 2006-07) there will be a decline due to fewer passengers travelling to and from Timor-Leste and also a reduction in the amount of goods imported.

## **PART 7 – SECTOR INVESTMENT PACKAGES**

### **OBJECTIVES OF THE SIP EXERCISE**

The objective of the sector investment packages (SIPs) is to enhance the capacity of the government to develop multiyear expenditure programmes based on policy and programme requirements. The SIP exercise will assist in establishing expenditure priorities within and amongst individual sectors. The SIP exercise will also promote increased cooperation and coordination amongst government agencies due to linkages that exist among all sectors.

### **COVERAGE OF THE SIP EXERCISE**

Each SIP will provide a strategic plan for development of the sector over the medium term and the policies, programmes and expenditures needed for its implementation. SIP documents are being prepared for 14 separate sectors. The fourteen sectors can be divided into four main groups:

- basic services (includes education and training and health care);
- production-related sectors (agriculture, forestry and fisheries, natural resources and environment, and private sector development);
- basic infrastructure (communications, power, transport and water supply and sanitation); and
- governance (public sector management, local government and civil society, rights, equality and justice, security, peace building and reconciliation, and external relations).

The work involves contributions from almost all the Ministries and agencies of the government. Increasingly, the SIP exercise will provide valuable support for a more integrated view of public spending on development and security in Timor-Leste. The approach is to assess the total expenditure requirements in each sector, including both CFET and development partner funded activities.

### **COORDINATION AMONGST GOVERNMENT AGENCIES:**

Typically, more than one agency is responsible for activities in each sector, the SIP exercise requires an emphasis on coordination amongst Ministries. The exercise has already led to increased inter-agency discussions for a number of sectors. An example is the infrastructure requirements for rural development, linkages between health hygiene and education programmes that reinforce the introduction of safe water in communities, increased attention to inter-agency cooperation in management of watersheds and the environment, and inter-agency meetings on programmes and policies for private sector development.

### **PRIORITIES WITHIN THE SECTORS:**

SIP-related expenditure priorities within a sector are primarily set by the government agencies with responsibility for the sector. A clear statement of priorities for each sector will facilitate dialogue with development partners on the programmes and projects to be supported within each sector. This will enhance the Government's capacity for donor coordination. Clear priorities within a sector will also facilitate internal decisions on CFET budget allocations.

### **PROGRESS**

Work is underway on all fourteen SIPs, the nine SIPs that drafted in November 2003 have been reviewed by the Ministries concerned and are in the process of being revised.

Work on the five governance SIPs was launched in January. First working drafts have been prepared for all but the External Relations SIP. Work has started on the latter and a first working draft of these are ready for internal review and discussion.

## **PROPOSED TIMETABLE**

Individual ministries are continuing to have increasing ownership of the SIP process and are becoming familiar with the analysis and approach. The Government remains focussed on finalising the SIP exercise soon in order that clear priorities can be established for expenditures within sectors and across sectors.

The Government is aiming to complete the first full set of SIPs in ample time to factor the results of the work into the mid-year review of the budget in October and the next round of TLDPM discussions. This will also provide enough time for a systematic round of discussions with individual donors on the programmes and sectors that they can support. This should ensure a much more informed discussion at the likely Development Partner meeting in December and clearer indications of donor support over the medium term.

## **PART 8 – EXPENSES**

Total Combined Sources funding (CFET, TFET, Bilateral/Multilateral and UN assessed) of \$203.6m is expected at the time of printing. This represents a significant reduction from the same time last year, when expenditures in the order of \$241.8m were forecast. Reductions have occurred across all categories of funding, but are most significant in relation to Bilateral and Multilateral funding.

Total CFET expenditure for recurrent expenditure, capital and development funding and Self Funded Agency expenditure has reduced to a total of \$83.4m, as part of the Government's strategy to address the overall financing gap. As outlined below, the Government undertook a significant programme of expenditure review and reduction to better align expenditure with needs and also ensure expenditure was framed at a sustainable level. This includes recurrent expenditure, Capital and Development funding and expenditures for Self Funded Agencies.

Expenditures for TFET, will continue in 2004-05, with funding of \$24.4m provided. This will fund the continuation of a number of successful initiatives, such as the third stage of the Agriculture Rehabilitation Project, Fundamental School Quality Project, Health Projects, Small Enterprise Project Stage Two, Roads Project, Economic Institutions Capacity Building Project and Petroleum Technical Assistance Stage Two.

As indicated above, current approved projects and projects under preparation listed in the Government's Registry of External Assistance database at the time of printing have reduced significantly from the levels of previous years, to approximately \$88.9m. This reduction will need to be addressed with development partners as part of the SIP process in 2004-05

UN Assessed assistance is also forecast to reduce from previous levels, reflecting the reduced presence of the UN mission over time. It is currently expected that the UN Assessed component will only be available for 2004-05, at which time it will cease.

### **CFET AND COMBINED SOURCES SECTORAL SHARES**

The National Development Plan was developed by eight sectoral working groups, which are based on a grouping of Ministries within the eight sectors. Taking into account structural changes made by Government for the 2004-05 Budget, the sectoral groupings for Budget purposes are set out in Table 8.2.

**Table 8.1**  
**2004-05 Combined Sources Budget (\$'000)**

<b>MINISTRY</b>	<b>CFET</b>	<b>TFET</b>	<b>Bilateral / Multilateral</b>	<b>UN Assessed</b>	<b>Total</b>
Office of the President	380	0	0	240	620
National Parliament	930	0	0	240	1,170
Government Structures	1,004	770	5,162	480	7,416
State Secretariat for the Council of Ministers	380	0	0	240	620
State Secretariat for Defence	5,994	0	113	120	6,227
Ministry of State Administration	2,722	0	3,009	240	5,971
Ministry of the Interior	9,296	0	6,482	360	16,138
Ministry of Justice	1,782	0	1,010	720	3,512
Ministry of Development and Environment	480	4,190	470	120	5,260
Secretariat of Trade and Industry	177	0	0	120	297
Ministry of Agriculture, Forests and Fisheries	1,573	2,358	13,979	0	17,910
Ministry of Education, Culture, Youth and Sports	16,488	8,498	5,155	240	30,381
Ministry of Health	9,725	2,654	12,345	120	24,844
Secretary of State for Labour and Solidarity	490	0	3,667	0	4,157
Ministry of Foreign Affairs and Cooperation	2,436	0	64	120	2,620
Ministry of Planning and Finance	3,675	278	10,292	2,040	16,285
Ministry of Transport, Communications and Public Works	16,235	4,901	26,854	0	47,990
Judiciary	360	0	35	1,080	1,475
Banking and Payments Authority	620	0	0	240	860
Public Broadcasting Service	350	0	234	0	584
<b>Total Budget Funded Agencies</b>	<b>75,097</b>	<b>23,649</b>	<b>88,871</b>	<b>6,720</b>	<b>194,337</b>
Self Funded Agencies	8,268	800	0	240	9,308
Electricity Services of Timor-Leste	6,450	0	0	0	6,450
Civil Aviation	890	0	0	180	1,070
Sea Transportation	928	0	0	60	988
Unable to be Allocated to Specific Ministries	0	800	0	0	800
<b>Total Combined Sources</b>	<b>83,365</b>	<b>24,449</b>	<b>88,871</b>	<b>6,960</b>	<b>203,645</b>

**Table 8.2**  
**Grouping of Ministries Within the NDP Sectors**

<p>1. Agriculture</p> <ul style="list-style-type: none"> <li>• Ministry of Agriculture, Forests and Fisheries.</li> </ul>	<p>5. Trade, Industry and the Private Sector Development</p> <ul style="list-style-type: none"> <li>• Ministry of Development and Environment (excluding Mineral and Natural Resources &amp; Environment programmes).</li> <li>• State Secretariat for Trade and Industry.</li> </ul>
<p>2. Infrastructure</p> <ul style="list-style-type: none"> <li>• Ministry of Transport, Communications and Public Works.</li> </ul>	<p>6. Poverty Reduction and Rural and Regional Development</p> <ul style="list-style-type: none"> <li>• State Secretariat for Labour and Solidarity.</li> <li>• Ministry of State Administration (National Directorate of Territorial Administration and Local Government only).</li> </ul>
<p>3. Human Development</p> <ul style="list-style-type: none"> <li>• Ministry of Education, Culture, Youth and Sports.</li> <li>• Ministry of Health.</li> </ul>	<p>7. Macroeconomic Management and Public Finance</p> <ul style="list-style-type: none"> <li>• Ministry of Planning and Finance.</li> <li>• Banking and Payments Authority.</li> </ul>
<p>4. Natural Resources and Environment</p> <ul style="list-style-type: none"> <li>• Ministry of Development and Environment (Mineral and Natural Resources &amp; Environment programmes only).</li> </ul>	<p>8. Political Development, Foreign Relations, Security and Defence</p> <ul style="list-style-type: none"> <li>• Office of the President of the Republic.</li> <li>• National Parliament.</li> <li>• Government Structures.</li> <li>• State Secretariat for the Council of Ministers.</li> <li>• State Secretariat for Defence.</li> <li>• Ministry of State Administration (except National Directorate of Territorial Administration and Local Government).</li> <li>• Ministry of the Interior.</li> <li>• Ministry of Justice.</li> <li>• Judiciary.</li> <li>• Public Prosecution Office and Districts.</li> <li>• Ministry of Foreign Affairs and Co-operation.</li> </ul>

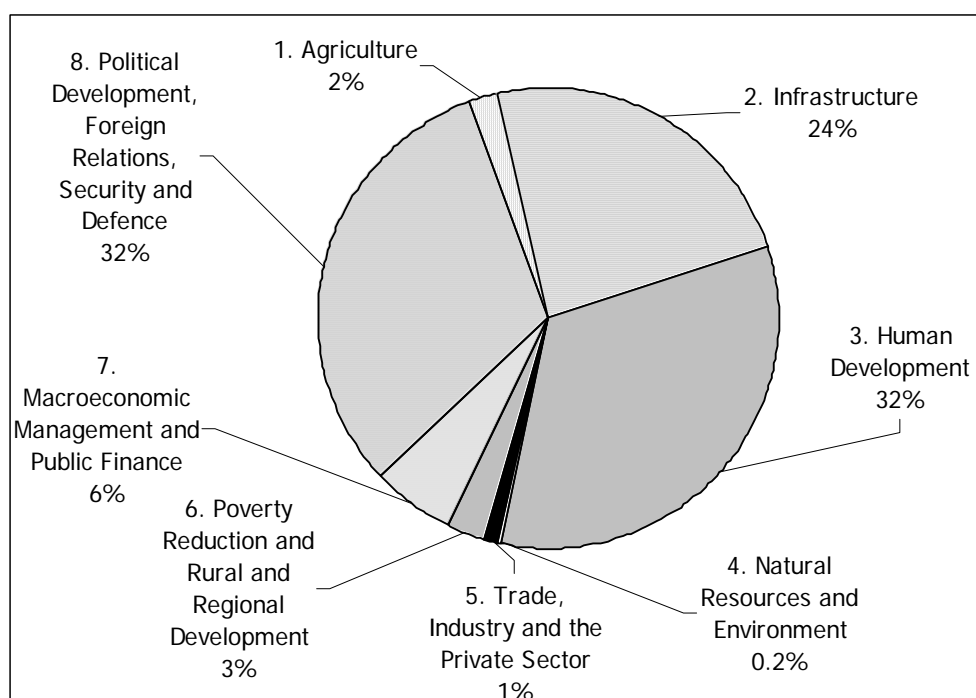
Distribution of the Combined Sources and CFET expenditures for 2004-05 between the NDP sectors is presented in Charts 8.1 and 8.2. Significant differences between the charts are in evidence, highlighting the additional resources provided to key sectors through external financing facilities such as multilateral and bilateral support, TFET and the UN assessed component.

The charts highlight that approximately 70% of CFET recurrent expenditure is directed at social and economic sectors, with the majority in infrastructure and human development sectors. This increases to over 75% for combined sources expenditure. Spending on the social sectors such as health and education is the key to longer term human capital formation and poverty reduction, while spending on agriculture and infrastructure facilitate private sector growth and underpin development.

The key sectors of trade, industry, the private sector and agriculture display significantly increased shares of combined sources expenditure compared to CFET expenditure. This is in recognition of the significant amounts of external assistance provided to these areas and also the Government decision to allocate resources with a view to the level of external support provided.

Caution must be exercised in assessing these sectoral allocations given the large amounts of assistance provided through external means, the impact of this on Government allocations and the uncertainty and volatility of levels of external support, particularly in view of the forthcoming SIP process.

**Chart 8.1**  
**2004-05 Combined Sources Expenditure by NDP Sectors**





**Table 8.3  
CFET Budget Allocations 2004-05**

<b>MINISTRY</b>	<b>2003-04 MYBU</b>	<b>04-05 Total</b>	<b>Salaries and Wages</b>	<b>Goods and Services</b>	<b>Minor Capital</b>	<b>Capital &amp; Develop't</b>
Office of the President	400	380	140	220	20	0
National Parliament	1,167	930	579	338	13	0
Government Structures	807	1,004	249	682	23	50
State Secretariat for the Council of Ministers	434	380	59	280	41	0
State Secretariat for Defence	6,075	5,994	1,712	4,229	53	0
Ministry of State Administration	2,637	2,722	776	1,611	35	300
Ministry of the Interior	9,888	9,296	4,876	4,084	316	20
Ministry of Justice	2,022	1,782	876	891	15	0
Ministry of Development and Environment	526	480	172	276	32	0
Secretariat of Trade and Industry	150	177	74	85	18	0
Ministry of Agriculture, Forests and Fisheries	1,644	1,573	507	906	22	138
Ministry of Education, Culture, Youth and Sports	15,940	16,488	11,828	3,500	217	943
Ministry of Health	8,853	9,725	3,013	5,673	439	600
Secretary of State for Labour and Solidarity	574	490	199	279	12	0
Ministry of Foreign Affairs and Cooperation	1,154	2,436	217	2,068	151	0
Ministry of Planning and Finance	4,238	3,675	981	2,582	77	35
Ministry of Transport, Communications & Public Works	16,541	16,235	1,441	8,294	235	6,265
Judiciary	299	360	226	118	16	0
Banking and Payments Authority	1,005	620	0	620	0	0
Public Broadcasting Service	261	350	272	78	0	0
<b>Total Budget Funded Agencies</b>	<b>74,615</b>	<b>75,097</b>	<b>28,197</b>	<b>36,814</b>	<b>1,735</b>	<b>8,351</b>
Self Funded Agencies	5,700	8,268	288	6,915	322	743
Electricity Services of Timor-Leste	4,300	6,450	33	6,026	71	320
Civil Aviation	851	890	155	550	132	53
Sea Transportation	549	928	100	339	119	370
<b>Total CFET Budget Allocations</b>	<b>80,315</b>	<b>83,365</b>	<b>28,485</b>	<b>43,729</b>	<b>2,057</b>	<b>9,094</b>

# CFET EXPENDITURES AND KEY NEW MEASURES

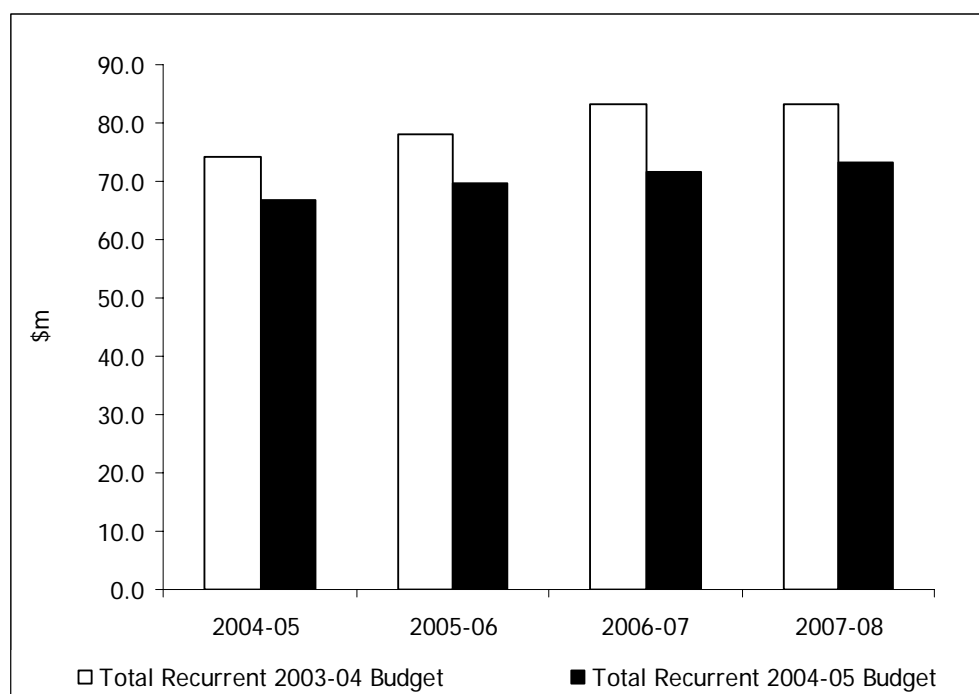
## Overview

As outlined in the 2003-04 MYBU a major component of the Government's strategy to manage the significant financing gap projected at that time was to restrain expenditure. In particular, this would involve reducing the projected growth in CFET expenditures to a sustainable level over the medium term. Following the December 2003 TLDPM, the Government undertook to meet this commitment through a concerted programme of expenditure reductions, based on the following principles:

- reductions to be targeted at overhead costs, with a focus on improving efficiency and maintaining and improving service delivery, particularly within districts.
- salaries and wages be isolated from reductions to facilitate the implementation of service delivery and ensure the capacity development of the civil administration is not adversely affected.
- goods and services be reduced, mainly through reducing overhead costs.
- minor capital be reduced, given that the major fit out costs of government offices have occurred in the previous two years, and in light of the expected handover of substantial assets from the UNMISSET mission and other bilateral contributions.
- capital and development funding be protected from the majority of reductions and maintained as a substantial component of CFET expenditure to ensure continued economic growth within the nation.

Based on this the formula and taking into account emerging priorities within the nation and commitments made through the TSP, the Government achieved its goal, meeting a range of funding priorities, while achieving a significant reduction in recurrent expenditure over the Budget and medium term. The Government decided to continue with this approach despite significant upwards revision in revenue forecasts, as set out in Part 6. The Government is intent on implementing strong fiscal discipline to ensure the long term sustainability of Government operations.

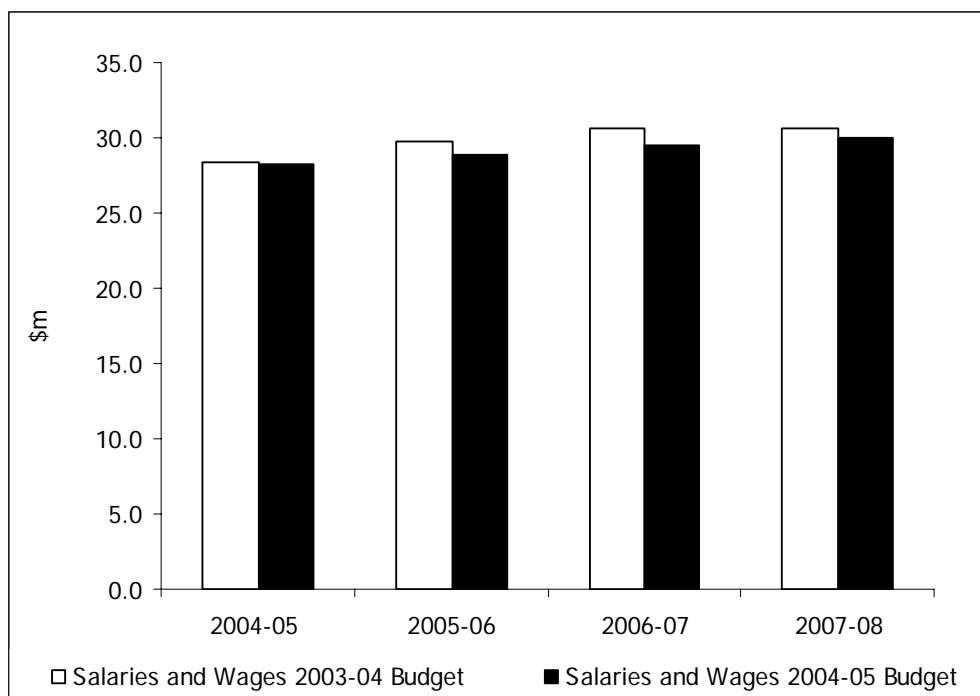
**Chart 8.3**  
**Summary of Reduced Recurrent Expenditure**



In comparison, funding for the capital and development programme has been quarantined from major reductions and maintained at a similar proportion of total Government expenditure as that forecast in 2003-04, at approximately 11% in 2004-05, increasing to 13% by 2007-08.

Within recurrent expenditure, funding for salaries and wages has been reduced from previous estimates over the Budget and medium term as Government expenditure on wages stabilise given that the civil service has now reached its mature size. Some provision for increases in salaries of approximately 6% over the forward estimates period is included to allow for promotion of staff and the possibility of increased salary costs should the Government decide to review its overall salary and wages policy.

**Chart 8.4**  
**Summary of Reduced Salaries and Wages**



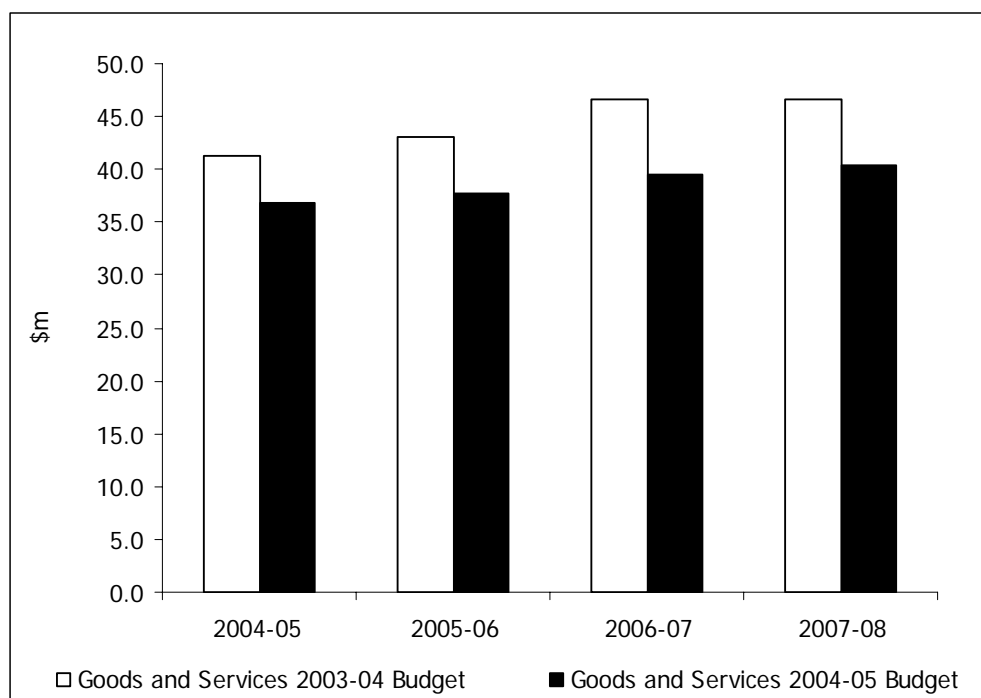
Goods and Services remain steady as a proportion of recurrent expenditure at approximately 55% over the budget and medium term, while increasing in dollar terms by approximately 10% over this period. This will provide a sustainable increase in line with the rising level of capacity of the civil service. Categories providing the majority of projected expenditure growth over this period are directly related to service delivery:

Operational Materials and Supplies increases by 50.4% over the forward estimates period. This item provides for poverty reducing items such as agricultural, medical and school supplies.

Maintenance of Equipment and Buildings increases by 34.5% over the forward estimates period. This is an essential area for Government to focus expenditure, to ensure that the substantial infrastructure investments of the Government and donor community are well managed for the long term benefit of the people of Timor-Leste.

Other Services increases by 24.7% over the Forward Estimates period. This item provides a variety of services such as routine road maintenance, routine maintenance of water and sanitation, and provision of services within hospitals.

**Chart 8.5**  
**Summary of Reduced Goods and Services Expenditure**

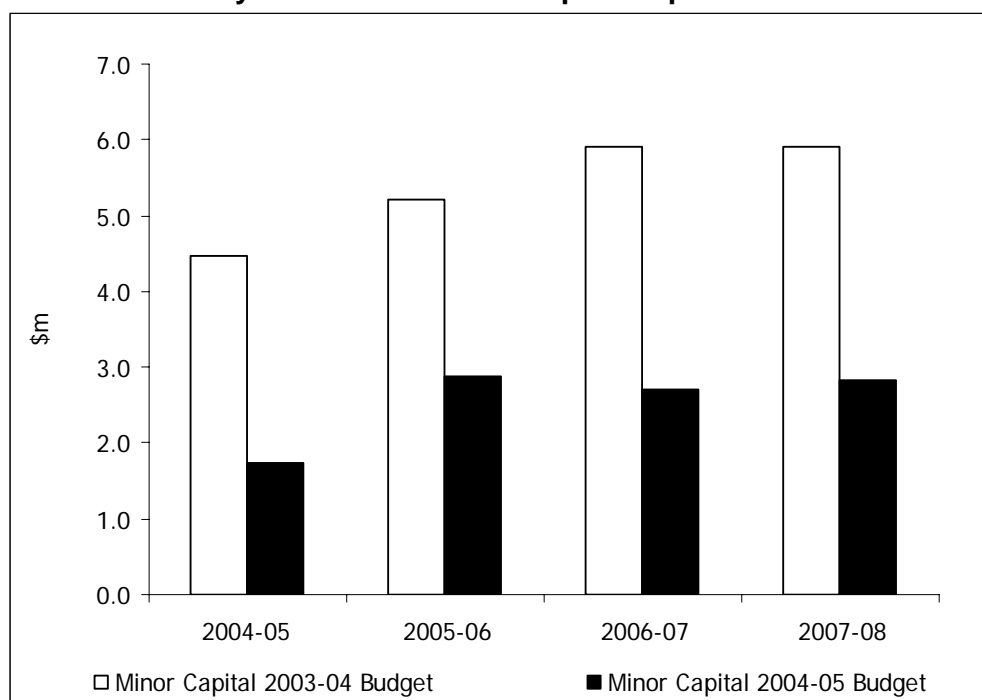


Expenditure on minor capital has also been reduced substantially from that forecast in the 2003-04 Budget. Particular areas of reduction have been:

- EDP equipment (Information Technology);
- furniture and fittings; and
- vehicles.

The Government has undertaken this reduction in response to the expected handover of a substantial amount of equipment from the UNMISSET mission, and in consideration that with the high levels of equipment introduced over the previous two to three years, the need for continued high levels of minor capital had reduced. In the forward estimates, minor capital expenditures remain steady at approximately 4% of the recurrent budget, providing a steady level of funding targeting asset replacement.

**Chart 8.6**  
**Summary of Reduced Minor Capital Expenditure**



### Key TSP Expenditure Commitments

The Government has met its obligations in relation to the major expenditure targets agreed as part of the Transition Support programme. This specified that funding for Health and Education would be greater than 35% of recurrent CFET funding, while funding for Police and Defence would be less than 25% of recurrent CFET expenditure.

Tables 7.1 and 7.2 highlight the Governments commitment to poverty reduction and achieving the goals set out in the NDP. Funding for health and education are projected to increase steadily as a proportion of Government recurrent expenditure, while funding for defence and police remains steady throughout the forward estimates period. This reflects the Governments commitment to maintaining defence and police at what is now considered the mature levels of staffing and at an appropriate proportion of expenditure, while targeting future projected growth in CFET expenditure at the priority areas of health and education.

**Table 8.4**  
**Achievement Against Health and Education TSP Target**

	2004-05	2005-06	2006-07	2007-08
Health and Education as a % of Recurrent Spending	37.0	37.6	38.6	38.8

**Table 8.5**  
**Achievement Against Defence and Police Funding TSP Target**

	2004-05	2005-06	2006-07	2007-08
Police and Defence as a % of Recurrent Spending	20.9	20.8	21.1	20.8

## STAFFING NUMBERS AND ISSUES

For 2004-05 the Government has undertaken a range of initiatives to improve transparency of staffing activities and improve overall governance arrangements, in particular relating to Autonomous Entities. The Government has:

- gained passage of the new Civil Service Act through National Parliament, which will lead to improved performance and management of the civil service.
- reclassified administrative staff of Falintil-FDTL and National Police Timor-Leste as part of the civil service, as opposed to the previous classification as Non Civil Service Government employees. This will provide better transparency in roles and responsibilities between the civil administration and operational elements of these forces.
- separated the staffing profiles for non civil service government employees, such as defence, police, university and judicial staff from those of autonomous bodies such as the Banking and Payments Authority, EDTL, Civil Aviation and Sea Transportation. The underlying concern of the Government is to ensure transparency and minimise government interference in entities not within the direct management control of Government.

In keeping with its TSP commitments the Government has met its objectives for 2004-05 with an overall increase of just 25 permanent staff, to a total of 17,175 (25 below the TSP target of 17,200).

In addition, the Government has recently undertaken a review of all staffing positions within the Civil Service and Non Civil Service Government Staff categories as a first step aimed at better matching staffing profiles with need. It is expected that now that the Civil Service is close to its mature size, future staffing changes will be made through reallocation of staff between programmes as opposed to increasing the overall number of staff beyond the TSP target.

For 2004-05 and the forward estimates period the Government has ensured that salaries have been maintained below the TSP target of \$30m. Staffing for 2004-05 is summarised in Table 8.6 below.

**Table 8.6**  
**Total Staffing 2004-05**

	L1	L2	L3	L4	L5	L6	L7	TOTAL
<b>Official Civil Servants</b>	<b>645</b>	<b>1,010</b>	<b>6,413</b>	<b>3,355</b>	<b>596</b>	<b>239</b>	<b>18</b>	<b>12,276</b>
Permanent	613	937	6,354	3,339	585	216	18	12,062
Temporary	32	73	59	16	11	23	-	214
<b>Non Civil Service Government Staff</b>	<b>882</b>	<b>3,083</b>	<b>380</b>	<b>372</b>	<b>192</b>	<b>20</b>	<b>33</b>	<b>4,962</b>
Permanent	851	3,075	342	357	55	4	2	4,686
Temporary	31	8	38	15	137	16	31	276
<b>Autonomous Entities Staff</b>	<b>78</b>	<b>178</b>	<b>165</b>	<b>119</b>	<b>51</b>	<b>19</b>	<b>12</b>	<b>622</b>
Permanent	53	168	147	62	28	8	2	468
Temporary	25	10	18	57	23	11	10	154
<b>Total Consolidated Staff</b>	<b>1,605</b>	<b>4,271</b>	<b>6,958</b>	<b>3,846</b>	<b>839</b>	<b>278</b>	<b>63</b>	<b>17,860</b>
Permanent	1,517	4,180	6,843	3,758	668	228	22	17,216
Temporary	88	91	115	88	171	50	41	644

Total Civil Servant numbers have increased to 12,021, an increase of 33 compared to 2003-04 and 21 above the Transition Support Programme (TSP) target of a mature Civil Service of 12,000.

However, the Government has demonstrated its commitment to the principles of the TSP, with the increase attributable to inclusion in 2004-05 of 60 administrative (civilian) staff of Falantil-FDTL and National Police of Timor-Leste. In previous years these staff were misclassified as part of the operational element of these forces. It is expected that this initiative will provide greater transparency and separation between the administrative and operational components of the defence and police forces. Furthermore, this increase has been largely offset through staff reductions in lower priority areas, or areas of significant under recruitment as summarised below:

- increase of 8 permanent staff in the Office of the Prime Minister, to provide a permanent administrative unit.
- reduction of 1 permanent staff in the State Secretariat for the Council of Ministers.
- increase of 3 permanent staff in the Office of Natural and Mineral Resources within the Ministry of Development and Environment to better enable the unit to manage the natural resource wealth of the nation.
- reduction of 3 permanent staff within the Ministry of Justice, through the abolishment of the Regional Judicial Delegates programme for 2004-05.
- decrease of 34 permanent staff within the Ministry of Education, Culture, Youth and Sport, given the level of under recruitment within the Ministry.

Staffing for non civil servants has decreased by 22 permanent staff in 2004-05, through the reclassification of administrative staff of defence and police and the reduction of 69 police. This is offset by the increase of Falintil-FDTL to its full mature force of 1,435 soldiers (an additional 107 soldiers).

Staffing for Autonomous entities has increased by 14 permanent staff, associated with an increase in the activities of the Banking and Payments Authority. While acknowledging the significant increase, the Government is committed to ensure that proper governance arrangements are adhered to and that it does not unduly interfere in the activities of entities not within its direct control.

## **CAPITAL AND DEVELOPMENT FUND**

Funding for capital and development projects increases by \$1.4m from 2003-04, with further substantial growth in the forward estimates period, from \$8.4m in 2004-05 to \$10.9m in 2007-08.

The majority of funding has been targeted at continuation of existing projects or programmes of major capital expenditure such as:

- school refurbishment within the Ministry of Education, Culture, Youth and Sports.
- road maintenance and upgrades and water and sanitation projects with the Ministry of Transport, Communications and Public Works.
- Irrigation projects within the Ministry of Agriculture, Forests and Fisheries.

The Government has taken this decision to ensure that capital and development projects remain focused on areas of priority need, which are linked to the goals in the NDP. This will also foster economic growth in the nation through the injection of a substantial amount of civil works funding, providing employment opportunities for Timorese people. The projected large investment in road infrastructure of approximately \$23.4m over the period 2004-05 to 2007-08 will help ensure continued access to markets for the expected increases in local economic production.

It should be noted that as CFET funding is only appropriated on an annual basis, all capital and development projects in the forward years will be subject to an annual review of Government priorities. This will provide a natural mechanism for the Government to consider modifications to its capital and development plans in light of the outcomes from the SIPs being developed for consideration by development partners.

A summary of the capital and development project allocations is provided at Appendix 3.

# FUNDING OVERVIEW AND MEASURES BY MINISTRY AND SECRETARY OF STATE

## PRESIDENT OF THE REPUBLIC

### FUNDING OVERVIEW

Overall funding for the President of the Republic has decreased by 5% from the 2003-04 MYBU, to \$380,000. This has mainly been achieved through a major reduction in minor capital associated with the one off purchase of vehicles in 2003-04.

There are no major funding initiatives in 2004-05.

## NATIONAL PARLIAMENT

### FUNDING OVERVIEW

The budget for National Parliament has reduced by approximately 20.1% from the 2003-04 MYBU, to \$930,000. However, approximately half of this reduction is a result of one off capital and development projects in 2003-04. Excluding this impact, recurrent expenditure will reduce by 10%, mostly through a reduction in minor capital associated with the one off purchase of security equipment in 2003-04.

There are no major funding initiatives in 2004-05.

## GOVERNMENT STRUCTURES

### FUNDING OVERVIEW

Excluding structural changes and capital and development projects, funding for Government Structures has increased approximately 18% from the 2003-04 MYBU. This is associated with the continued strengthening of key institutions and oversight bodies such as the Office of the Prime Minister, Office of the Human Rights Advisor to the Prime Minister, Purveyor of Human Rights and Justice, Inspector General, Promotion of Equality, National Security Service and the Timor Sea Office.

## MEASURES:

### *Separation of the State Secretariat for the Council of Ministers*

For 2004-05, a separate State Secretariat for the Council of Ministers will be established, under the direction of the Secretary of State for the Council of Ministers. All funding for the Council of Ministers Secretariat and the Office of the Secretary of State for the Council of Ministers has been transferred from Government Structures.

### *Separation of the Banking and Payments Authority*

For 2004-05, to improve governance arrangements and better reflect the independence of the Banking and Payments Authority (BPA), it has been separated out from Government Structures and listed as a separate entity. All funding for the BPA has been transferred from Government Structures.

### *Formalisation of State Secretariat for Defence*

For 2004-05 the separate State Secretariat for Defence which was established in April 2002 will be formalised, under the direction of the Secretary of State for Defence, to provide better transparency and accountability for defence related matters. All funding for the Office of the Secretary of State for Defence and Falintil-FDTL has been transferred from Government Structures.

### *Creation of a Permanent Secretariat Within the Office of the Prime Minister*

The Government has decided to establish a permanent secretariat unit within the Office of the Prime Minister to provide the necessary administrative support to the head of the Government and also provide for future stability within the office if there is a change of Government or Prime Minister. This has been established through the addition of 8 permanent civil service staff and associated increase in administrative overheads.

## **STATE SECRETARIAT FOR THE COUNCIL OF MINISTERS**

### **FUNDING OVERVIEW**

Funding for the State Secretariat for the Council of Ministers has reduced by approximately 12% from the 2003-04 MYBU, in line with specific measures taken by the Government, as outlined below.

### **MEASURES**

#### *Separation of the State Secretariat for the Council of Ministers*

For 2004-05, a separate State Secretariat for the Council of Ministers will be established, under the direction of the Secretary of State for the Council of Ministers. All funding for the Council of Ministers Secretariat and the Office of the Secretary of State for the Council of Ministers has been transferred from Government Structures.

#### *Reduction in the Central minor capital fund for the Ministers Offices*

The Government has decided to continue with the centralised administration and purchasing of minor capital needs for Ministers Offices. For 2004-05, this fund has been reduced by \$70,000, to reflect the reduced need for minor capital, given that most office needs were met in 2003-04.

## **STATE SECRETARIAT FOR DEFENCE**

### **FUNDING OVERVIEW**

Overall funding for the State Secretariat for Defence has decreased by approximately 1% from the 2003-04 MYBU, to \$5,994,000. However, excluding the one off capital and development funding for the Baucau Facility in the 2003-04 budget, recurrent expenditure has increased by 7.5%, mostly through the Governments decision to increase Falintil-FDTL numbers to the full mature force size of 1,435. This leads to increased expenditure on salaries and wages, as well as increased operational costs in goods and services. A particular funding pressure will be the provision of uniforms for Falintil-FDTL. This will be sought through Bilateral / Multilateral processes.

### **MEASURES:**

#### *Separation of Defence*

For 2004-05 a Separate State Secretariat for Defence will be established, under the direction of the Secretary of State for Defence, to provide better transparency and accountability for defence related matters. All funding for the Office of the Secretary of State for Defence and Falintil-FDTL has been transferred from Government Structures.

#### *Separation of Civilian and Operational Components of Defence*

In 2004-05, a separate Defence Secretariat programme will be established, staffed by Civil Servants, to provide the administrative support to Falintil-FDTL. This will be done at no additional

cost through the transfer of existing personnel and resources to the new programme. This will provide greater transparency and accountability of activities between the respective areas.

### *Increase of Falintil-FDTL Soldier Numbers*

An additional 107 soldiers will be recruited in 2004-05, to bring total soldier numbers up to the full mature force size of 1,435. It is expected that this will provide increased security for Timor-Leste, particularly in light of the expected reduction / withdrawal in Peace Keeping Force numbers post June 2004.

## **MINISTRY OF STATE ADMINISTRATION**

### **FUNDING OVERVIEW**

Funding for the Ministry of State Administration has increased by approximately 3% from the 2003-04 MYBU, mostly associated with an increase in capital and development Project funding, from \$170,000 in 2003-04 to \$300,000 in 2004-05. Recurrent expenditure has reduced by approximately 2%, through cuts to minor capital.

The majority of funding within the Ministry (approximately 65%) is provided for the National Directorate of Territorial Administration and Local Government programme. This programme provides the administrative support and backbone for service delivery of Government operations in districts. Underlining the Government's commitment to improving services in districts, capital and development funding of \$150,000 has been provided in 2004-05 for the continuation of the programme to rehabilitate district and sub district administrative offices.

### **MEASURES**

#### *Continuation of Funding for the Suco Chief Elections*

To ensure the efficient and effective implementation of the upcoming Suco Chief elections, \$65,000 has been allocated in 2004-05. The funding will provide for the continuation of planning and preparations. It is expected that additional Bilateral / Multilateral support will be necessary to ensure the successful completion of this activity.

## **MINISTRY OF THE INTERIOR**

### **FUNDING OVERVIEW**

For 2004-05, there has been a 4% reduction in expenditure for the Ministry of the Interior compared to the 2003-04 MYBU. Expenditure is forecast to increase moderately over the forward estimates period with growth of approximately 5%. Approximately 63% of recurrent funding is provided for the Civil Security programme, providing security services for government infrastructure, as well as employment opportunities for over 800 Timorese.

There are no major funding initiatives in 2004-05.

## **NATIONAL POLICE TIMOR-LESTE**

### **FUNDING OVERVIEW**

Total funding for the National Police Timor-Leste decreases by approximately 6% from the 2003-04 MYBU (to \$7,989,000), as a result of the significant one off capital and development funding provided in 2003-04. Excluding this impact, recurrent funding increases by approximately 5%, and grows by approximately 10% over the forward estimates period. The increased level of funding will provide an increased capacity within the police service as the level of support from UNMISSET reduces.

This increase in recurrent funding will also provide an increased level of resourcing to benefit from the Multilateral agreement between the Governments of Timor-Leste, Australia and the United Kingdom. The agreement is expected to deliver a range of benefits across the entire police organisation. The project will provide technical assistance to police forces, training programmes as well as capacity building activities in administration and finance.

## MEASURES

### *Separation of Civilian and Operational Components of PNTL*

In 2004-05, staff within the Administration programme of the PNTL will be classified as Civil Servants, as opposed to the previous classification as part of the non civil service Government Staff. This will provide greater transparency and accountability of activities between the respective areas.

### *Reduction of Total Police Staffing*

For 2004-05, there will be a reduction of 69 police in the staffing profile for the National Police Timor-Leste. This reduction will be achieved through reducing the level of staffing in the Police Operations programme. The reduction has been made in order to facilitate the increase in Falintil-FDTL defence force numbers to the mature force size of 1,435, while keeping overall staffing within the targets agreed as part of the TSP. It is not expected that this reduction have an adverse impact on law and order within the nation.

### *Creation of the Maritime Police Programme*

The Government has decided to implement a Maritime Police programme in 2004-05. It is expected that this will lead to improved control of maritime areas and industries, as well as providing further integrity of border control issues through increased surveillance of maritime boundaries. The programme will be established with funding of \$105,000 in 2004-05 and staffing of 50 personnel, transferred from the Rapid Intervention Unit.

### *Creation of the Special Unit programme*

A new Special Unit programme will be established by the Government in 2004-05, tasked to provide a rapid deployment presence in strategic areas of the county. Units of 60 specialised police will be stationed in Oecussi, Maliana and Suai. The programme will be established with funding of \$658,000 in 2004-05 and staffing of 180, transferred from the Rapid Intervention Unit programme.

### *Increase in Catering Costs*

For 2004-05 an additional \$305,000 will be provided to provide catering services to the Police College, Rapid Intervention Unit, Border Control and Special Unit programmes.

## MINISTRY OF JUSTICE

### FUNDING OVERVIEW

Total funding of \$1,782,000 is provided in 2004-05. Excluding the structural changes within the justice area, and one off capital and development projects provided in 2003-04, recurrent funding for the Ministry of Justice has increased by approximately 3.2%, with growth of approximately 14% over the forward estimates period. This increase, in contrast to the overall constraint in recurrent funding across Government for 2004-05, reflects the Governments commitment to improving the justice sector.

## MEASURES

### *Increased level of Funding for the Public Defender Programme*

An additional \$16,000 has been provided to the Public Defender Programme (an increase of approximately 19%), as part of an overall package of funding increases for programmes involved in the courts process. It is expected that this will provide an increased capacity to manage the significant case backlog within the courts system.

#### *Provision of Full Budgetary Independence to the Judiciary*

As part of the commitment of the Government in guaranteeing the due arrangements of governance, in 2004-05 the involved institutions in the Courts will be separated out of the of the budget for the Ministry of Justice.

The programmes of the Superior Council of the Magistrate, the Court of Appeal and the District Courts will be separate, with a total resourcing level of \$360,000 and the a staffing level of 66 permanent employees and 30 judges.

#### *Increased Level of Funding for the Public Prosecution Office and Districts*

In 2004-05 an additional \$21,000 will be provided to the Public Prosecution Office and Districts as part of a package of measures to facilitate improvements in the performance of the courts system and to provide additional resources to better manage the large backlog of cases before the courts.

#### *Abolishment of the Regional Judicial Delegates Programme*

Reflecting the lack of clarity for the objectives of the Regional Judicial Delegates programme and the higher priorities for resources within core elements of the Justice system, the programme has been cut for 2004-05.

#### *Establishment of the Permanent Secretary Programme*

In 2004-05 the Permanent Secretary programme will be established to provide a long term improvement in the overall management of the Ministry.

#### *Incorporation of the Geography and Cadastre Programme Into the Ministry of Justice*

The Geography and Cadastre programme has been transferred from the Ministry of Agriculture, Forests and Fisheries to the Ministry of Justice for 2004-05. This will ensure a more effective linkage between the functions of this programme and the responsibilities of the Ministry of Justice for land management issues.

## **MINISTRY OF DEVELOPMENT AND ENVIRONMENT**

### **FUNDING OVERVIEW**

Funding for the Ministry of Development and Environment reduces by approximately 9% in 2004-05 compared to the 2003-04 MYBU, to \$480,000. However, growth over the forward estimates period is forecast at 26%, reflecting the Ministry's importance as an institution central to the economic development of the nation.

### **MEASURES**

#### *Abolishment of the Office of the Secretary of State for Development*

For 2004-05 the position of the Secretary of State for Development and the associated office will be abolished, in reflection of the need to rationalise the management structure of the functions of the Ministry and better utilise funding within programmes.

#### *Provision of Additional Resources for the Office of Mineral and Natural Resources:*

The Government has provided an additional 3 permanent staff for the Office of Mineral and Natural Resources to provide an increased capacity to manage the natural resources of the nation, in acknowledgement of their importance to future economic development.

## **STATE SECRETARIAT FOR TRADE AND INDUSTRY**

### **FUNDING OVERVIEW**

Funding for the State Secretariat for Trade and Industry has increased by 18% from the 2003-04 MYBU, to \$177,000. In addition, funding is projected to increase by approximately 21% over the forward estimates period. These increases reflect the role the State Secretariat is expected to play in the future development of key areas of the economy.

There are no major funding initiatives in 2004-05.

## **MINISTRY OF AGRICULTURE, FORESTRY AND FISHERIES**

### **FUNDING OVERVIEW**

Total funding for the Ministry of Agriculture, forests and Fisheries reduces by less than half a percent in 2004-05 (excluding the transfer of Geography and Cadastre to the Ministry of Justice), compared to the 2003-04 MYBU. Recurrent funding decreases by approximately 3%, however, this decrease is offset by increases in capital and development funding. Growth in expenditure is forecast to increase by approximately 24% over the forward estimates period, reflecting the importance of the agriculture sector, and the provision of additional capital and development funding, to offset anticipated reductions in external support for this critical area.

### **MEASURES**

#### *Establishment of the Permanent Secretary Programme*

In 2004-05 the Permanent Secretary programme will be established to provide a long term improvement in the overall management of the Ministry. This will provide an improved ability to manage the activities of the Ministry, in particular the integration of the significant size and number of Bilateral and Multilateral projects within the sector.

#### *Incorporation of the Geography and Cadastre Programme Into the Ministry of Justice*

The Geography and Cadastre programme has been transferred from the Ministry of Agriculture, Forests and Fisheries to the Ministry of Justice for 2004-05. This will ensure a more effective linkage between the functions of this programme and the responsibilities of the Ministry of Justice for land management issues.

## **MINISTRY OF EDUCATION, CULTURE YOUTH AND SPORTS**

### **FUNDING OVERVIEW**

Funding for the Ministry of Education, Culture, Youth and Sports in 2004-05 is \$16,488. This represents an overall increase of approximately 3% from the 2003-04 MYBU. Within this, recurrent funding has reduced by approximately 2%.

However, funding for capital and development projects increases significantly to \$943,000 in 2004-05, to begin a programme of school refurbishments and upgrades. This increase is provided to ensure the continued improvement of infrastructure in the education system given that the level of external support for this area is projected to decrease significantly over the Coming years.

The Government has also ensured future improvements in education, with expenditure forecast to increase by approximately 16% over the forward estimates period.

Teacher numbers are largely unchanged from the profiles indicated in the 2003-04 Budget. The Ministry has made considerable efforts in improving the recruitment of teachers, which will be continued throughout 2004-05. At the end of March 2004, under recruitment of permanent staff within the Ministry had reduced to approximately 8.6%.

The government has also continued its commitment to the provision of primary education. This can be seen through its achievement against the TSP target of ensuring funding for primary education is greater than 45% of the core CFET budget for Education (total Ministry funding, minus funding for Ministerial Offices and capital and development programme). While Primary Education's share of overall education funding may reduce slightly over the forward estimates period, it remains well above the TSP target and maintains a strong level of expenditure growth, considered in line with future need.

**Table 8.7**  
**Primary Education TSP Target**

	2004-05	2005-06	2006-07	2007-08
Primary Education as % of Education Spending	47.2	46.7	46.2	46.0

## MEASURES

### *Increased Maintenance Funding*

In addition to the increased level of capital and development Funding, the Government has increased funding for maintenance by \$202,000, to \$841,000, in acknowledgment of the need to ensure the significant investments made in the education sector by the Government and development partners is adequately maintained for future generations.

## MINISTRY OF HEALTH

### FUNDING OVERVIEW

Total funding for the Ministry of Health has increased by approximately 10% from the 2003-04 MYBU, to \$9,725,000. The increase is brought about by an 11% increase in recurrent funding. Further increases are projected in the forward estimates, with growth of approximately 21% in this period.

Significant capital and development funding of \$600,000 is provided in 2004-05 to continue the rehabilitation of Community Health Centres and District Health Posts. An additional 49 facilities are expected to be refurbished in 2004-05.

A key feature of the forward estimates is the inclusion in 2006-07 of pharmaceuticals in the CFET budget, brought about by the expiry of the current TFET funding agreement at the end of 2005-06. This will result in additional \$1.7m in expenditure for the Hospital and Specialised Services and District Health Services programmes.

Offsetting this to a large degree is the impact of an expected large decline in the need for international doctors funded through CFET, as a result of the expected availability of Timorese qualified doctors. This is expected to reduce doctor costs by approximately \$1.4m in 2006-07.

In 2004-05 a Financial Management System is expected to be implemented within the Ministry, which is expected to provide further improvements in budget monitoring and evaluation. It is anticipated that the system will have the facility to consolidate funding information for CFET, TFET and Bilateral and Multilateral projects, improving the overall integration and management of resources within the Ministry.

The TSP target of maintaining a focus on funding for primary health care though limiting expenditure on hospitals to no greater than 40% of core CFET expenditure (total Ministry funding, minus funding for Ministerial Offices and capital and development programme) has been met. Hospital funding is expected to decrease over the forward estimates period, through less reliance on international medical staff. This will provide an increasing ability for the government to reduce poverty through the provision of quality primary health care, particularly in district areas, where access to hospitals is limited.

**Table 8.8**  
**Primary Health Care TSP Target**

	2004-05	2005-06	2006-07	2007-08
Primary Health Care as % of Health Spending	40.0	39.8	34.9	33.9

## MEASURES

### *Increased Funding for Doctor*

Within the Hospitals and Specialised Services and District Health Services programmes, approximately \$500,000 has been provided to continue the provision of international doctors previously funded through TFET agreements. As outlined above, the long term reliance on international doctors is expected to decline once qualified Timorese doctors become available in 2006-07.

## STATE SECRETARIAT FOR LABOUR AND SOLIDARITY

### FUNDING OVERVIEW

For 2004-05 funding for the State Secretariat for Labour and Solidarity will reduce by approximately 15%, to \$490,000. The majority of this reduction is caused through a one off capital and development project provided in 2003-04 to rehabilitate the social services building. Funding will increase by approximately 16% over the forward estimates.

There are no major funding initiatives in 2004-05.

## MINISTRY OF FOREIGN AFFAIRS AND COOPERATION

### FUNDING OVERVIEW

The Ministry of Foreign Affairs and Cooperation has received a substantial increase in funding of approximately \$1.3m for 2004-05, in comparison with the 2003-04 MYBU. Total funding of \$2,436,000 will be provided in 2004-05.

Approximately two thirds of this increase can be directly attributed to the increased costs of existing embassies, due to the expiry of bilateral assistance. The remaining increase is associated with the opening of new embassies, as outlined in the measures section below.

While aware of the significant cost increase associated with these factors, the Government is views its foreign presence as an investment in the future, both in terms of security related issues and in stimulating economic development through fostering trade and investment opportunities in international markets.

## MEASURES

### *Increased Costs of Existing Embassies:*

Bilateral assistance for many of the current embassies expires at the end of 2003-04, or during the 2004-05 financial year. In order to ensure their continued effective operation, a significant increase in CFET funding was necessary. Approximately an additional \$850,000 has been provided.

#### *New Embassies in Maputo, Beijing and Tokyo:*

For 2004-05, three new embassies will be opened. The embassy in Maputo will continue to underline the strong historical links between the two countries and capitalise on Mozambique's standing in the African and Global community. Embassies in Beijing and Tokyo will provide direct benefits through China's position in the Security Council of the UN and the benefits of association with two of the largest world economies, as well as being two of the largest contributors to aid in Timor-Leste.

## **MINISTRY OF PLANNING AND FINANCE**

### **FUNDING OVERVIEW**

Funding in 2004-05 for the Ministry of Planning and Finance has reduced by 13% to \$3,675,000, from the 2003-04 MYBU. Modest growth of approximately 7% is forecast over the forward estimates.

As outlined in the measures section below, the majority of this reduction is associated with decreases in Whole Of Government funding items, ensuring that the key operational elements of the Ministry are not unduly affected. This will ensure the continued efficient and effective functioning of Government operations through sound financial management.

### **MEASURES**

#### *Reduced Funding for the Central Overseas Travel Fund*

The centrally administered Overseas Travel fund has been reduced from \$750,000 in the 2003-04 MYBU to \$500,000 in 2004-05. The Government has implemented procedures to restrict usage of overseas travel, with all travel requiring the authorisation of the Minister for Planning and Finance as well as the Prime Minister.

#### *Reduce Funding for the Contingency Reserve*

The Contingency reserve has been reduced by \$300,000, to \$500,000 in 2004-05. This will continue to provide a sufficient reserve to meet urgent and unforeseen occurrences, as well as improve transparency through the minimisation of discretionary funds within the government. For 2004-05, more stringent guidelines will be developed for the use of these funds.

## **MINISTRY OF TRANSPORT, COMMUNICATIONS AND PUBLIC WORKS**

### **FUNDING OVERVIEW**

Total funding of \$16,235,000 for the Ministry of Transport, Communications and Public Works is provided in 2004-05. This is a reduction of approximately 2% from the 2003-04 MYBU. Within this, recurrent funding has reduced by approximately \$2m (17%), with the majority, approximately \$1.2m, coming from a reduction in the CFET subsidy to the Electricity Service of Timor-Leste (EDTL).

capital and development funding increases substantially from approximately \$4.6m in 2003-04, to approximately \$6.3m in 2004-05. This is associated with a 51% increase in funding for road projects and a 155% increase in funding for water and sanitation projects. It is expected that these projects will provide tangible improvements in poverty reduction, through stimulation of domestic economic activity and improvements in basic essential infrastructure.

It is also expected that expenditures within the Ministry will be reviewed in light of the Japanese non Project Grant Aid agreement, particularly in the Roads, Bridges and Flood Control, and Water and Sanitation programmes.

## **JUDICIARY**

### **FUNDING OVERVIEW**

Funding for the Judiciary has increased by approximately 21% from the 2003-04 MYBU to \$360,000. In addition, expenditure is forecast to increase by approximately 31% over the forward estimates period.

### **MEASURES**

#### *Provision of Full Budgetary Independence to the Judiciary*

As part of the Governments commitment to ensure proper governance arrangements, for 2004-05 institutions involved in the Judiciary will be separated from the Ministry of Justice budget. The Superior Council for Judiciary, Court of Appeal and District Courts programmes will be separated, with all staffing and resources, totalling \$360,000, 66 permanent staff and 30 judges.

#### *Increased Level of Funding for the Judiciary*

The Government has decided to provide an additional \$62,000 to programmes within the Judicial sector as part of a package of measures to facilitate improvements in the performance of the courts system and to provide additional resources to better manage the large backlog of cases before the courts.

## **BANKING AND PAYMENTS AUTHORITY**

### **FUNDING OVERVIEW**

Funding for the Banking and Payments Authority (BPA) has reduced from \$1,005,000 in the 2003-04 MYBU, to \$620,000 in 2004-05. This reduction is associated with a reduction in the capitalisation programme for the BPA. In conjunction with the BPA, the Government will investigate the capitalisation needs of the Authority, as well as the funding arrangements with Government. Provision for capitalisation remains included in the forward estimates, reflecting the Governments commitment to ensuring the proper establishment of the BPA.

There are no major funding initiatives in 2004-05.

## **PUBLIC BROADCASTING SERVICE**

### **FUNDING OVERVIEW**

In 2004-05, funding of \$350,000 will be provided, an increase of 34% on the 2003-04 MYBU. However, the large increase needs to be viewed in light of a significant sequestration of salaries funding in the 2003-04 MYBU on account of technical difficulties in the Public Broadcasting Service accessing the funds in the first half of 2003-04. When compared to the original budget in 2003-04, the level of subsidy provided to the Public Broadcast Service has reduced by approximately 3%.

It should be noted that the majority of operational funding for the Public Broadcast Service is sourced from Bilateral donors. This represents a considerable risk to future operations. Should Bilateral funding be insufficient to meet operational needs, additional CFET funding will need to be provided.

In 2004-05, a major focus of the Public Broadcasting Service will be to developing its strategic plan to guide future operations.

There are no major funding initiatives in 2004-05.

### **ELECTRICITY SERVICE OF TIMOR-LESTE (AUTONOMOUS AGENCY):**

As indicated above, the subsidy EDTL has reduced by approximately \$1.2m from the 2003-04 MYBU, to approximately \$5.6m. This is associated with a number of initiatives undertaken within the power sector:

- Implementation of a Management Contract. The Management Contract was implemented in December 2003 to provide the following:
  - Effective management of all EDTL's operations in Dili, the districts and sub districts for a period of three years.
  - Provide a comprehensive training programme for EDTL personnel at all levels of the enterprise.

Improving the billing systems, procedures and hardware to eliminate tardiness in payments and increase revenues.

- Reducing expenditures marginally from 2003-04, to \$12.1m.
- Increased revenue of approximately \$6.5m. This will require monthly collections to almost double, to approximately \$540,000. However this is considered highly achievable given the following:
  - Installation of an additional 17,000 pre paid meters.
  - Increased level of billing activity and compliance through improved management practices.

The CFET subsidy will continue to be used to provide the essential elements of EDTL operations, to ensure that the Government meets its commitments in Dili and the Districts, while ensuring that Government assets are maintained. In particular, the CFET subsidy will cover almost half of the projected fuel usage, to ensure sufficient supplies in the first half of the year. It will also provide funding for maintenance and wages. The revenue generated by EDTL will be used to provide for all other operational elements.

There are no major funding initiatives in 2004-05.

### **SEA TRANSPORTATION (AUTONOMOUS ENTITY):**

Overall funding for Sea Transportation has increased by \$379,000 from the 2003-04 MYBU, mostly associated with an increase in Capital and Development funding of \$279,000. The Capital and Development funding will provide for rehabilitation of ports in Tibar and COM, as well as office space in Dili.

As in previous years, the agency will be fully self-funding.

### **CIVIL AVIATION (AUTONOMOUS ENTITY):**

Funding for Civil Aviation has increased by approximately 5% from the 2003-04 MYBU. Capital and Development expenditure of \$50,000 is included, and will provide for general improvements at the Comoro airport. A significant future funding pressure for Civil Aviation will be the upgrade to the runway at the Comoro airport, expected to cost in the vicinity of \$1.5m.

As in previous years, the agency will be fully self-funding.

## **PART 9 – STATEMENT OF RISKS**

The forward estimates of revenue and expenditure in the 2004-05 Budget incorporate assumptions and judgements based on information available at the time of publication. A range of factors may influence the actual budget outcome in future years. Typical events that could affect fiscal outcomes include matters that have not been included in the Budget forward estimates because of uncertainty about their timing, magnitude or whether they will eventuate.

Fiscal risks are general developments or specific events that may have an effect on the fiscal outlook. In some cases, the events will simply raise the possibility of some fiscal impact. In other cases, some fiscal impact will be reasonably certain, but it will not be included in the forward estimates because the timing or magnitude is not known. Fiscal risks may affect expenses and/or revenue and may be positive or negative.

Some fiscal risks are reflected in the Contingency Reserve and are therefore included in Budget estimates. The Contingency Reserve is an allowance included in the Budget estimates to reflect anticipated events, which cannot be assigned to individual programmes at budget time.

Matters that are not currently under active consideration by the Government, or pressure from interests outside the Government for changes in spending levels are not treated as fiscal risks.

### **KEY FISCAL RISKS - REVENUE**

#### **Timor Sea**

While the Timor Sea Revenue estimates are based on the best information available at time of publication, there are important factors that may have an impact on the Timor Sea revenue including:

- World oil prices; Gas contract prices; Investment costs; Production volumes of gas and condensate; Commencement date for condensate extraction; Operating costs; Commencement date for gas supply through the pipeline; Pipeline use fees; Cost of building and operating the LNG plant that will be the major buyer of gas; Quantity of gas sold; and Technical delays in construction.

#### **Development Partner contributions**

The level of actual receipts from donors has been volatile in past years. While the situation has improved with the establishment of the TSP facility, with close to 40% of the CFET budget contingent on external support, the timely receipt of donor contributions is essential to the delivery of Government services. The Budget has been based on the assumption that all pledges will be received as set out in Table 4.1.

#### **General Risks**

The forward estimates of revenue are subject to a number of general pressures that can adversely affect revenue collections. These general pressures include: tax collection processes and tax avoidance. The revenue forecasts make what is believed to be an appropriate allowance for these factors, given the data available.

Court decisions also increase the risk that revenue will be lower or higher than anticipated. Court decisions can affect the interpretation of tax legislation and may significantly change the level of revenue collected under that legislation.

### **KEY FISCAL RISKS - EXPENDITURE**

#### **Operational costs of UNMISET assets handover**

The timing and volume of assets to be handed over at the end of the UNMISSET mission is still under negotiation between UNMISSET and Government. The Government has already received a number of assets, such as computers and office equipment, which will lead to expenditure savings through negating the need for CFET expenditure on these items in 2004-05. However, countering this, a significant number of assets with substantial as yet unidentified operating costs are also to be handed over. This includes vehicles and major UNMISSET installations such as Obrigado Barracks, UN Hospital Dili, the Dili Transport/Engineering and the Heavy Transport Compounds, Crocodile Alley and Sector West Facilities in Suai.

A joint UNMISSET-Government Committee, including representatives from the MOPF has been established to coordinate the handover.

### **Operational Costs of Sector Investment Packages (SIP)**

The Sector Investment Packages being developed by the Government for consideration by development partners are likely to have additional operational costs for Ministries. No provision has been provided in the forward estimates, given the uncertainty at this point of the nature of projects and likely outcomes of the process. The Government and development partners will need to consider these impacts as part of the SIP process.

### **Changes in Fuel Prices**

The fuel cost for generators and vehicle operation is approximately 9% of the recurrent CFET budget. A 10% movement in fuel prices would expose the government to increased or decreased costs of approximately \$600,000.

### **Future Election Processes**

A number of electoral processes are anticipated in the Forward Estimates period, which may have substantial impacts on CFET expenditure, depending on the level of external support provided.

In 2004-05, Suco chief elections are expected to take place. The Government has provided \$65,000 in 2004-05 for this purpose, building on the \$152,000 provided in 2003-04. However, while some bilateral funding has been secured, additional financing is still required. Should this not eventuate, additional CFET expenditure will be required.

In 2006-07 (August 2006), general elections for National Parliament will take place. As the costs for this and level of bilateral support are unknown, they have not been included in the forward estimates.

In 2006-07 (April 2007), elections for the President of the Democratic Republic of Timor-Leste will take place. As the costs for this and level of bilateral support are unknown, they have not been included in the forward estimates.

### **Capital requirements for Defence and Police**

Capital and equipment requirements for Falintil-FDTL and the National Police Timor-Leste will continue to be reliant on securing bilateral support. Should sufficient bilateral support for the equipping not be forthcoming it will lead to significant CFET Budget pressures.

### **Roads Funding**

The level of expenditure included in the forward estimates for road maintenance is based on assumptions such as unit costs and length of roads to be maintained. These assumptions are highly sensitive to factors such as location, weather, community expectations and the state of disrepair of certain roads. Furthermore, road maintenance policy is yet to be fully considered by Government. The Government's road maintenance policy will take into consideration the need to balance road standards for the short to

medium term and other competing priorities as well as the actual impact of TFET road rehabilitation projects.

### **CFET Subsidy to Electricity Services of Timor-Leste**

The CFET subsidy provided to EDTL of approximately \$5.7m is contingent on revenue generation of approximately \$6.5m. This will require an increase on current collections of close to 100%. While this is considered highly achievable given the implementation of a Management Contract and an additional 17,000 prepaid meters in 2004-05, underachievement will require an upwards adjustment of the CFET subsidy. However, should revenue exceed the target, the level of CFET subsidy will be reduced.

### **Public Broadcasting Service Operating Costs**

Over 70% of operating costs for the Public Broadcasting service are funded through bilateral means. Should this level of support not be realised, the Government will be required to provide additional support, given the central role of the PBS in providing information services throughout the nation.

## **APPENDICES**

## APPENDIX 1– CFET EXPENDITURE AND APPROPRIATIONS

	2004-05	2005-06	2006-07	2007-08	4 Yr Total
<b>Expenditure</b>	<b>75,097</b>	<b>78,926</b>	<b>81,864</b>	<b>84,188</b>	<b>320,075</b>
<b>Salaries &amp; Wages</b>	<b>28,197</b>	<b>28,905</b>	<b>29,483</b>	<b>29,996</b>	<b>116,581</b>
Salary	28,087	28,775	29,330	29,852	116,044
Overtimes/allowance	110	130	153	144	537
<b>Goods &amp; Services</b>	<b>36,814</b>	<b>37,799</b>	<b>39,565</b>	<b>40,440</b>	<b>154,618</b>
Local Travel	793	785	811	840	3,229
Overseas Travel	1,268	1,333	1,340	1,345	5,286
Training & Workshops	963	1,003	1,043	1,090	4,099
Utilities	2,460	2,565	2,632	2,643	10,300
Rental of Property	586	602	602	604	2,394
Vehicle Operation	4,095	4,259	4,497	4,700	17,551
Vehicle Operational Fuel	1,677	1,764	1,860	1,968	7,269
Vehicle Maintenance	2,369	2,441	2,574	2,664	10,048
Other	49	54	63	68	234
Office Stationery & Supplies	1,128	1,186	1,236	1,286	4,836
Operational Material & Supplies	6,401	7,174	9,434	9,627	32,636
Fuel for Generators	4,451	3,026	2,634	2,503	12,614
Maintenance of Equipment & Building	3,130	3,797	4,189	4,210	15,326
Other Operational Expenses	2,342	2,294	2,287	2,258	9,181
Other Misc. Services	9,197	9,775	8,860	9,334	37,166
Professional Services	3,572	3,823	2,436	2,348	12,179
Translation Services	245	262	262	279	1,048
Other	5,380	5,690	6,162	6,707	23,939
<b>Minor Capital</b>	<b>1,735</b>	<b>2,885</b>	<b>2,706</b>	<b>2,835</b>	<b>10,161</b>
Security Equipment	125	151	155	169	600
EDP Equipment	148	291	254	372	1,065
Communication Equipment	242	290	276	233	1,041
Generators	45	44	64	37	190
Water Equipment	195	276	239	204	914
Office Equipment	205	285	225	203	918
Other Misc Equipment	238	940	1,008	1,137	3,323
Furniture & Fittings	369	537	326	321	1,553
Purchase Vehicles	168	71	159	159	557
<b>Capital and Development</b>	<b>8,351</b>	<b>9,337</b>	<b>10,110</b>	<b>10,917</b>	<b>38,715</b>
Infrastructure Assets	8,351	9,337	10,110	10,917	38,715
Acquisition of Buildings	-	-	-	-	-

## APPENDIX 2 - TOTAL CFET EXPENDITURES – INCLUDING DESIGNATED SERVICE AUTHORITIES

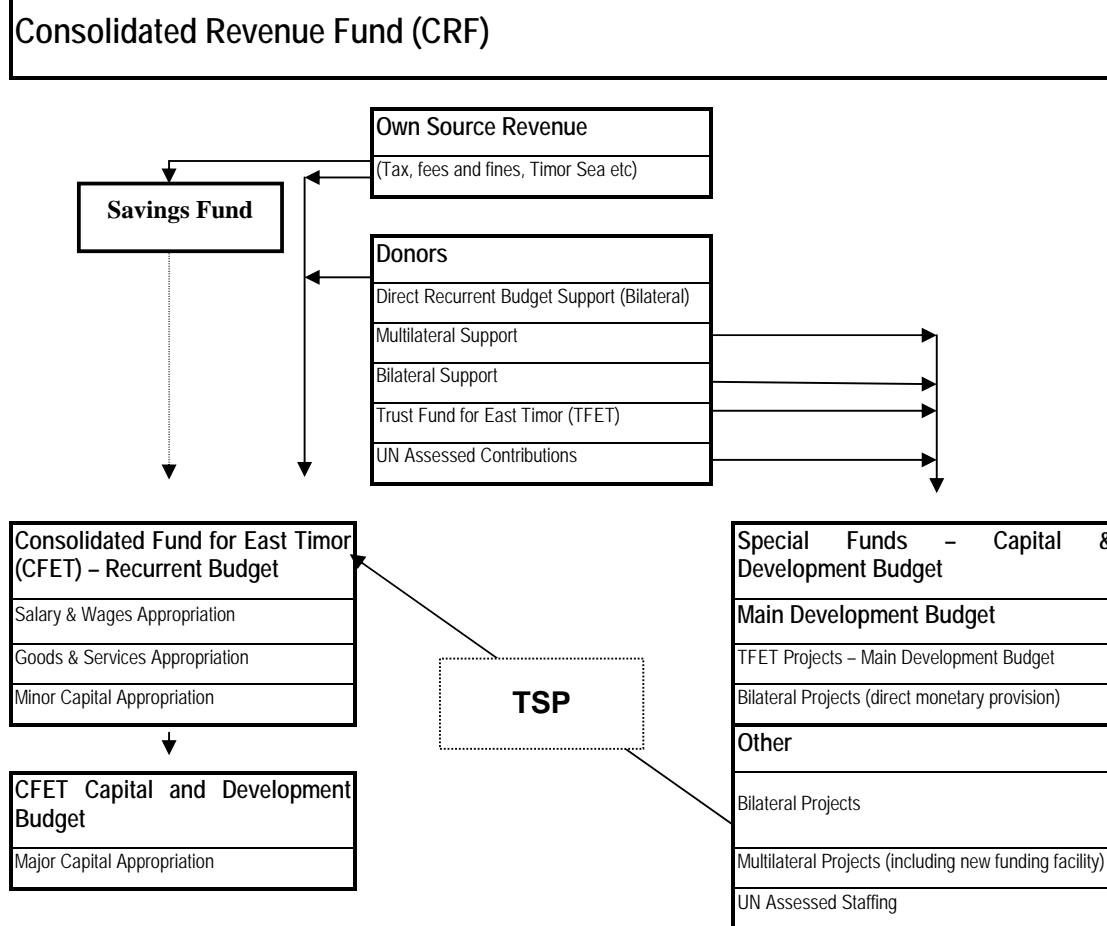
	2004-05	2005-06	2006-07	2007-08	4 Yr Total
<b>Expenditure</b>	<b>83,365</b>	<b>88,734</b>	<b>92,751</b>	<b>95,675</b>	<b>360,525</b>
<b>Salaries &amp; Wages</b>	<b>28,485</b>	<b>29,201</b>	<b>29,781</b>	<b>30,296</b>	<b>117,763</b>
Salary	28,315	29,005	29,565	30,087	116,972
Overtimes/allowance	170	196	216	209	791
<b>Goods &amp; Services</b>	<b>43,729</b>	<b>46,494</b>	<b>49,347</b>	<b>50,780</b>	<b>190,350</b>
Local Travel	817	809	837	866	3,329
Overseas Travel	1,313	1,378	1,385	1,390	5,466
Training & Workshops	1,078	1,108	1,149	1,196	4,531
Utilities	2,692	2,818	2,896	2,907	11,313
Rental of Property	586	602	602	604	2,394
Vehicle Operation	4,312	4,474	4,718	4,923	18,427
Vehicle Operational Fuel	1,761	1,850	1,949	2,057	7,617
Vehicle Maintenance	2,494	2,567	2,703	2,795	10,559
Other	57	57	66	71	251
Office Stationery & Supplies	1,159	1,217	1,269	1,319	4,964
Operational Material & Supplies	6,536	7,315	9,580	9,774	33,205
Fuel for Generators	8,725	8,942	9,150	9,369	36,186
Maintenance of Equipment & Building	3,931	4,643	5,339	5,565	19,478
Other Operational Expenses	2,515	2,470	2,469	2,440	9,894
Other Misc. Services	10,065	10,718	9,953	10,427	41,163
Professional Services	4,411	4,738	3,501	3,413	16,063
Translation Services	250	267	267	284	1,068
Other	5,404	5,713	6,185	6,730	24,032
<b>Minor Capital</b>	<b>2,057</b>	<b>3,272</b>	<b>3,123</b>	<b>3,292</b>	<b>11,744</b>
Security Equipment	185	179	180	194	738
EDP Equipment	181	331	294	412	1,218
Communication Equipment	289	327	318	275	1,209
Generators	57	146	166	189	558
Water Equipment	200	276	239	204	919
Office Equipment	235	312	250	223	1020
Other Misc Equipment	321	1,033	1,136	1,260	3,750
Furniture & Fittings	402	552	336	331	1,621
Purchase Vehicles	187	116	204	204	711
<b>Capital and Development</b>	<b>9,094</b>	<b>9,767</b>	<b>10,500</b>	<b>11,307</b>	<b>40,668</b>
Infrastructure Assets	9,094	9,767	10,500	11,307	40,668
Acquisition of Buildings	-	-	-	-	-

## APPENDIX 3 - CAPITAL AND DEVELOPMENT PROJECT ALLOCATIONS 2004-05

	2004-05	2005-06	2006-07	2007-08	Total
<b>Government Structures and Bodies</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<i>New Projects</i>	<i>50</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>50</i>
Providor of Human Rights and Justice - Rehabilitate Office Building.	50	0	0	0	50
<b>Ministry of State Administration</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<i>Continuing Projects</i>	<i>300</i>	<i>50</i>	<i>50</i>	<i>0</i>	<i>400</i>
Administration and Finance - New Administrative Building.	150	0	0	0	150
National Directorate of Territorial Administration - Rehabilitation of Offices of 14 Sub Districts.	150	50	50	0	250
<i>New Projects</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
National Printing - Rehabilitation of Printing Building.	0	0	0	0	0
<b>Ministry of the Interior</b>	<b>20</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>20</b>
<i>Continuing Projects</i>	<i>20</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>20</i>
Reconstruction of Building for Fire, Rescue and emergency Services.	20	0	0	0	20
<b>Ministry of Agriculture, Forests and Fisheries</b>	<b>225</b>	<b>250</b>	<b>350</b>	<b>385</b>	<b>1,210</b>
<i>Continuing Projects</i>	<i>138</i>	<i>250</i>	<i>350</i>	<i>385</i>	<i>1,123</i>
Irrigation Rehabilitation / Maintenance.	138	250	350	385	1,123
<b>Ministry of Education, Culture, Youth and Sports</b>	<b>1,165</b>	<b>1,465</b>	<b>1,865</b>	<b>1,865</b>	<b>6,360</b>
<i>Continuing Projects</i>	<i>943</i>	<i>1,152</i>	<i>1,543</i>	<i>1,865</i>	<i>5,503</i>
Primary Education - Rehabilitation of Schools and Teacher Housing.	500	600	800	1,000	2,900
Junior Secondary Education - Rehabilitation of Schools and Teacher Housing.	310	386	463	520	1,679
Senior Secondary Education - Rehabilitation of Schools and Teacher Housing.	133	166	280	345	924
<b>Ministry of Health</b>	<b>900</b>	<b>500</b>	<b>667</b>	<b>667</b>	<b>2,734</b>
<i>Continuing Projects</i>	<i>600</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>600</i>
Rehabilitation of 49 Community Health Centres and Health Posts.	600	0	0	0	600
<i>New Projects</i>	<i>0</i>	<i>500</i>	<i>667</i>	<i>667</i>	<i>1,834</i>
Rehabilitate Ministry of Health Building	0	200	0	0	500
Preliminary Provision for post TFET.	0	300	667	667	1,334
<b>Secretary of State for Labour and Solidarity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<i>New Projects</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Reconstruction of Training Centres in Suai, Same, Maliana & Tibar.	0	0	0	0	0
<b>Ministry of Planning and Finance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<i>New Projects</i>	<i>35</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>35</i>
Supply and Inventory Management - Rehabilitate Warehouse.	35	0	0	0	35

	2004-05	2005-06	2006-07	2007-08	Total
<b>Ministry of Transport, Communications and Public Works</b>	<b>6,265</b>	<b>7,385</b>	<b>7,500</b>	<b>8,000</b>	<b>29,150</b>
<i>Continuing Projects</i>	<i>6,265</i>	<i>7,385</i>	<i>7,500</i>	<i>8,000</i>	<i>29,150</i>
Roads Bridges and Flood Control - Periodic Maintenance of Roads.	2,980	3,061	4,200	4,600	14,841
Roads Bridges and Flood Control - Selected Road Improvements.	600	800	850	850	3,100
Roads Bridges and Flood Control - Flood Control.	500	606	650	650	2,406
Roads Bridges and Flood Control - Rehabilitation of Urban Roads, Drainage and Footpaths.	300	400	400	400	1,500
Roads Bridges and Flood Control - Public Safety Campaign.	55	0	0	0	55
Roads Bridges and Flood Control - Bridge Rehabilitation.	510	1,000	0	0	1,510
Land Transport - Rehabilitation of bus terminals, Becora and Tacitolu.	200	200	0	0	400
Land Transport - Traffic Signs.	100	50	0	0	150
Water and Sanitation - Development Projects.	420	500	600	700	2,220
Water and Sanitation - emergency Response Facility.	600	768	800	800	2,968
<b>TOTAL CAPITAL &amp; DEVELOPMENT PROPOSED</b>	<b>8,351</b>	<b>9,337</b>	<b>10,110</b>	<b>10,917</b>	<b>38,715</b>
<i>Continuing Projects</i>	<i>8,266</i>	<i>8,837</i>	<i>9,443</i>	<i>10,250</i>	<i>36,796</i>
<i>New Projects</i>	<i>85</i>	<i>500</i>	<i>667</i>	<i>667</i>	<i>1,919</i>

## APPENDIX4 – OVERVIEW OF COMBINED SOURCES STRUCTURE



The Consolidated Fund of East Timor (CFET) means the consolidated group of accounts and deposits of the Government of Timor-Leste, as provided in Regulation 2000/1. Currently CFET funds may be appropriated under Regulation 2001/13.

As specified in Regulation 2001/13 On Budget and Financial Management a special funds budget contains details of:

- (a) monetary amounts provided by international organisations or foreign governments for the benefit of East Timor; and
- (b) estimates of any aid-in-kind provided by international organisations or foreign governments for the benefit of East Timor.

Special Funds Budget do not form part of the Consolidated Fund of East Timor (CFET) and can not be appropriated. However, the Government of Timor-Leste has a significant degree of control over the use of special funds through the Council of Ministers. Special funds projects commonly proceed on the authority of the Council of Ministers

## APPENDIX 5 – ACRONYMS

ADB	Asian Development Bank	IDF	International Development Fund
ALGD	Administration of Local Government and Development	IEC	Independent Electoral Commission
ARP	Agriculture Rehabilitation Project	IFI	International Financial Institutions
ASEAN	Association of South East Asian Nations	IMF	International Monetary Fund
BPA	Banking and Payments Authority	IOM	International Organisation for Migration
BRC	Budget Review Committee	IT	Information Technology
CBO	Community Based Organisation	MAFF	Ministry of Agriculture, Fisheries and Forests
CDCU	Capacity Development Coordination Unit	MTFF	Medium Term Fiscal Framework
CDF	Capacity Development Fund	NDMO	National Disaster Management Office
CDP	Capital and Development Programme	NDMP	National Disaster Management Plan
CEP	Community Empowerment and Local Governance Project	NDP	National Development Plan
CFET	Consolidated Fund for East Timor	NGO	Non-Government Organisation
CIDA	Canadian International Development Agency	NZ	New Zealand
CISPE	Civil Service and Public Employment	OS	Overseas
CivPol	United Nations Civilian Police	PBC	Public Broadcasting Corporation
CoM	Council of Ministers	PBS	Portfolio Budget Statements
CRA	Communications Regulation Authority	PM	Prime Minister
EAN	Expenditure Authorisation Notes	SEP	Small Enterprises Project
EICBP	Economic Institutions Capacity Building Project	SIGTAS	Standard Integrated Taxation Administration System
EIRP	Emergency Infrastructure Rehabilitation Project	SPU	Special Police Units
EKKN	Elang Kakatua Kakatua North	TA	Technical Assistance
ETDF	East Timor Defence Force	TFET	Trust Fund for East Timor
ETPA	East Timor Public Administration	TVTL	Television Timor Lorosa'e
ETPS	East Timor Police Service	UN	United Nations
TLRS	Revenue Service of Timor-Leste	UNDP	United Nations Development Programme
FTP	First Tranche Petroleum	UNHCR	United Nations High Commission for Refugees
FUP	Fundacao das Universidades Portuguesas	UNICEF	United Nations Children's Fund
GDP	Gross Domestic Product	UNTAE	United Nations Transitional Administration in East Timor
GNR	Guarda Nacional Republica	T	
GPSM	Governance and Public Sector Management	WB	World Bank
HR	Human Resource	WFP	World Food Programme
HRM	Human Resource Management	WHO	World Health Organisation
		WoG	Whole of Government

