



Annual Report 2012

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Message from Minister for Petroleum and Mineral Resources

We present here Timor Leste's 2012 EITI Annual Report. This reports briefly outlines the EITI activities carried out by Timor Leste during 2012.

It was a year full of activities ranging from international outreach efforts where we saw members of the TL-MSG travelled to PNG, Solomon Islands and all the way to Germany and Ghana. At the national level workshops were carried out in remote villages such in Naimeco, Bobometo and Taiboco, Oe-cussie.

This report also outlines a detail description of Timor Leste's Transparency Model.

During 2012 TL-MSG met regularly at least once a month not including the activities which they carried out together.

2012 also saw some tension between MSG stakeholders regarding the issue of "Template", consensus was not reached and the Government proceeded to publish the reports to avoid Timor Leste been delisted from EITI. This difference is now a challenge for the TL-MSG to discuss and solve.

Congratulations to TL-MSG for the work done during 2012 and for Elda Guterres da Silva and her team in the TL-EITI Secretariat.



Alfredo Pires
Minister for Petroleum and Minerals Resources

Implementation of EITI in Timor-Leste

Timor-Leste declared its commitment to implement EITI's rules and principles at the first international EITI conference that was held in London in 2003. In 2006, the Government established a Multi-Stakeholder Working Group (MSG) with representatives from civil society, the industry and the Government to facilitate the implementation process. Timor-Leste was admitted as *candidate country* status on 22 February 2008.

One of the EITI requirement is for a candidate country to be qualified as Compliant country, it shall be validated within two and a half years after the admission as *candidate country* status, therefore the country needs to complete an EITI Validation process in order to meet the criteria as *compliant country*. The objective of the Validation is to give an independent assessment of the country's EITI progress. Coffey International Development in association with International Petroleum Associates Norway (IPAN) was selected Validator for Timor-Leste.

Timor-Leste finalised the validation requirements by publishing and disseminating the first EITI report in December 2009. In April 2010 the MSG endorsed the validation report, which stated Timor-Leste had complied with all the indicators.

The EITI Board granted Timor-Leste compliant country status on 1 July 2010, making it the first country in Southeast Asia and the third country in the world to be granted this status. Timor-Leste needs to have its EITI status revalidated by June 2015 to ensure the commitment to the EITI principles is maintained.

Timor-Leste in the EITI Management

Timor-Leste has been actively involved in the management of the EITI process worldwide by participating in the various high level meetings and conferences and by otherwise sharing its experience with the other resource rich countries.

In recognition of role played by Timor-Leste, the 4th International EITI Conference held in Doha in 2009, elected the then Secretary of State for Natural Resource, HE Alfredo Pires, to the Board of EITI. In the same Conference, Director of NGO Luta Hamutuk, Mr. Mericio Juvinal dos Reis, was also elected to the Board to represent the Timor-Leste and Asia Pacific countries NGOs.

The 5th EITI International EITI Conference held in Paris in 2011 re-elected both H.E. Alfredo Pires and Mr Mericio Juvinal dos Reis for the next term.

Regular publication of EITI Reports

The two first EITI reports were published in 2009 and 2010, covering all revenues derived from oil and gas activities in 2008 and 2009, respectively. The reports showed there was no discrepancy between payments made by the companies and revenues received by the government. The auditor Deloitte Touche Tohmatsu reconciled both reports; due they have current Independent Auditor of the petroleum fund.

The third and fourth report covering 2010 and 2011 were published in December 2012. The reports showed there was no discrepancy between payments made by the companies and revenues received by the government. The Auditor Moore Stephens LLP reconciled both reports.

Timor-Leste EITI has slightly different mechanism regarding an Independent Auditor. As Timor Leste MSG do not appoint an independent auditor directly, as advice by Validator that procurement of aggregate body shall be through an open competitive tender. Further the MSG will form procurement panel to assess proposals and make final recommendation based on the set assessment criteria in place which normally in accordance with government procurement protocol.

Outreach and Activities in 2012

a. Outreach

The main activities and outreach in 2012 involve various aspects such as followings :

- 1) sharing experiences and information with other countries,
- 2) reaching out to communities to explain the importance of accountability and transparency in natural resource management and
- 3) to produce the 3rd and 4th Timor-Leste EITI reports.

Peer-to-Peer Learning: Experience and Information Sharing

Ever since Timor-Leste become full compliant country, various invitation from neighboring countries seeking Timor-Leste to share its experience in EITI process. It is important to meet with peers in order to learn from each other and try to find the best way forward.

MSG participate workshop in Solomon Islands and Papua New Guinea

A Timorese EITI delegation participated a workshop in Solomon Islands on 26-27 January 2012 and Papua New Guinea (PNG) on 4 February 2012. In the Solomon Islands, the delegation assisted in forming the Multi-Stakeholder Working Group, while in PNG the delegation supported the PNG Government in developing a statement of endorsement of the PNG EITI initiative.



MSG with PNG Government members and Salomon Islands on January 26- 4 February 2012

The delegation shared Timor-Leste's experience in implementing the EITI, as well as explaining how Timor-Leste over the time has developed its own mechanisms that go beyond the traditional EITI rules and principles. The delegation also learned from their peers about how other countries managing other extractive activities such as mining and gold.

H.E. Alfredo Pires visits PNG together with Timor-Leste Parliament Members

On 20-24 March 2012, a delegation led by H.E. Alfredo Pires returned to PNG to assist PNG's Government in the final preparation on the endorsement and implementation of EITI. The delegation included two members of Parliament; Ms. Brigida Correia (President of Commission D) and Ms. Maria dos Reis (Member of Commission D) in addition to Ms. Elda Guterres da Silva (National Coordinator of TL-EITI).

The TL delegation met with members of PNG's government, World Bank, South Asia Pacific Bank and Operators such as Exxon-Mobile and Search Oil.



H.E. Alfredo Pires and delegations visit PNG on 20 – 24 March 2012

Members of MSG visit Germany

Mr Angelo Lay (ANP) and Ms Angelina Branco (ENI) participated a seminar in Cologne, Germany, on 24-28 September 2012. This seminar tried to discuss and gather participants input on the idea of how EITI could influence in the value chain of petroleum sectors. One of the requirements is the publication of contracts which we all could see in 2013 New Standard.

Mr Mericio Juvinal dos Reis (Luta Hamutuk) participated at the same time in a seminar held in the Netherlands.

Members of MSG participate conference in Ghana

Timor-Leste was invited by the government of Ghana to participate in a Regional EITI Conference in Accra on 27-28 September. Under the heading *Natural Resources Governance: Setting Standard with EITI*, the conference aimed at sharing experiences on which systems need to be in place to enable an effective EITI implementation.

Timor-Leste's representatives, Mr Fernando de Carvalho and Mr Trifonio Flor Sarmiento, presented Timor-Leste's experience in implementing EITI, from endorsement up to Timor Leste become a compliant country. They also shared the main features of Timor-Leste's commitment to go beyond EITI as set out in the so-called *Timor-Leste Transparency Model* (discussed more below).

b. Activities

Widespread participation and involvement from all parts of society is necessary to reap the benefits from EITI and other transparency initiatives.

Workshops in Oecusse District

From June to November 2012, TL-EITI Secretariat through the cooperation with Core Group Transparency (CGT)¹ has conducted workshops in three villages in Oecusse. This workshop was funded by the Government. The topic of the workshops was how the Implementation of *Extractive Industry Transparency Initiative and State Budget Transparency in Timor-Leste*. Surprisingly, it was about 500 participants attended the workshops, which were held in the villages of Naimeco, Bobometo and Taiboco.

The objective of the workshop was to increase the community's knowledge and understanding on how important of accountability and transparency in the management of natural resources which are the necessary ingredients in the process of transforming natural resource windfalls to sustained benefits for all Timorese, both today and in the future.

The expected result from these workshops was to increase community involvement in the development and to capture information or issues raised by the community to the relevant Ministries.



Workshop in Naimeco, Bobometo and Taiboco on June to November 2012

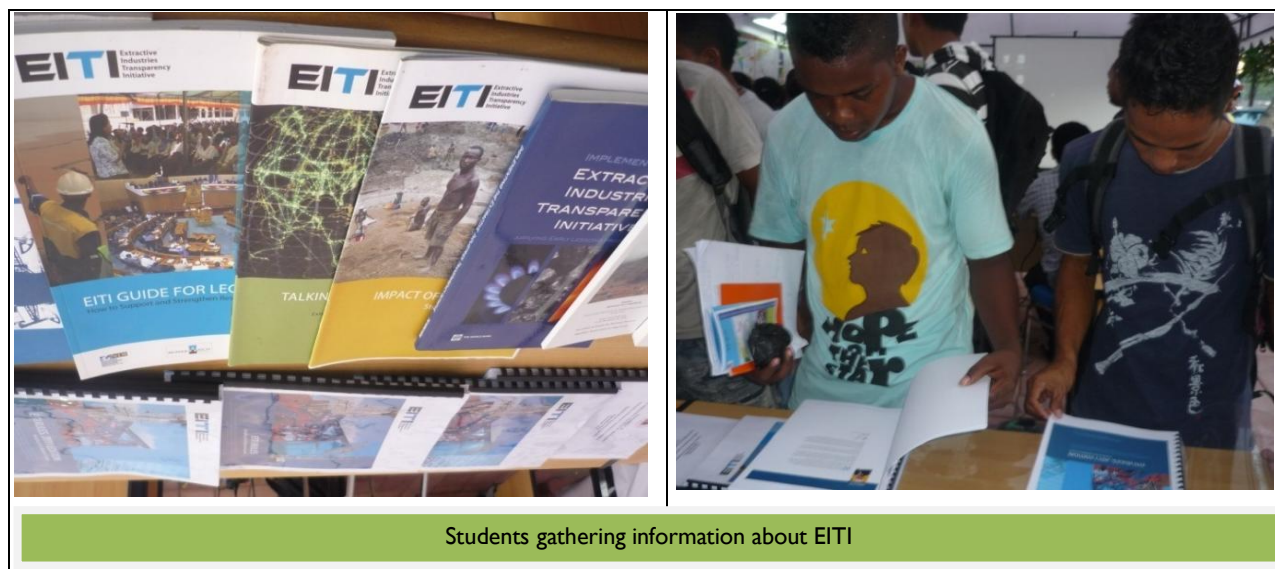
TL-EITI Website

Secretary of State for Natural Resources was signed MoU with Timor-Leste Development Media Centre (TLMDC) to assist TL-EITI secretariat for design of the TL-EITI Website (<http://www.eiti.tl>).

¹ Core Group Transparency is a coalition of several local NGOs that monitors the Government's budget and revenues from the oil sector with the objective of ensuring that the funds benefit the Timorese people.

Participation national anniversary

The Secretariat took part in the national anniversary on 1-7 September 2012 commemorating ten years restoration of independence after Indonesian occupation and hundred years since the Dom Bonaventura revolt against the Portuguese colonization. EITI secretariat booth managed to displaying information material, including the 2009 EITI report, the Secretariat engaged in discussions with students and other citizens about the management of natural resources and revenues, through transparency initiative such as EITI, ensuring these incomes reach the common Timorese and not only a special few.



Releasing Timor-Leste's 3rd and 4th EITI Reports

On 28 December 2012, the Government published the 3rd (2010) and 4th (2011) TL-EITI reports. Moore Stephens LLP was selected as the aggregate body to reconcile information provided from various sources. The reports, show that there is no discrepancy between the amounts of money paid by the companies and the amount received by the government.

Description	Company paid		Government Received	
	2010	2011	2010	2011
Payment declared	2,149,721,568	3,453,285,817	2,149,721,568	3,453,285,817

Multi-Stakeholders Group (MSG)

The MSG comprises of representatives of the Government, industry and civil society. The working group is dedicated to the overall EITI strategy and supervising the implementation of the EITI process. MSG is chaired by Minister of Petroleum and Mineral Resources (formerly Secretary of State for Natural Resources).

Members of Multi-Stakeholders Working Group for 2012:

Government representatives

Mr. Alfredo Pires, EITI Champion
Ms. Elda da Silva, National Coordinator, MPMR
Mr. Joao D. Xavier, Ministry of Finance
Mr. Filipe N. Bernardo, Ministry of Finance
Mr. Angelo Lay, Autoridade Nacional do Petroleo
Mr. Venancio A. Maria, Banco Central de Timor-Leste
Mr. Fernando da Silva, Alternate, Banco Central de Timor-Leste
Ms. Honesia Amaral, Alternate, Autoridade Nacional do Petroleo

Industry representatives

Mr. Jose Lobato, ConocoPhillips
Ms. Angelina Branco, Eni
Mr. Brendan Agustin, Woodside
Ms. Milena Vilanova, Alternate, Woodside

Civil Society representatives

Mr. Mericio Akara, Luta Hamutuk
Mr. Carlos Florindo, ETADEP
Ms. Martinha da Silva, FHF
Mr. Remigio Viera Laka, Alternate, Farming Study Group

TL-EITI Secretariat

Mr. Trifonio Flor Sarmiento, Outreach Officer TL-EITI
Ms. Sonia Boavida, Assistant Officer

A Commitment to Transparency: the Timor-Leste Transparency Model

Building on the existing platform of best practice resource management in Timor-Leste, the Government of Timor-Leste once again stated in commitments to transparency by introducing a so-called **Timor-Leste Transparency Model** on the occasion of the *EITI Asia-Pacific Conference* with theme *Beyond EITI: Timor-Leste Transparency Model* held in Dili, Timor-Leste in August 2011.

The Timor-Leste Transparency Model (TLTM) is an unparalleled approach to good governance. Utilizing a combination of independent and interdependent institutional tools and mechanism, which can be adapted to in-country system within EITI countries, five pillars were identified. The five principles provide a 360 degree fiscal accountability chain from the point of extraction to the time of investment through reliable, public and shared system and information which includes:

Pillar 1: Global Standards, EITI – Publish What You Pay, Disclose What You Received

The Pillar 1 is to adhere to the EITI principles. Launched in 2002, EITI sets the global standard for promoting transparency and accountability in countries rich in oil, gas or mineral resources. The EITI is monitored and supported by an international board of representatives drawn from developing countries, donors, extractive industry companies, civil society organizations, investors, and international organizations. Its aim is to ensure that all stakeholders in the resource industry are accountable to applicable guidelines so that natural resources operate for the benefit of citizens as a whole.

The Government of Timor-Leste was one of the first countries to state its commitment to the Principles and Criteria of the EITI on the occasion of the first international conference on EITI in London in June 2003 and became EITI Compliant in 2010.

Please visit EITI website for further information about EITI www.eiti.org

Pillar 2: Best Practice Sovereign Wealth Management – how are revenues managed?

The Timor-Leste Petroleum Fund was established in 2005 to assist Timor-Leste in sustainably managing its petroleum revenue, and in doing so attempts to avoid the resource curse. The Petroleum Fund Law was amended in August 2011 based on two principles: *good governance* and *diversification*. Based on the *Santiago Principles*², the Petroleum Fund governance model is one of high degree of transparency and disclosure of information.

The Petroleum Fund separates the inflow of petroleum revenues from spending. All petroleum income initially enters the Fund before a suitable amount is transferred to the State Budget. The transfer is guided by the Estimated Sustainable Income (ESI), set at 3% of the petroleum wealth, which is defined as the amount that can be transferred from the Fund to the State Budgets every year without ever running the Fund down.

The Fund is only invested abroad in financial assets. The implied investment objective is to achieve 3% real return to safeguard the sustainability of the fiscal policy. The Government recognizes that pursuing this investment return involves accepting risks in terms of short-term investment return volatility. Having a long-term horizon, however, means that these fluctuations should be of less economic importance.

² The principles identify framework of general accepted principles and practices that properly reflect appropriate governance and accountability arrangements as well as the conduct of investment practices by Sovereign Wealth Funds (SWFs) on a prudent and sound basis.

Hence, the Petroleum Fund is a *tool* for policy makers to make well-informed budget decisions in an environment of temporarily high and very fluctuating petroleum incomes. The decision on *how much to spend and how much to save* is done in the state budget where all the Government's priorities are weighed against each other.

By end of 2012, the PF balance stands approximately USD 11.8 billion.

The Petroleum Fund is audited annually by an internationally accredited auditor. Quarterly and annual reports are published online. Please visit www.mof.gof.tl and www.bancocentral.tl for further information on the Petroleum Fund.

Pillar 3: Educate and Information – How are revenues used?

Timor-Leste has taken measures to ensure that the State Budget, 90 per cent of which funded by resource revenue from the Petroleum Fund, is open, widely accessible and understood. Each year, the Minister of Finance presents a budget to National Parliament, with each Minister proposing and defending departmental budget discussed in Parliamentary Committees.

With approximately 50 per cent of the population illiterate, the government opted for nationwide broadcast of the 13 day Parliamentary budget debate on radio and television as a platform for institutional accountability and transparency and to educate and inform the People of Timor-Leste. The mechanism has created inclusivity within an open and transparent process. Once the State Budget is approved by National Parliament, the money is able to be withdrawn from the Petroleum Fund by the Central Bank of Timor-Leste to fund the agreed national agenda.

From 2007-2012, the Parliament has approved withdrawals of around \$4.6 billion to finance Government's budget.

Pillar 4: Accountability and Accessibility – How are revenues spent and where?

In March 2011, the Government of Timor-Leste launched the *Transparency Portal* as a landmark initiative. The Portal is intended to cover four fields: Budget, Procurement, Results and Aid Transparency.

Timor-Leste Transparency Portal
Increasing Transparency, Building Trust and Good Governance.

Budget Transparency Portal
See how our budget is spent, what it has been spent on, and how much budget remains - interactively.
Visit [Budget Transparency Portal](#)

Aid Transparency Portal
See how much our development partners give and where the money is spent to achieve our goals.
Visit [Aid Transparency Portal](#)

eProcurement Portal
View our current tenders and see who has been awarded a tender and the cost.
Visit [eProcurement Portal](#)

Government Results Portal
View our priorities, monitor delivery of our programs, and see who benefits from our projects.
Visit [Government Results Portal](#)

Ministry of Finance Government of Timor-Leste Timor-Leste Transparency Model Petroleum Fund

The Portal attempts to promote fiscal transparency by providing citizens, civil society and development partners with tools to hold to account and monitor public resources.

The Portal can be accessed through the following link: <http://www.transparency.gov.tl/english.html>

Pillar 5: Communication and Good Governance – What decisions are made and why?

The Council of Ministers is the highest decision making body in Timor-Leste, comprised of the Prime Minister, Vice-Prime Minister and Ministers with Portfolio, as well as Secretary of State. Across the world, such forums are often closed-door sessions, with little known about the agenda, debates or decisions. As part of its Timor-Leste Transparency Model, Timor-Leste publishes the decisions of the Council of Ministers within two days of the weekly meetings. The decisions are published and archived on the official Government website and through press release in **English, Portuguese and Tetum**, distributed through local and international media, civil society, institutional and diplomatic channels.

The information on decision made by the Government can be accessed through <http://timor-lesste.gov.tl/?lang=en>

TL EITI Secretariat

The Office of Timor-Leste's EITI Secretariat has been fully functioning since July 2008. The office was established to support the activities of the TL-EITI MSG, including coordinate and organize meetings, training and workshops, publication and dissemination of information about EITI implementation in Timor-Leste, as well as managing the administrative and financial matters.

For any information regarding Timor-Leste EITI, please contact:

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