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The building of a new nation

With its economy growing along with exports, the young nation of Timor-Leste is fast becoming an investor favorite

Since gaining independence in 2002, the Democratic Republic of Timor-Leste in Southeast Asia has made remarkable progress.

Strategically located between Asia and Oceania, the land that spans just 15,007 sq. kilometers has walked a long road to recovery, but peace building and state building have been at the forefront of Timor-Leste's success in reaching stability and security.

A key performance indicator was achieved in the state-building process with the withdrawal of the United Nations Mission in January 2013.

Timor-Leste's transformation has been internationally acknowledged as a success, not least because it achieved a safe and secure environment in less than a decade.

Now that the foundations are stable, economic and social reconstruction has emerged, and with these factors in place, the government continues to build the nation.

Timor-Leste has valuable natural resources, including one of the world's most vital commodities: petroleum. The development of the petroleum sector is helping to cement the foundations of a sustainable and vibrant economy, and the revenue from the sector can be invested in the country's core social and economic policies: to focus on the health and education of its people; to eradicate poverty; to help farmers increase their productivity; and to be a leading driver of private sector jobs.

Over half of Timor-Leste's 1.2 million people are under 19-years-old and while this creates challenges, it also provides enormous opportunities for the emerging economy. In the last three years, Timor-Leste

has experienced double-digit economic growth and there is already a general improvement in people's welfare. Sector reforms and significant investments in the economy have taken place and development of the oil and gas sector has begun.

A long-term Strategic Development Plan was created in 2011 to epitomize the self-determination and national commitment of the Timorese people to continue to thrive through the facets of political will, economic potential, integration into the country's success, and through the dynamism of its people.

A former Portuguese colony, Timor-Leste is a member of the Community of Portuguese-Speaking Countries (CPLP), and, this year, will assume presidency of the organization — a historic milestone and the first time an Asian country has taken the CPLP reins. Timor-Leste is also track for accession to the

"After we had solved our political, social and institutional problems, we decided to have a vision of one, strong nation and in 2011, we announced the Strategic Development Plan."

Prime Minister and Minister of Defense and Security, Kay Rala Xanana Gusmão

Association of South-East Asian Nations in 2015.

Prime Minister and Minister of Defense and Security H.E. Kay Rala Xanana Gusmão has witnessed dramatic positive changes sweeping his country since 2002. He reflects on the challenges in the early days of independence:

"When gaining our independence, we had to start everything from scratch," he said. "It felt like a huge challenge, because of our lack of experience in nation

building. We lacked qualified public services and laws. We had to introduce a new constitution. Everything was at the incubation stage."

What has been achieved since, by the Timorese people themselves and with the help of the international community, has been impressive.

"After we solved our political, social and institutional problems, we decided to have a vision of one, strong nation and launched the Strategic Development Plan in 2011," the prime minister continued.

"Since the first donor meeting was held in Tokyo in 1999, we have had the good fortune to be able to rely on international aid to build our state under the rule of law and to mitigate the extreme poverty of our people."

The Timor-Leste Strategic Development Plan provides a long-term framework to realize Timor-Leste's vision to become

corruption.

"We established a Petroleum Fund that has grown from \$1.8 billion in 2007 to over \$13 billion this year. We were the first country in Asia — and the third in the world — to be compliant with the Extractive Industry Transparency Initiative so that every dollar that comes in from petroleum revenue is publicly disclosed and matched with the records of the resource companies.

"We are creating a highly transparent financial system, where anyone in the world will be able to track the budget being executed in real time. They can track aid expenditure, track procurement and most importantly, results."

Mapping resources

While the resource wealth to date has been based on one oil field in the Timor Sea, Bayu Undan and one smaller field Kitan, which recently came on line, 50 percent of offshore and 100 percent of onshore resources have yet to be explored or exploited.

has seen a significant rise in visitors mainly interested in Timor-Leste as an eco-friendly adventure destination.

Not only is business development taking effect, but there are some stark positive human changes being realized.

In 1980 the life expectancy at birth of the average Timorese was 35 years. By 2000 this had risen to 56 years, and in 2012 it was 63 years.

Timor-Leste was privileged in 2013 to have been appointed the Chair of ESCAP (The Economic and Social Commission of Asia Pacific). With Xanana Gusmão at the helm, Timor-Leste has established another step to integrate into the regional community and strengthen their efforts to join ASEAN.

"Our private sector needs international partners. It is the right moment to invite foreign investors, to send them a message of confidence that we are ready to partner, to open up," the prime minister said.

"We are a small country that is very flexible and can easily adjust to current economic trends. We need to contemplate more on the investment opportunities, because demand is growing, and investors will need to look for new markets like us."

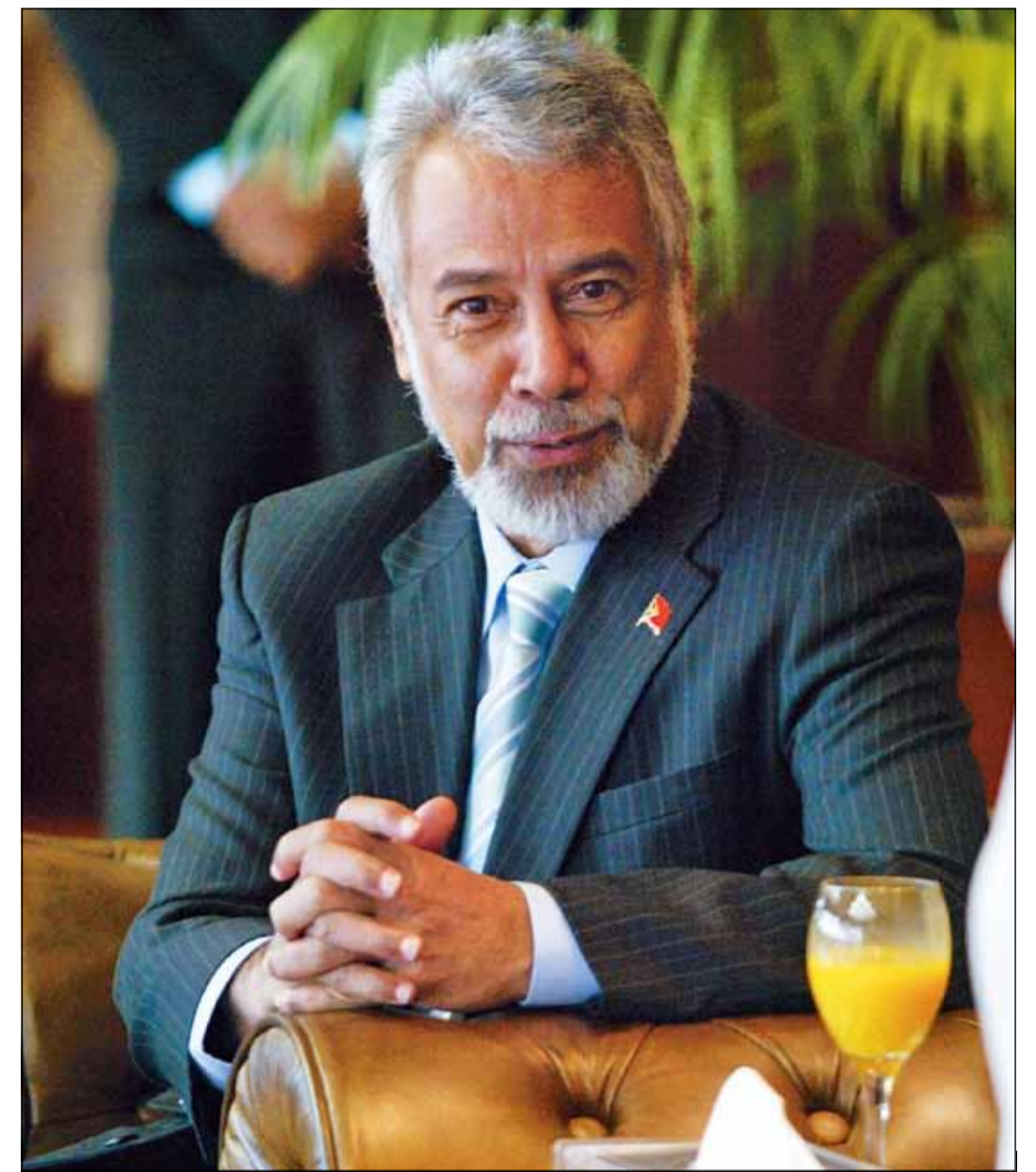
"The main areas of focus that we want to develop are: oil & gas, tourism, infrastructure and agriculture."

"Having such a strategic location, bridging Asia with Oceania, gives us a competitive advantage into building a bright future for Timor-Leste. I am confident of our bright future."

Organizing to develop

Júlio Alfaro, President of the Chamber of Commerce and Industry in Timor-Leste, explains how things are moving forward.

"The economic development



Prime Minister and Minister of Defense and Security, Kay Rala Xanana Gusmão

of any country is dependent on the success of its infrastructure. That is the main concern and we are complementing the work developed by the government in the area of the preparation of future infrastructures," Alfaro said. "I would like to highlight that the Chamber of Commerce of Timor-Leste was created due to the need of more organization from the private sector. Our slogan is "Organize to develop." The need and the challenge of the Chamber to organize the

private sector is very common in new and emerging countries. We felt the need to boost the private sector and help face the challenges of the country, mainly in the area of sustainable growth.

"The Chamber was established on April 17, 2010, and in the last International Summit of Chambers of Commerce, it was also invited to participate in that summit in Qatar. It participated as the youngest member of the World Chambers of Commerce. That was in April 2013."

Alfaro is rightly proud of the progress the Chamber has made.

"The Chamber was created to face the concerns and challenges of the national private sector. But once it was established, the Chamber supports not only the national sector, but also supports and welcomes new foreign investors that want to come here and help developing the country."

"The Chamber of Commerce gives them its full support and will help and assist them," he said.

The Strategic Development Plan 2011-2030

Ground-breaking blueprint for socioeconomic transformation shows the world an ambitious and dynamic new nation is coming of age

The Timor-Leste Strategic Development Plan (SDP) is a twenty year vision that reflects the aspirations of the Timorese people to create a prosperous and strong nation. It has been developed to inspire change, to support bold collective action and to plan for a better future.

The strategies and actions set out in the SDP aim to transition Timor-Leste from a low-income country to an upper middle-income one, with a healthy, well-educated and safe population by 2030. It is an integrated package of strategic policies to be implemented in the short-term (15 years), medium-term (five to 10 years) and in the long-term (10 to 20 years).

Although it is aligned with the United Nation's Millennium Development Goals, the SDP represents much more than a set of targets; it is about setting out a pathway to long-term, sustainable, inclusive development in Timor-Leste.

The plan aims to develop core infrastructure, human resources and the strength of its society

and to encourage the growth of private sector jobs in strategic industry sectors, namely: a broad based agriculture sector, a thriving tourism industry and downstream industries in the oil and gas sector.

The Strategic Development Plan covers three key areas:

1) Social capital:

The true wealth of any nation is in the strength of its people. Maximizing the overall health, education and quality of life of the Timorese people is central to building a fair and progressive nation.

2) Infrastructure development

Timor-Leste will invest in the core and productive infrastructure needed to sustain a growing, productive and connected nation. The country currently lacks the core infrastructure needed to support a modern and productive country in which its people are connected with both each other and the world.

A central pillar of the SDP is

the building and maintenance of infrastructure. While good national infrastructure is essential to Timor-Leste being able to develop economically and socially, the scale and cost of addressing this challenge is large and ongoing. An infrastructure plan is therefore required to set out the priorities. The implementation of this plan will not only underpin the growth of the nation, but will also increase productivity, create jobs, particularly in rural areas, and support the development of the private sector.

Timor-Leste will undertake substantial and long-term investment in roads to maintain the current road network, including a major program of road rehabilitation, repair and improvement. New roads will only be built if they serve important economic and social objectives.

A vitally important element in the economic and social development of Timor-Leste and in the health and well-being of the people is access to safe drinking

water and sanitation systems.

The aim is that by 2030 all citizens will have access to clean water and improved sanitation.

Access to reliable electricity supplies is vital to improve the quality of life in Timor-Leste and to support urban and rural jobs growth and development. It is a basic right and foundation for the country's economic future. The SDP maintains that by 2015, everyone in the country shall have an access to reliable electricity 24 hours a day.

The expansion of the Timor-Leste economy and the increased demand created by the SDP's infrastructure program will generate an urgent need of greater seaport capacity on both north and south coasts. Seaport infrastructure development is vital to allow the country to import critical goods and equipment to bolster the economy.

Meanwhile, demand for airport capacity generally tracks economic growth. To meet the future demand in air traffic the Dili International airport will be improved and developed to meet increasing passenger numbers and to support the tourist market.

Effective telecommunications

brings people together and supports the growth of businesses and the provision of government services. There is a need to improve access to affordable, reliable and modern telecommunications services.

3) Economic development

The SDP states that Timor-Leste will build a modern, diversified economy based on agriculture, tourism and petroleum industries, with a flourishing private sector and new opportunities of all the people.

Despite Timor-Leste being

Although it is aligned with the United Nation's Millennium Development Goals, the SDP represents much more than a set of targets; it is about setting out a pathway to long-term, sustainable, inclusive development in Timor-Leste.

a low-income country with an emerging private sector, limited economic diversification and a concentration primarily on agriculture production, it does present significant economic opportunities and strong potential to become a middle-income nation.

The vision for 2030 is that the country will have a modern

diversified economy, with high quality infrastructure including roads, power, ports and telecommunications.

Subsistence agriculture will have been replaced by commercial, smallholder agriculture. The petroleum sector, including oil and gas production and downstream industries, will provide an industrial base to the economy. Tourism, and in particular ecotourism, will be a major contributor to the national economy and light industry will complement and diversify the economy.

promote economic growth. Many emerging private sector businesses will support the farming sector by providing goods and services to improve production and by being involved in marketing any surpluses of processed agriculture commodities.

The petroleum sector in Timor-Leste has been designated a key pillar for future development. The sector is critical not only to economic growth and strength, but also to future progress of a successful, stable nation. While developing the sector, Timor-Leste has to

ensure that natural resource wealth is used to build the nation and support the people.

The country currently lacks the core infrastructure, support industries and human resources to fully operate and manage the petroleum sector, which results in the loss of great opportunities for the nation. Securing these opportunities will, therefore,

provide a strong foundation for the development of a successful petroleum industry, the export and service industries and a mature and expanding private sector.

With Timor-Leste's natural beauty, rich history and cultural heritage there is also great potential to develop tourism as a major industry to underpin economic development. A successful tourism industry will contribute income to the national and local economies, create jobs, build businesses and improve regional economic imbalances.

Timor-Leste is blessed with tropical waters rich in marine life, white sand beaches, spectacular mountain ranges, unique Timorese culture, Portuguese colonial heritage and an interesting resistance history.

To build the nation and provide jobs and income, the SDP states that Timor-Leste needs to attract investors to the key industries and partner with international firms in building support. Potential investors must have confidence that they are entering a competitive, fair and open business environment and be clear about investment regulations.

Improving infrastructure is top priority

Government officials are pulling out all the stops to get the country up to speed, with exciting new transport links and a far-reaching goal of universal access to electricity.

As a modernizing nation, and a potential hub for tourism, energy and trade, Timor-Leste needs a huge injection of infrastructure investment.

Although the country has an established airport in Dili — the Presidente Nicolau Lobato International Airport — and a clutch of regional ones, an upgrade is needed as a priority. PNLI currently offers connections with Australia (Darwin), Indonesia (Jakarta and Denpasar in Bali) and Singapore, but the runway is small and the airport lacks the capacity to meet the growing demands of passengers, aircraft and safety authorities.

The government is now working with the International Finance Corporation (IFC), a member of the World Bank group, to help it launch a public-private partnership (PPP) to generate the necessary capital and expertise. A new runway will attract more airlines and foster competition within the sector.

“Timor-Leste is entering a concerted national develop-



Minister of Public Works
Gastão de Sousa

programs on the south coast of the country, while new airport at Oecusse will support the special economic zone program.

“Dili Port is currently the only seaport equipped for imports and exports and handles regular service lines to Australia, China, Indonesia, Singapore and elsewhere, but it is already reaching capacity and there is congestion, delays and high costs,” the minister continued.



Minister of Transport
and Communications
Pedro Lay da Silva

able to transport their goods and provide basic services to even the remotest areas. We need to focus more on road connectivity.”

Of course, capital in the form of foreign direct investment is a strong requirement in public works and transport.

“Road building is always interesting for foreign investors, and Japan has always been a strong supporter of our water and sanitation systems. As with the

opment. “We want to connect every capital district, and in order to fund that, we are looking to the Asian Development Bank and the Japanese government. Japan has always been so supportive of our infrastructure endeavors in the past.”

Progress made

There are currently around 1,426 kilometers of national roads, 869 kilometers of district roads and 3,025 kilometers of rural roads in Timor-Leste.

Within the national roads network development, the Ministry of Works plans to upgrade about 600 kilometers out of around 1,426 kilometers of the existing national roads which is equivalent to 40 percent of the total length of Timor-Leste's national roads to be upgraded by 2017.

“So far we have upgraded 14 kilometers of the Liqueça-Maubara section with a Filipino partner; this is part of the main road link between the Nusa Tenggara Timur Province of Indonesia and Dili. More construction is being undertaken on the Dili-Liqueça section by a Spanish company and the Tibar-Gleno and Carimbala-Loes sections by an Indonesian company.

“Further sections between Dili-Ainaro, Dili-Baucau, and Manatuto-Natarbora are being tendered or will be put out to tender this year.

“The upgrading of all national roads will be procured through International Competitive Biddings.”

During the course of this year, the government will also procure more construction companies to build a four-lane road from Comoro roundabout to Tibar, where the port will be, and the Suai-Beaco highway in the south coast.

“The design for Baucau-Viqueque and Baucau-Lospalos will also be done this year and construction is expected to start in 2015. The section from Loes to Mota-ain will be constructed before 2017 to complete the main link between NTT and Dili.

“These secured projects of national roads designs and constructions alone — excluding rehabilitation and maintenance



Timor-Leste wants to capitalize on its offshore resources.

of the remaining sections of national roads and the rehabilitation and maintenance of urban and district roads — provide large business opportunities already.”

Opportunities range from design and supervision consultancies services, civil works, construction, heavy equipment provision, importation of construction materials that are not produced locally and more.

“The cost of construction alone for the upgrading of around 14 kilometers of national road between Liqueça and Maubara was about \$10 million,” de Sousa said, “which means that the average cost for upgrading of national roads is about \$850,000, or between \$700,000 and \$1 million per kilometer. Assuming this cost remains constant, we will invest more than \$1.2 billion between now and 2020 just to upgrade our national roads.”

Clean water

Plans are also afoot to overcome the many challenges involved in improving access to clean water and sanitation across Timor-Leste. They include building a major sewerage collection system in Dili, providing a safe piped 24-hour water supply to households in 12 district centers and installing water systems and community latrines in rural areas.

The SDP states that by 2030, all citizens in Timor-Leste will

have access to clean water and improved sanitation. The target for district urban areas is to provide 60 percent access to appropriate improved sanitation facilities by 2015.

“Water sources, treatment plants and transmission mains are now generally in good condition and have sufficient capacity to meet Dili's needs for several years. An ongoing project of water supply for Dili is progress-

“We need to transfer the expertise and technology, but we are working on it. We have the equipment, but in some areas, we still need the help of international companies.”

MD, National Timorese Consortium, Jorge Serrano

ing well. The project covers three sub-zones within three different zones supplying potable water 24/7 for about 1,600 households and consumers. Two additional zones covering about 1,700 households have been processed to commence works this year.

“Opportunities are also promising in this sector, especially for Dili and district capitals (urban water supply), estimative costs for additional investments is over \$250 million, but main opportunities will be on the operations and maintenance which will be for long-term. A possibility for a PPP is being considered.

Looking for partners

Securing investment for projects in civil construction and else-

where could be seen as a daunting task, but luckily the National Timorese Consortium is on hand to promote the country and match international players with local firms.

Formed four years ago, it is the first entity of its kind, and managing director Jorge Serrano is keen for it to succeed in attracting the correct know-how and capital needed.

“We came together to give

companies from Japan or elsewhere. Now, the infrastructures are being built, we have already passed the problems that we had in the past and now we are in the phase of growing the construction.

“We are now investing in the south for the construction of the supply-base, the refinery, roads and highways and airports.

“We mainly do public works, but we also have other objectives,

“Road building is always interesting for foreign investors, and Japan has always been a strong supporter of our water and sanitation systems.”

Minister of Public Works, Gastão de Sousa

ment phase characterized by both rapid economic growth and a population increase,” said Minister of Transport and Communications Pedro Lay da Silva.

“We are therefore working on a Transport Master Plan that will bring together all modes of transport across all districts of the nation into a world-class, integrated network that puts our people first.

“We don't just want to improve the existing infrastructure; we want to build a new airport and a couple of seaports, one on the south coast and one at Oecusse. We are making all the necessary preparations and the feasibility studies have been done, so we will be putting out tenders soon. We would like to develop most of the projects through PPPs.”

Work has already started on the Suai Airport, which will support oil and gas development

“With extensive investment expected to cross all sectors, there will be higher demands placed on imports, and cargo growth will go well above the current capacity.”

To offset that huge demand, work has already begun on a brand new port at Tiber Bay.

“We already have the concept designs and expect work to start next year,” Lay da Silva said.

Generating growth

Gastão de Sousa, minister of public works, whose remit covers public works, water and sanitation and electricity, is also concerned that the lack of good roads and transport links is hindering growth.

“In the area of agriculture, for example, we have very fertile land for crops and livestock, but there are no connections to these areas,” he explains.

“We want our people to be

transport sector, we would like to use PPPs to get some projects off the ground, and for that we need to keep building our human resource capacity as proper management is needed.”

“As we are all aware, the relationship between infrastructure and economic development has been widely recognized. Empirical evidence has demonstrated that a shortfall in infrastructure led to declining productivity. Building Timor-Leste's infrastructure is not an easy task particularly where demand for infrastructure is pressing while the challenges and cost of supplying infrastructure are enormously high.

“There are no simple answers but the targets are set for key infrastructure. Even though they are ambitious, they are tough choices the country has to make to unleash some of the constraints in socioeconomic devel-



Connecting the people of Timor-Leste with the world

A crucial part in the development of an emerging economy is adequate infrastructure. The ability to get from A to B, quickly, cheaply and safely — whether for business or pleasure — good sanitation and reliable power are what sets a modernizing economy apart.

The infrastructure in Timor-Leste needs drastic improvement if we are to maximize the opportunities our bountiful natural resources bring. We therefore welcome public-private partnerships and foreign direct investment in our ports, airports, roads, bridges, water sanitation systems and electricity networks from early bird investors looking for rich returns.



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Pumping energy into the economy

Rich in oil, gas and minerals, Timor-Leste is in a strong position for investment interest and is ensuring it will use the revenues to develop other industries

With an annual production rate of 83.7 thousand barrels of oil per day and substantial reserves of liquefied natural gas (LNG) Timor-Leste has made an impressive start in fully using the revenues of this crucial resource for the common good.

A Petroleum Fund, set up in 2005, has paved the way for a robust investment environment that ensures this resource-rich country will not go the same way as other energy producers, but instead disperse the wealth to the people via more sustainable industries.

As Minister of Finance Emilia Pires has pointed out, oil revenues are currently driving 90 percent of the state budget, so it makes sense to ensure the money is carefully managed and spent, and invested wisely for the future.

Minister of Petroleum and Mineral Resources, Alfredo Pires, takes up the story:

"We want to use the revenues from our resources to push other sectors, because the oil will run-out one day," he said. "This government is very much committed to creating a better economy, better living standards and a better Timor-Leste."

A six-point program has been rolled out to manage the process. The budget for human resources training has been increased from \$1 million to \$3 million, and a quarter of the staff with master's degrees have studied abroad.

"We want to be self-sufficient as far as our workforce in concerned, in order to be an equal partner to everyone," Pires said.



Minister of Petroleum and Mineral Resources, Alfredo Pires

An agreement with Australia over the Greater Sunrise field, which has an estimated \$40 billion worth of oil and gas reserves in the Timor Sea, will be amended, and new legislation drafted regarding mineral resources and the setting up of a Mineral Fund.

"Although most of our revenues are from petroleum, we are now working with Jurassic Rocks to develop the mineral sector," Pires said. "We earn \$106 million from nonpetroleum revenues, which isn't bad, but if we grow this sector, it will extend the revenues considerably."

The Ministry is also working to acquire best standards and follow the rule of law in order to create solid transparency and good governance. The South Coast will become a major supply and logistical center, with work on a new airport and seaport about to be put out to tender and a new LNG plant is being built, which brings huge opportunities for investment in the oil industry and its related sectors and also the petrochemicals sector.

"We need to let the international community know that we exist and what we have to offer," minister Pires said. "Our strategy is to be part of the international arena and proudly partner with everybody. Our country has lots to offer; investors just need to explore the untapped opportunities. We encourage reliable partners to come."

Taking responsibility

In order to grow the sector efficiently, the government has separated the regulatory, commercial and studies processes.

Originally established in 2008, the National Petroleum Authority (ANP) for example, is now responsible for establishing and supervising compliance with rules and regulations covering the exploration, development, production, transportation and distribution of petroleum and natural gas, while developing a strong petroleum management institution in Timor-Leste.

It is also responsible for merging petroleum activities on behalf of Timor-Leste and Australia as per the Timor Sea Agreement signed in 2002.

Gualdino da Silva, head of ANP, explains more: "Before independence, we had no experience in managing oil and gas or even participating in the industry. Now we have shown we can do that, but in order to maintain the maximum benefits, Timor-Leste must ensure it can absorb the opportunities."

Openings lie in both upstream and downstream, da Silva said. "The upstream companies already here are very profitable

indeed and there are exploration blocks still in place. We have just finalized our legal framework for the downstream sector, so people can come and invest. They can look on our website and see the minimum participation stated for local companies, fuel specifications, the standard we use and the license needed. The tax rate is only 10 percent. I believe Timor-Leste will continue to grow in this sector over the next 50 years."

At the Institute of Petroleum and Geology, the government agency set up to identify the potential for geological resources, which, as well as oil gas, include gold, iron, magnesium and zinc, Hélio Casimiro Guterres explains how Japanese businesses could be involved.

"We could really benefit from Japan's knowledge," he said. "Japan could maximize its resources, and we could gain more expertise. We could also benefit from equipment and technology, particularly in the

"Our country has lots to offer; investors just need to explore the untapped opportunities. We encourage reliable partners to come."



Timor-Leste's oil industry is thriving.

area of geotechnics."

Francisco Monteiro, President and CEO of TIMOR GAP, the national petroleum company which was set up in 2011, outlines more exciting opportunities.

"We have managed our revenues, invested in people and are now ready to explore on our own with our big-name partners,"

he said. "There are challenges related to certain developments, which are based on national policies, but we have ensured that we gain what is right for us."

"Our investment climate is friendly and welcoming. The

multiple development projects, rural development, infrastructure and educational programs have already been funded from these ventures.

"There is still a lot to explore, we have competitive labor rates,

Japan is already a keen supporter of Timor-Leste by way of LNG provision. As minister Pires explained:

"Australia exports the gas to them, but it comes from here and is processed in Darwin. We are, however, planning to build our own gas plant. We have to think about the best way to explore the resources and acquire the technology, as well as examining the contractors, but we have the money from the Petroleum Fund ready to invest."

"Our prime minister is very business oriented. Although we are in arbitration with Australia regarding the Timor Sea resources, we still regard Australia as a friend. The government is trying to protect our interests, but our main aim is to have a true and honest friendship with our neighbors."

"The politics will get dealt with. The potential for natural resources is huge, and we have to put the human resources in place. But once we solve these issues, this country will grow, and it will be very big."

The TIMOR GAP chief is also optimistic. "I will be very pleased in five years' time to see that we have a significant level of our own equity production from at least two production sharing contracts," he said. "That will take TIMOR GAP to another level. It will also be satisfying to see the completion of some of the major projects in the south coast, such as the Suai supply base and refinery, and, within 10 years, the realization of the mega-project of the LNG Plant, in which TIMOR GAP will hold a significant portion of shares and actively engage in its implementation."

Protecting the fruits of a precious resource

The Petroleum Fund of Timor-Leste was established under the provisions of the Petroleum Fund Law and amended on 23rd August 2011.

The Petroleum Fund Law (PFL):

- provides mechanisms that assist Timor-Leste to sustainably manage its petroleum revenue
- details the parameters for operating and managing the Petroleum Fund
- defines the asset allocation and risk limits
- governs the collection and management of receipts associated with petroleum wealth
- regulates transfers to the State Budget, and
- provides for government accountability and oversight of these activities

The PFL requires that all petroleum revenues are entirely transferred to the Petroleum Fund and invested abroad in financial assets. The Petroleum Fund's only outgoings are transfers back to the central government budget, pursuant to parliamentary approval. The Petroleum Fund's governance model is based on a high degree of transparency and disclosure of information to help build public support for wise management of petroleum revenues and to reduce the risk of bad governance.

As the executive, the government through the Ministry of Finance is responsible for the overall management of the Petroleum Fund, on behalf of the people of Timor-Leste. Minister of Finance Emilia Pires several times drew the attention to the significant dependence of the state on the nation's petroleum resources. Revenue from the petroleum sector supports 90 percent of the state budget.

All public promises should take into consideration the forecasted future costs and the sustainability of financing.



Petroleum revenues make up 90 percent of Timor-Leste's social budget.

The Ministry of Finance is required to seek advice from the Investment Advisory Board before making decisions on any matter relating to the investment strategy or management of the Petroleum Fund. The aim of the Petroleum Fund is to benefit both current and future generations of Timorese. This objective was established in the preamble of the PFL.

The Petroleum Fund can benefit Timorese in two ways. Petroleum revenues are spent and invested domestically through the annual state budget process, of which money is allocated to pay for goods and services, social transfers and also to invest in physical infrastructure and capacity development.

Meanwhile unspent petroleum revenues are invested in financial instruments located abroad, which generates additional financial returns that provide opportunities for future generations to spend on their priorities and needs.

With regard to petroleum investment evolution, as at the end of 2012, 74 percent of the Petroleum Fund's assets were invested in the U.S. Government Bonds and 26 percent were invested in developed market equities.

The Ministry of Finance, on behalf of the government, decided to continue to increase the equities exposure to 40 percent. This targeted exposure is planned to be achieved by the end of June 2014. In addition, the Petroleum Fund will diversify 10 percent of its bond portfolio to international sovereign bonds ex-U.S.

On investment strategy, it is to diversify the Petroleum Fund investment to enable the alignment between the investment policy and fiscal policy. In other words, with the new strategy of 60 percent investment in bonds, and 40 percent in equities, there would be a reasonable probability that in the long-run, the Petroleum Fund could achieve a real return of

3 percent, which is matched to the 3 percent estimated sustainable income, the guideline for annual transfers to the state budget.

Unfortunately, there are three key risks that the Petroleum Fund faces. The first is the risk that the Petroleum Fund earns less than 3 percent return. Therefore, to manage this risk the Minister of Finance suggested continuing to develop the investment strategy.

The second risk is reputation risk. To mitigate this risk, the need for a strong governance standard is emphasized, using a sound international investment process, having a formal process for considering proposals from third parties, and formal sign-off procedures.

The third risk is the risk of losing money. The strategy devised to manage this involves spreading the investments across multiple asset types, countries, currencies, and managers and using custodian bank and external fund managers wisely.



Fueling our future

Timor-Leste will soon be riding the crest of a wave as our south coast projects, in the shape of an oil refinery and LNG plant, come onstream. Flanked by a new port and airport, plus world-class facilities, logistics and services, this region is going to be big. Having completed stringent feasibility studies, we invite you to join in this exciting venture.

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Relaxing eco-vacations next to nature

Uniquely charming, Timor-Leste offers a refreshing backdrop and range of attractions for Japanese tourists, and a host of opportunities for investors too.

As a new country situated in one of the fastest-growing tourism regions in the world, Timor-Leste can offer intrepid travelers an enjoyable respite from the more overdone Asian destinations, as well as provide huge revenue potential for investors.

With tropical climates, white-sand beaches, mountains, island retreats, superb waters for diving, bathing and snorkeling and a cultural heritage that is nothing short of fascinating, Timor-Leste is, without doubt, a charming place to stay.

As one of the new pillars earmarked for development, opportunities in tourism are limitless. At the moment, there are fewer than 250 hotels, and less than 120 restaurants, and getting around is challenging and often expensive due to the lack of road links. However, with a brand new Ministry of Tourism now in operation, it is a sector that could offer magnificent returns for early bird investors.

"We have a five-year plan," Minister of Tourism Francisco Kalbuadi Lay explained. "Our first objective has been to focus



Minister of Tourism Francisco Kalbuadi Lay

on our human resources, training programs and professionalizing the sector. We are looking to form hotel and restaurant associations in the coming years and build a strong private sector.

"We firmly believe tourism will become an important part of the economy and having dealt with security issues, we have turned our attention to infrastructure.

"We need to be able to get tourists to different places in a safe and comfortable way. The challenges at the moment are energy and hospitality. We need

strong human resources, so I have posted our students all over the country to allow them to specialize in different areas. We hope that when they return, they will have a real sense of what we can offer and make an impact on the sector."

The good news is that word is already getting around about the attractions of Dili, Timor-Leste's beautiful capital, and other parts of this relatively untouched destination. A World Bank report published last year showed an increase in air passengers of 150,000 in 2012, and the numbers are rising year on year.

While coastal areas boast pristine beaches and deep blue waters teeming with sealife, the center of the island features rugged mountains that rise to 10,000 feet and are dotted with hot springs and communities of thatched, stilted houses. Cave paintings date the inhabitants' arrival to the migrations between greater Asia and Australia, and the many styles of dwellings attest to the peoples' varied origins.

The islands' sandalwood, honey and spices brought

Chinese, Malay, Arab and Portuguese traders to its shores as early as the 15th century, the latter settling in for 400 years of colonial rule. Those settlers left a legacy of gracious architecture, delicious cuisine and Catholicism, which the islanders have reinterpreted according to their own animist beliefs.

While the years of violence and turmoil under the subsequent Indonesian rule are evidenced by ruined buildings and the tunneled hideouts of the heroic Resistance fighters, a decade of peaceful democracy means Timor-Leste is now a haven for culture vultures, adventurers and wildlife lovers with its remote hillside villages, forests of towering banyan and rosewood trees hung with ferns and orchids.

"We have a great country with great natural scenery, but we also want to promote sports, religious and recreational tourism," Kalbuadi Lay said. "We want to make sure we offer lots of options when we have the infrastructure to support them."

Major infrastructure work will begin in 2015 that will complement this year's Dili International Airport expansion.

"By 2016, we should start to see the benefit of the hospitality training programs, and then we

can start to promote the country through publicity campaigns," the tourism minister said.

"We will continue to promote intercultural exchanges with Australia and Indonesia and are also hitting the expo circuit. This year will be the first time we have participated in an expo in Russia and Germany, for example, and we are doing others in China, Portugal and Japan.

"We have a long history with the Japanese. Japan was very helpful after Independence, and we are hoping to attract tourists

reserves are being created to protect them. The landscape lends itself opportunities for active tourism, from trekking to horseback-riding on the legendary Timor ponies.

Timor-Leste is part of the Coral Triangle, a zone in the West Pacific that is home to around 600 different species of reef-building corals alone, six of the world's seven marine turtle species and more than 2,000 species of reef fish. As such, diving has become a major draw. There is great visibility in the dry season and

is overseen by a huge bronze statue of Christ which stands 27 meters tall, and a walk up to view it is rewarded by breathtaking views of the country and the sea. Gastronomy varies from the simplicity of a local catch of the day cooked and eaten on the beach, to fine dining in elegant restaurants.

Diving and tour companies are on hand to offer excellent over-land tours and diving excursions.

For the eco-tourist, a trip to the island of Atauro is a must. Situated just 45 minutes from

accommodations and destination, it is all in hand.

As Kalbuadi Lay said: "My Ministry is going to work hard to establish an institutional framework, with suitable planning and control mechanisms that will allow the implementation of the programs at national, district and local level to be efficient.

"We're going to develop human resources on all levels, through education and training. We are also going to promote and market ourselves properly, creating a strong image of the country through marketing programs as well as creating cooperation opportunities with the private sector and other partners.

"We need to establish the context in which Japanese tourists will want to come. The Japanese are known for their love of travel and a virgin country like ours will undoubtedly appeal to them.

"Our country has a unique opportunity to build a tourism sector that avoids both the social and environmental negatives of tourism, and maximizes its contributions.

"Careful management is the key: our strategy involves a focused and incremental approach to development with an emphasis on sustainability and community participation."

"We firmly believe tourism will become an important part of the economy, and having dealt with security issues, we have turned our attention to infrastructure."

Minister of Tourism, Francisco Kalbuadi Lay

from there with our thermal waters and ecotourism. I also believe that we can have a true cultural exchange."

The attractions

Timor-Leste is one of the few remaining wildernesses in Southeast Asia, and as such it offers range of spectacular landscapes that host a number of different ecosystems. It is also home to a variety of endangered species, both marine and terrestrial and national parks and

warm tropical water the whole year round. Visitors can explore pristine, live coral and aquatic species while drifting through the underwater canyon between the mainland and Atauro.

Dili, the capital, is a thriving coastal town and one of the fastest-growing towns in the region. Whether lazing in the summer sun, splashing around in the sea, or soaking up the many colorful handicrafts on display in the shops, visitors to Dili find it safe and uniquely friendly. The town

Dili and accessible by water taxi or ferry, the stunning island offers a privileged glimpse into the lives of the Timorese and as many dolphins as it is possible to see. Resorts, diving, water sports and day-trips are all available, making the island one of the world's most rewarding, almost secret locations.

Although there is still much to do in terms of airplane links and the integrated components of a thriving tourism sector, such as transportation, communications,



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TIMOR-LESTE
Ministry of Tourism
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Agricultural exports are on the rise

Responsible for the livelihoods of more than 70 percent of Timorese, the significance of the agricultural sector is huge. Large-scale change is happening on the ground, as *Global-Insight* discovers.

Global Insight (GI) sat down with Minister of Agriculture and Fisheries Mariano Assanami Sabino (MAF) to discuss the situation.

MAF: Agriculture in Timor-Leste is characterized by the smallholder farming system, so enhancing production, productivity, and rural livelihoods has been the main objective of all Timor-Leste governments.

Agriculture investment is therefore a fundamental instrument to provide food and nutrition security, reduce poverty, create employment, generate sustainable broad-based growth, ensure environmental sustainability and achieve the Millennium Development Goals. Until now, however, investment has not produced the desired results, so Timor-Leste remains dependent on food imports.

Food insecurity is widespread and affects two-thirds of the rural population, while drought is a recurring feature of our climate, rather than a rare event. In an effort to ensure household food security, farmers use diversified farming systems to reduce production risks associated with a variety of land forms, soils and climates.

GI: What is your ministry doing to alleviate these challenges?

MAF: We have put in place a five-year plan, for 2014-2020 to guide agricultural development in the country. The objectives are: to improve rural income and livelihoods and reduce poverty, to improve household food and

nutrition security, to support the transition from subsistence farming to commercial farming and to promote environmental sustainability and conservation of natural resources. More specifically, we want to see sustainable increases in the production and productivity of selected crops, livestock species, fisheries and forestry sub-sector; enhance and improve market access and value addition; improve the enabling environment and ensure that MAF and related agencies are strengthened, appropriately configured and developed to deliver this plan.

We need to have a sustainable, competitive and prosperous agricultural sector that supports the eradication of poverty and improved living standard of the nation's people.

"We need to have a sustainable, competitive and prosperous agricultural sector that supports the eradication of poverty and improved living standard of the nation's people."

Minister of Agriculture and Fisheries, Mariano Assanami Sabino

GI: What are the major opportunities for foreign investors in your sector?

MAF: Rice is a staple food in Timor-Leste with our major rice-producing districts accounting for about 77 percent of local production. At the moment, however, we cannot meet demand and need to import large amounts of rice from Thailand, Vietnam and

Indonesia. Our goal is to be self-sufficient in rice production by 2020 and we are already on our way to achieving this.

Two rice production systems have already been tested and we have discovered that with the improved rice variety Nakroma, there is a 50 percent increase in yield. Integrated Crop Management technology has also increased yields from 1.5 t/ha to more than 4.5 t/ha.

Maize is grown by 60 percent of Timorese families, so we will increase our efforts to increase yield and improve storage. Early results from improved maize production systems based on better weed control, moisture conservation and the use of inorganic fertilizers are very promising. There has also been significant improvement in the

varieties of maize, sweet potato, cassava and peanut available for distribution to farmers as a result of seven years of research on an on-farm testing.

Coffee accounts for around 80 percent of our non-oil exports, with annual exports of 12,500 tons. We estimate that there are more than 50,000 families producing coffee that are



Minister of Agriculture and Fisheries
Mariano Assanami Sabino

dependent on the crop. Although Timor-Leste produces less than 0.2 percent of the global coffee supply, we have a competitive advantage in organic production and are the largest single source producer of organic coffee in the world. The Timor-Hybrid, a natural cross-breeding of the robusta and arabica coffee varieties is internationally recognized as a high-quality coffee.

We are also focused on **candle-nut**, which is grown primarily for its oil, and will continue to provide inputs, financial and technical support to increase production. As for **coconuts**, almost half of Timorese households have coconut trees, but the trees tend to be old and poorly tended. We are therefore looking to increase production and improve value-added processing in order to respond to the growing export potential for coconut and coconut products in the global market.

There are also huge opportunities in **fisheries**. Timor-Leste has a coastline of around 735 kilometers and 72,000 sq. kilometers of Exclusive Economic Zone waters with rich marine waters and the potential to develop



Farmers are getting help to modernize, expand and add value to their businesses.

offshore fisheries. Coastal and near-shore waters can support aquaculture activities, such as seaweed, prawn, abalone, crab, pearl and oyster farming. Most fishing is done traditionally from small boats near the shore. We will therefore put our efforts into developing community based coastal aquaculture activities which could offer income-generating opportunities for the coastal communities.

In the short-term, strategies and actions to improve the management of coastal and inland fisheries and create a vibrant commercial fisheries sector will focus on increasing the catch from traditional fishing activities and exploiting fishing grounds in the Exclusive Economic Zone.

Finally, **livestock and animal farming** has the potential to make a significant contribution

to improved nutrition for our people by increasing access to fresh meat and dairy products. This sector can also create jobs and potentially provide export income. According to our last census, in 2010, about 80 percent of Timor-Leste households rear livestock. Goats, sheep and pigs are sometimes traded in local markets, while horses play an important role in transportation.

We are making efforts to establish a commodity development program that aims to double cattle exports to 5,000 head/year and substitute the import of 200 tons of beef a year by 2020. We will develop an abattoir and butchery unit to provide quality cuts, packaging and storage facilities. Some form of certification by the abattoir guaranteeing quality and food safety will create a price premium.

We have an abattoir at Tibar to support the development of a quality local beef market, ideally through leasing to the private sector or other private sector management arrangements.

GI: What strategies are currently in place to promote the investment climate and business opportunities?

MAF: I do not believe agricultural growth and rural development can be achieved by programs and activities implemented by the MAF and its agencies alone. Considerable complementary investments are needed in transport and roads, water and sanitation, power, health and education. Therefore, cross-sectorial and inter-ministerial coordination needs to be improved between the MAF and other sectors that

provide complementary investments and services that have a bearing on agriculture.

Full participation of the private sector and the support of development partners are critical for the successful implementation of the Strategic Plan.

The underlying logic of the Plan is that if the long-term productivity of existing and emerging enterprises can be improved and/or farmers and fishermen can be helped to move up the value chain through public and private investments in marketing and value-addition activities, then rural incomes and livelihoods will improve. The agricultural sector can then move toward greater profitability and competitiveness. MAF's enabling environment and organizational strength will facilitate and accelerate this transformation.

On a mission to improve trade in the sub-regions

The Timor-Leste, Indonesia and Australia Growth Triangle — TIA-GT — is a combined initiative of the governments of these countries, ignited by Timor-Leste, to promote and foster economic growth, and integrated sub-regional development between Timor-Leste, Eastern Indonesia and Northern Australia.

The leaders of the countries involved have been demonstrating strong support for this initiative. The Indonesian government sees it as a major contribution to promote the growth and development Eastern Indonesia badly needs, and the Australian government as a great opportunity to foster the development of Northern Australia, particularly with regards to diversifying industries that have focused on mining.

For its part, in September 2013, the Timor-Leste government launched a mission unit to negotiate and establish a platform for cooperation and sub-regional integrated economic development across these areas under the sponsorship and direct supervision of the prime minister.

João Mendes Gonçalves, former minister of economy and development, has been appointed as the head of this mission unit and representative of the state.

The leitmotif of this venture fully understands the need to start up and foster transnational manufacturing value and logistics chains within this sub-region.

Timor-Leste has already established preferred commercial agreements with several regions, namely: the European Union, under the Cotonou agreement, the U.S., China, India, Australia and the Community of Portuguese-speaking Countries.

This internationally minded country therefore has the potential to become a manufacturing and logistics hub, using the raw mate-



Head of Mission Unit
TIA-GT
João Mendes Gonçalves

rials and semi-processed products of the surrounding Indonesian islands, and the technology and expertise of Northern Australia, generating vast benefits for all parties involved.

In order to accomplish sustainable success, both the private sector and international investors must be directly and intensively involved so they can contribute appropriately to the outline of the activities and drivers of development.

Playing on strengths

Taking into account the country's strengths, the emphasis is initially likely to be on the agribusiness, fisheries, sea and biodiversity sectors, as well as natural resources and tourism.

There will need to be a strong effort made on knowledge management and human capital enhancement in order to prepare the human resources involved in the operations.

It will also be necessary to start with very simple and easy operations on activities that may nurture the opportunities before moving to higher links of the value chain such as life sciences and biotechnology.

The sub-regional integration of value and logistics chains requires



The growth triangle takes integration to new realms.

liberalizing or seriously expediting the flow of raw materials, products and services, skilled labor, capital and finance, foreign direct investment, as well as knowledge and intellectual property, and there are several implications on the issues of Association of South-East Asian (ASEAN) connectivity.

Regarding physical connectivity, the TIA-GT's core subject is concerned with the efficiency and competitiveness of logistics and operations.

Therefore, it requires a thoughtful identification of requirements and sources of funds, prioritizing plans and actions to set up the infrastructure projects, in order to successfully proceed with its expedited and efficient deployment.

People-to-people connectivity focuses on human capital enhancement, innovation research and development, together with other activities such as sports and cultural events.

Concerning institutional connectivity, it must address the overall consistency of procedures, requiring a productive regulatory dialogue capable of providing financial stability and trust, generating a stable and reliable business and investment-friendly environment.

The concept of a Growth Triangle between Timor-Leste, Eastern Indonesia and Northern Australia has been inspired by the experiences of proven success, with operating models that can be properly assessed, analyzed and adapted to local realities, such as the main sub-regions promoted by ASEAN.

These are specifically the SIJORI Growth Triangle, set up in 1989, which connects Singapore, Johor (Malaysia), and a part of Riau Islands Province (Indonesia) — now simply called the IMS-GT — and the IMT Growth Triangle, which spans the southern part of Thailand, some areas of Malaysia and some areas of Indonesia. It was fully endorsed in 1993.

It is expected that this initiative will strongly contribute toward promoting economic, social and cultural development, attracting valuable investment, promoting the development of manufacturing industries, enhancing human capital, strengthening the friendship and cooperative ties between the three countries, fostering and accelerating Timor-Leste's accession to ASEAN, and fulfilling the objectives of the Strategic Development Plan of Timor-Leste.

Oecusse: A reference for social market economy

In 2013, a resolution was passed by the Government of the Republic of Timor-Leste that Dr. Mari Alkatiri, former prime minister of the First Constitutional Government of Timor-Leste, would lead the planning and investment program of the Special Economic Zones of Social Market Economy (SEZSME) in Timor-Leste, to be initiated first in the enclave of Oecusse.

The Oecusse SEZSME initiative is embedded in both the Timor-Leste Strategic Development Plan 2011-2030 and the Program of the 5th Constitutional Government 2012-2017.

Both of these strategic documents underline the importance of special economic zones as a policy instrument to spur sustainable economic growth, create jobs and to enable social development.

The vision of the Oecusse SEZSME, however, represents a departure from the usual models, in that it proposes an integrated approach to sustainable, social and economic development.

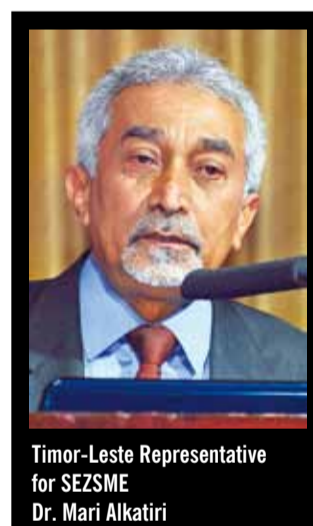
Alkatiri takes up the story:

"I wouldn't call it a project because it is a very holistic program, starting from social issues to financial issues. This will be a very integrated development program," he said.

"When I was asked to step into the role, I immediately wanted to start with Oecusse and to use it as a reference. Historically, it is where the Portuguese landed when they came 500 years ago and constitutionally, it has special status in a legal sense.

"Oecusse is a minor project. We hope we can extend to Atauro and to the Eastern part of the country and, in a smaller dimension, to other districts as well."

The SEZSME model focuses on social components in the generation of sustained economic growth and aims to simultaneously invest



Timor-Leste Representative
for SEZSME
Dr. Mari Alkatiri

and develop the education, health and economic sectors. It also offers a more inclusive model for growth, one that is people-centered and which calls for human and social development to be at the core of all plans and processes.

This is a major departure from the functions of special economic zones elsewhere.

In line with its ambition to become a regional hub, the Oecusse SEZSME aims to become

"The Oecusse SEZSME project creates employment, investment opportunities and a brighter future for the country and its people."

Timor-Leste Representative for SEZSME, Dr. Mari Alkatiri

a catalyst for regional development, trade and investment, offering a platform for financial transactions, services and trade in goods and services.

"It will be a hub of development for the sub-regions, which means the provinces of Indonesia as well," the Head of SEZSME stressed.

Boundless opportunities

Spanning 815 sq. kilometers and with a population of 74,000, Oecusse benefits from being situated between the political and

economic giants of Australia and Indonesia. There are currently no major industries in the area, and the people survive on fishing, small-scale agriculture and the sale of handicrafts.

The economic development of the enclave will ultimately depend on its success as a trading partner of West Timor, as well as its ability to attract foreign investment.

"One side of the investment will be the government of Timor and the other from the investors," Alkatiri said.

"On the other hand, we will have investors investing in everything; the first phase will be agribusiness, because we believe we need to develop the rural areas through education of organic products.

"This is a small country; we cannot compete with Thailand or other countries that are producing rice. It is better to produce cash-crops, but organic ones."

Although there are a wide range of business opportunities that could be developed in Oecusse,

there are challenges, including inadequacy of transportation (including roads) and communica-

tions infrastructure and the need for access to credit, financial services, business advice and training. With the right investment, however, these could easily be resolved.

Business ideas that have been mooted for the district include the development of the fishing industry, development of the cattle industry, tropical fruit production for export, motor repair shops, building contractors, handicrafts, including market development for taís, extraction of eucalyptus oil

"With such a strategic location Timor-Leste can become a transit hub, trade and R&D center for the region," he said.

"The country is deepening its relationship with the Pacific Island nations and shares many of the challenges and the opportunities they face.

"It can strongly contribute to the development of whole sub-region. This project creates employment, investment opportunities and a brighter future for the country and its people."



A stable and strong economy

Despite double-digit growth in recent years, Timor-Leste is still under the radar for many international investors. A closer look, however, shows this fast-growing economy couldn't be in better hands.

As historians and investment pundits around the world will attest, new nations — particularly those emerging from conflict — take a while to get their economies in shape, which makes the case of Timor-Leste even more outstanding.

As a chat with Minister of Finance Emilia Pires shows, in spite of all the challenges, things are looking extremely positive for this proud country, and diversification strategies which aim to relieve the onus on resources are already bearing fruit.

"The Timor-Leste Strategic Development Plan, continues to be the over-arching planning mechanism which outlines development in the core sectors of petroleum, agriculture and tourism, underscored with targeted investment into infrastructure, education and human and social capital," she said. "Timor-Leste continued to average a 10 percent economic growth rate which has remained consistent since 2007. We had a country ranking in 2013 of #10 and estimated ranking of #7 for 2014. Timor-Leste has been one of the top ten fastest-growing economies in the world the past half-decade.

"Our industrial production growth rate is 8.5 percent, with a country ranking of #21. The urbanization rate has increased to 5 percent, signifying a mild transfer in population from the rural areas to the more populated cities where services are not only more easily acquired by citizens but more aptly managed and delivered by a nascent civil service."

A milestone was achieved with the launching of phase two of national electrical grid, she explains, adding:



Minister of Finance
Emilia Pires



Minister of Commerce, Industry
and Environment
António da Conceição

"The monthly intake from resource revenue increased to \$324 million per month in 2013, with all revenues safely deposited into the Petroleum Fund at the Federal Reserve Bank in the U.S.

"Four internationally recognized fund managers have invested part of the fund with an average 4 percent yearly return. As of May last year, the Petroleum Fund was \$13.6 billion and rising. It was expected to reach the \$14 billion mark by January, which it did.

"This year we reached a small triumph when our investment returns from the Petroleum Fund reached close to a billion dollars."

We are absolutely delighted to have been ranked number 13 on the Resource Governance Index for 2013.

"While the resource wealth to date has been based on one field in the Timor Sea — Bayu Undan — and one smaller field, Kitan, which recently came on line, 50 percent of offshore and 100 percent of onshore has yet to be explored or exploited. Oil,

gas, forestry, gold, copper, zinc, chromite, marble, gypsum, phosphate, manganese and iron are all slated for future exploitation with current planning underway to create a long-term exploration blueprint."

Gains across all sectors

Gains are in fact being made in all spheres, with the national road plan now approved and in the process of implementation. Agricultural productivity continues to grow through trials and capacity building,

and tourism has seen a significant rise in visitors mainly interested in an eco-friendly adventure destination.

Business tax rates remain some of the lowest in the world and revenue is increasing thanks to a compliant environment giving opportunities for reinvestment and market wealth creation. All social and economic indicators are steadily

improving, despite the challenges of Timor-Leste being a country that is little over a decade old.

"Our main challenge is the fact we are building a nation from scratch and that requires huge public investment," Pires said. "If you spend too much too fast, the economy becomes overheated and inflation rises; if you do not spend enough there is little mobilization to accelerate development and diversify the economy.

"This is a precarious balance and while we have both expansionary fiscal and social policies; we also have very strict checks and balances to ensure the money from petroleum revenue, which flows directly into the Petroleum Fund, now around \$15 billion plus, is reinvested into world markets, including Japan, to ensure a healthy return now and in the future. This year we reached a small triumph when our investment returns from the Petroleum Fund reached close to a billion dollars.

"Timor-Leste is an anomaly. The newest nation of the millennium. Many countries emerge from occupation or conflict having a long history of previously established sectors; Timor-Leste does not. So we are a nation open to first-mover

Minister of Finance, Emilia Pires

advantage cross sectors and this, for us, while a challenging time, is also an exciting prospect.

"In the financial sector, any service you find in a developed nation are those to be looked at for investment in Timor-Leste. The basics in accounting firms, financial management institutions, legal and tax advisors, are essential but investors



The results of careful money management policies are being felt by the people of Timor-Leste.

with innovation for accelerated development in finance would be welcomed and succeed in a relatively small but niche market.

"We have limited banking options in Timor-Leste and certainly since I have been minister since 2007, the banks have been the winners in the economic cycle. I wish I could say the economy itself has benefitted from the banks leveraging risk on the back of public spending, but now is the time to do so by offering loans at reasonable percentages and assisting to create wealth from wealth to invest into sectoral development.

"This would only boost the business of banking in Timor-Leste and boost the business of business increasing profitability across the value chain.

"As a government, we more than anyone, understand risk, but without opportunity there can be little progress.

"This would also help in money staying in the country assisted by a very low tax

threshold and very, very strong investor-friendly entitlements, which encourage foreign direct investment and encourage money staying in country for banks to leverage.

"Rome was not built in a day and nor will Timor-Leste, but we have certainly demonstrated as a government we can accelerate development and mobilize an economy, all factors in a developing country such as Timor-Leste need to consider investment within both the restraints and the wins.

"I look at it as I look at investment into the world financial markets: the more risky the portfolio profile, the greater the returns.

"As a government, we have tried to minimize risk and maximize return through ensuring a pro-investment policy regime, a pro-investment tax regime and a pro investment administrative approach."

A country moving fast

António da Conceição, Minister of Commerce, Industry and

Environment, reiterates how far the country has come in such a short time.

"Because we are still in a transition period after the humanitarian intervention, the international community may believe Timor-Leste is a country in conflict, but that really is not the reality.

"In just 12 years, we have made huge advances. Security is no longer an issue, and our location within Asia and Oceania and being part of the Portuguese-speaking community is a huge advantage.

"The fact we still have lots to do in terms of infrastructure can only be an advantage for investors, and we invite all of them to come.

"We have lots of mostly untouched natural resources and industry remains one of the areas that has huge opportunities. We are attracting investors, so this is important."

Both ministers are exceedingly grateful to Japan for its past assistance, and excited about further Japanese

involvement. "Japan was the first country to host a donor's meeting for Timor-Leste, at a time when other donors were not confident," da Conceição said.

"They contributed \$500 million to our humanitarian intervention and support us with infrastructure projects.

"We have also cooperated with them about reducing inflation. We are very dependent on imports, and we need a strategy to lower that dependence.

"We are also focusing our efforts on promoting our export possibilities, and we are talking to them about the possibility of establishing a laboratory that will test the quality of our products before they are exported.

"Many people are coming here to work with us right now. We are currently assessing our priorities so that we can make the right partnerships and galvanize the right projects in order to promote our country. We must always keep in mind the long-term growth."

Timor-Leste: A worthwhile investment

Great strides have been made in the last five years toward universal access to electricity with a national power grid.

For an emerging economy, Timor-Leste is surging ahead in many spheres, but the benefit likely to impress investors is its reliable power supply.

In just five years, between 2008 and 2013, generation capacity rose from 40 MW to 286 MW, and is forecast to reach 300 by next year. In urban areas, supply is available 24 hours; in 2008 it was just six. By June last year, there were 106,072 households with access to electricity, 97,072 households were connected to the grid and 9,000 households were provided with renewable energy. This is all the more impressive given the country lost nearly 100 percent of its electricity grid during the conflict.

The key factor in this exponential rise of power has been a concerted effort by the governments to get a national electrical grid up and running. After a contract was awarded to China Nuclear Industry 22nd Construction (CNI22) for engineering, procurement, construction and operation of the grid in 2008, things have gone from strength to strength.

Secretary of State for Electricity Januário da Costa Pereira explains how quickly things are improving. "Before 2008, we had small power plants

across the country," he said. "There were 52 plants and one bigger in Dili. Due to natural evolution, the daily needs grew. In 2008-2009, particularly in Dili, there were big cuts of electricity every day. In any country of the world, if there is not a good power sector, things don't move forward. So, we started to look for new options and solutions for the problems we were facing."

An ambitious initiative to achieve universal access was

"If everything goes as it should, we will be able to provide electricity throughout the country by 2015"

Secretary of State for Electricity, Januário da Costa Pereira

launched in 2008-2009.

"In 2010, we started the construction of the power plant in Hera, which had a capacity of 250 MW. The control substation is in Dili and from there we can automatically control the other eight in the districts. If we experience energy interruptions, or if someone doesn't pay for their electricity, we can control it.

"Most of the time it is working like that, although the sub-station of Suai, the last part, will be concluded in a few months. We are also building new extension lines with medium voltage so

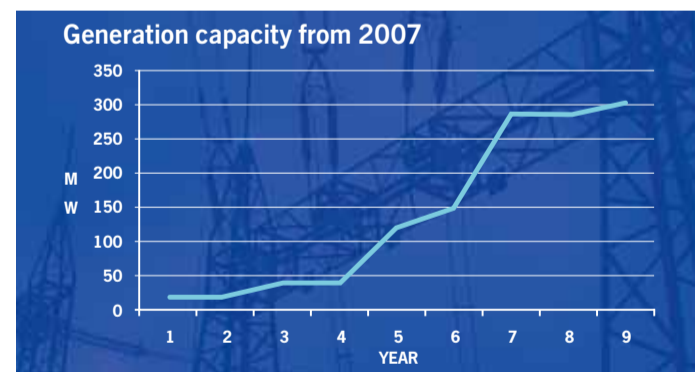
we can provide electricity to the whole country.

"I can reassure investors that the 12 districts now already have energy 24 hours and from the 149 sub-districts, excluding Atauro and Oecusse, till the end of the year, we will provide energy to 59 sub-districts that make up continental Timor-Leste.

"We are also planning to build a new power plant in Oecusse that will be in line with the Special Economic Zone initiative

conducted by Dr. Mari Alkatiri. We are planning to have a submarine cable for Atauro island that will interconnect with the sub-station of Dili or the plant of Comoro. With the plants in Hera and Comoro, we know that Dili will never be without electricity."

The focus on an affordable and reliable power will go a long way in boosting economic development throughout the country. Investments are already planned for an oil refinery, supply base, LNG onshore and derived products, cement factories, mining, brewery and soft drinks facto-



ries, fisheries, food processing, ports and airports, hotels, beach and mountain resorts, restaurants, and fiber-optic communications throughout the country.

It will of course significantly boost social development too, in terms of water and sanitation services, hospitals, schools, homes, culture — Internet, radio, TV and cinema — street lighting, social mobility and, in terms of the environment, less deforestation and soil erosion.

"Our main priority now is building medium voltage lines. The ones that exist for Dili, Baucau and Suai are very old and make the power unreliable. We have to resolve and improve this situation in order to have less interruptions.

"We are also looking at interconnectivity through underground facilities. We have the initial data, but we first need to gauge the existing lines. We might have to make changes when we start building the roads in order to adjust for the new cables that will be bigger than

the existing ones."

Japanese involvement

Since the initial grid project was announced, Japanese help has been ongoing and is warmly received by the government, as da Costa Pereira explains.

"The JICA offered us one generator that we are still using in Comoro. We are also working on the possibility for them to help us to train and capacitate our people in order for us to have better human resources and in the future be able to employ our people," he said.

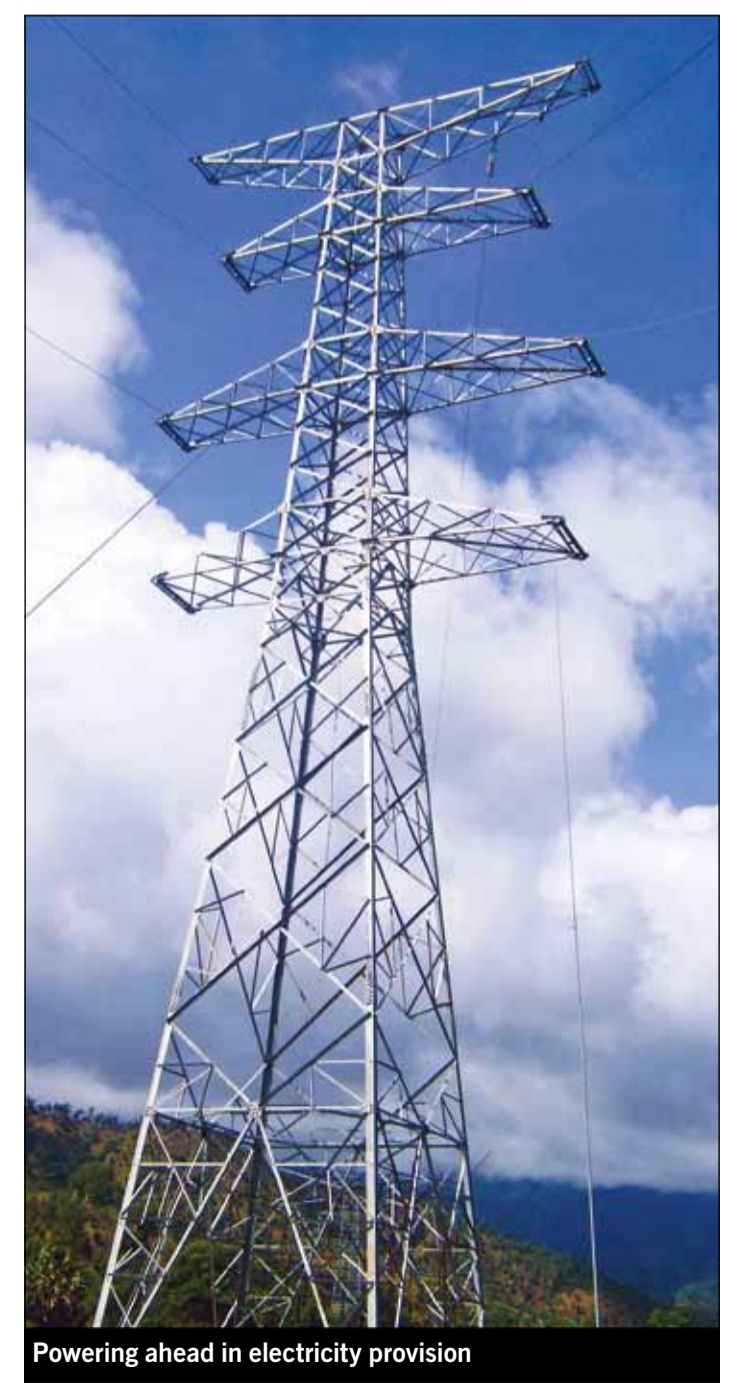
"Japanese technology is very good and we can also benefit a lot from them, not only for the power sector, but also for renewable energies. We haven't explored those areas fully, and we need to train people. In Japan, they already have that experience. We would like them to help us. We have all the climate conditions that could make us benefit more from renewable: we have tropical

weather, enough sun. We would like to take advantage and use better our resources."

Minister of Public Works Gastão de Sousa, is also keen for more progress to be made. "Although I cannot say I am fully happy with the electrification of the country, we do provide 24-hour electricity in most urban communities. Providing electricity to the rural areas is more challenging but I would like universal access to electricity to be in place by the end of my mandate," he said. "Significant progress has already been made.

"The government is planning to build two wind farms, in the east and west of the country, that are expected to be in operation before 2017. We are only at the design stage, but it is a smooth process and we should commence construction this year," de Sousa said. "Given the policy to provide access to all, while some of our communities live in rural and remote areas, we will install solar panel systems in a number of suitable locations across Timor-Leste."

As da Costa Pereira concludes: "Once there is a reliable electricity supply, investors will come, and then we can really start developing the country. If everything goes as it should, we will be able to provide electricity throughout the country by 2015."



Powering ahead in electricity provision

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