



Timor-Leste EXTRACTIVE INDUSTRY TRANSPARENCY INITIATIVE (TL-EITI)

**A report on the activities of the TL -EITI
for the year 2013**



July 2014

Message.

Timor Leste EITI Progress Report 2013 represents TL commitment and maturity in assuring that the country's oil & gas resources are managed transparently and in the interest of resource owners.

In 2013 we experienced differences within the TL-MSG regarding the level of detail in the 3rd and 4th TL-EITI Reports. As a sign of maturity the TL-MSG began to address the issue within the framework of the MSG.

TL continues to lead the region in EITI and is always ready to share its experience as shown in this report. There are still areas requiring improvements in our implementation of EITI but congratulation is in order to the TL-MSG for their commitment, time and positive results obtained so far.



Alfredo Pires
Minister of Petroleum and Mineral Resources

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Abbreviations

ANP:	Autoridade Nacional do Petroleo (<i>National Petroleum Authority</i>)
ASEAN:	Association of South East Asian Nations
BCTL:	Banco Central de Timor-Leste (<i>Central Bank of Timor-Leste</i>)
CPLP :	Comunidade dos Países de Língua Portuguesa (<i>Community of Portuguese-Speaking Countries</i>)
EITI :	Extractive Industries Transparency Initiative
g7 ⁺ :	Fragile and Conflict-Affected States
GDP :	Gross Domestic Product
EIPA :	Extractive Industry Professional Association
MSG :	Multi-Stakeholder Group
MoF :	Ministry of Finance
NGO :	Non-Governmental Organization
PFCC:	Petroleum Fund Consultative Council
MPRM :	Ministry of Petroleum and Mineral Resources
Bln:	Billion
Mln:	Million
PP:	Percentage point

1. Executive Summary

As Timor-Leste continues to demonstrate its commitment on implementation of EITI in the country, we ensure that Timor-Leste will continue to comply with all of the EITI requirements. This report was created as part of collaborative efforts from all members of Multi Stakeholder Working Group in the effort to comply with requirement 7.2 (a) of the EITI Standard. The report will provide an overview on the progress of implementation of EITI principles in Timor-Leste and the activities of the Multi-Stakeholders Group (MSG) in 2013.

TL-EITI Secretariat was shared our experience with Delegation Myanmar of environment implementation process until to designated as a compliant country



2. General Assessment of the year's performance

Some of the milestones achieved in 2013 included official involvement of Timor-Leste's National Oil Company (NOC), Timor Gap, as a member of Multi Stakeholder Working Group. This additional member to the MSG truly demonstrates the country's effort to continuously improve EITI implementation in the country. Timor Gap declared its decision to join Timor-Leste MSG at the 6th EITI Global Conference in Sydney (June 2013).

Timor-Leste continue to promote transparency and good governance as one of the ingredients to better manage natural resources to benefit the development of the nation and its people. Outreach activities and experience share were carried out in countries that intend to implement the EITI principles particularly the ASIA Pacific (Philippine, Myanmar, Vietnam, PNG and Armand Land (Australia). Aside from the ASIA Pacific region, TL-EITI Secretariat also shared experience with the delegation from Bank of Uganda, Parliament member from Myanmar, TI-PNG, SPC-CPS (Secretariat of the Pacific Community), STP-EITI, Deputy of American Embassy in Timor-Leste and Nation.



Once again Timor-Leste shared our experience with Philippine. The government of Philippine very appreciate with Timor-Leste progress of the EITI implementation

As listed in the work plan, one of the activities implemented by TL MSG in 2013 was dissemination of 3rd and 4th TL-EITI Report on regional level, which concentrated in the District of Viqueque, Aileu, Liquiça and Oecusse (Autonomy region), University and academy level with participants from the community leaders, local NGOs, students (academy Level), youth representative, and so forth.

It was noted that due to disagreement on the process for finalisation of the 3rd and 4th reports, Industry representatives did not take part in the dissemination process. As part of the implementation of the 2013 Work Plan, the MSG discussed the possibility to invite representative from mining industry to the MSG as soon as the mining law is enacted.

As an effort to ensure compliance with adoption of the new EITI Standard published in the 6th EITI Global Conference in Sydney, June 2013, the MSG identified the need to organize a one day workshop for MSG and key stakeholders (exp. parliament members, Ministry of Agriculture, Ministry of foreign affairs) facilitated by EITI International Secretariat with the intention is to share the overview of key change in the new requirements. During the discussion has identified a number of national priorities that should be addressed in the work plan for TL-EITI.

One of the outcomes from the workshop included revision of Terms of Reference for TL MSG, revision of reporting template and work plan to ensure compliance with the new EITI Standards.

Despite the required changes identified by Multi Stakeholder Working Group, they were able to approve the 2014 Work Plan in December 2013. This achievement on its own could be seen as reflection of initiatives to improve and strengthen EITI implementation in Timor-Leste.

Aside from the achievements within Timor-Leste, there were outstanding issues that MSG had identified to be resolved within 2014. Recent disagreement between the representative from Industry and Government and CSO's, over the information contained in the 3rd and 4th report which considered not reflecting the agreed template. This has resulted in low participation from the Industry in the first quarter of 2013 and rejects to participate in the dissemination of the both reports. MSG understood this obstacle and agreed to place its effort to improve communications between pillars to ensure appropriate implementation of agreed processes.

For the coming TL EITI Reports covering FY 2012 and 2013, the benchmark figure will be according to the 2012 Petroleum Fund Annual Report and Q4 Petroleum Fund report. Within these reports, it shows that during these periods the total revenues collected from oil and gas activities amounted to USD 3, 559 million in 2012 and USD 3,042 million in 2013.

A) Annual Activities and Events

(i) *Dissemination process*

The main activity of the MSG in 2013 was to disseminate the 3rd and 4th TL-EITI on regional level which concentrated in the District of Viqueque, Aileu and Liquiça, University and Academy and Oe-cusse. It was noted that due to disagreement of the reports, Industry representatives were not taking part of the dissemination

Over Eighty (80) participants from Community Leaders, Universities, local government youth representative, religious representative, political parties and civil society attended the presentation.



To increase community knowledge to understand in terms of accountability and transparency in the management of natural resources and the distribution of revenues for the state budget allocated for that cabinet government for developing countries and to benefit all communities



The MSG disseminated the 3rd and 4th TL-EITI report in the following regions of Timor-Leste:

Table 1: TL-EITI Report II Dissemination

Date	Location	Participants	Responsibility
11, April 2013	District of Aileu	Seventy Four (74) (Participants were coming from District of)	MSG and TL-EITI Secretariat
14, May 2013	District of Liquisa	One hundred twenty Six(126) (Participants were coming from District of)	MSG and TL-EITI Secretariat
28, June 2013	District of Oecusse	One hundred thirteen (113) (Participants were coming from District of)	MSG and TL-EITI Secretariat
13 September 2013	District of Viqueque	Eighty Nine (89)	MSG and TL-EITI Secretariat
2 August 2013	Dili (Academy Level)	Two hundred forty six (246)	MSG and TL-EITI Secretariat

(ii) Global Conference

Timor-Leste sent a delegation of over 30 people to participate in the 6th EITI global Conference (22-24 May 2013) with the purpose of promoting a comprehensive sharing of experiences on how countries involved in the initiative manage their natural resources and implement the EITI (from inception to designation as compliant country). During the conference Timor-Leste participated with an Expo Stand which was well visited.



The government of Timor-Leste was financed the NGO representatives and MSG (32 people) who participated 6th global conference in Sydney 22-13 May

The delegation consisted of MSG, MPRM and CSOs that are not part of the MSG
 In 2013, following the publication of the new EITI Standard launched in Sydney in June 2013, the MSG decided to review the existing reporting template to comply with the new standard. It should be noted that during this process, the Industry continue to show their commitment to support the implementation of the EITI in Timor-Leste while raising their concern over the publication of the 3rd and 4th reports without their endorsement. The MSG agreed that the success of the implementation of EITI in Timor-Leste is a collaborative actions and commitment from all parties. This has resulted in the delay in the publication of 5th (2012) report

(iii) National Workshop

The Secretariat also organized one day workshop only for MSG and key stakeholders (exp. parliament members, Ministry of Agriculture, Ministry of foreign affairs) facilitate by Secretariat EITI International with the intention to share the overview of key change in the new requirements. During the discussion has identified a number of national priorities that should need to address in the TL-EITI work plan.



National workshop on new regulation of EITI on 20 September 2013 at Hotel Timor in Timor-Leste
 This workshop more positive, because all relevant Ministries attended as Minister of Agriculture, President commission C of Parliament and all directors of the Ministry of Foreign Affairs, Industry, civil society, local media, MIRANDA international lawyer, observers and agency of the State "TIMOR.GAP.EP"

3. Assessment of performance against targets and activities set out in the work plan

Objective	Activities/Progress	Implementation Period	Responsible Party	Remarks
To continue to identify other stakeholder commitment and approval of work plan	Commitment from Timor GAP.E.P, national oil company, to take part as member of MSG and to support EITI implementation in Timor-Leste. MSG discussed and approved 2014 work plan	June 2013 Approved in December 2013. To be implemented in 2014.	MSG, Timor GAP E.P MSG	MSG discussed the possibility to include mining company as member of MSG, however mining law are under consultation, and no large scale mining exist at the moment. MSG noted that the 2014 work plan has not reflected the national priority, hence to be reviewed accordingly.
To guarantee resources and support to implementation of EITI	The EITI Secretariat is under the support and funded by State budget through Ministry of Petroleum and Mineral Resources	2013 – total budget: Execution:	Secretariat	The budget mainly to support The MSG also discussed to strengthen the Secretariat
Remove obstacle to implementation of EITI/Capacity building	MSG continues to monitor and to participate in discussion or socialization of legal framework relevant to EITI implementation. Capacity building to members of NGO			

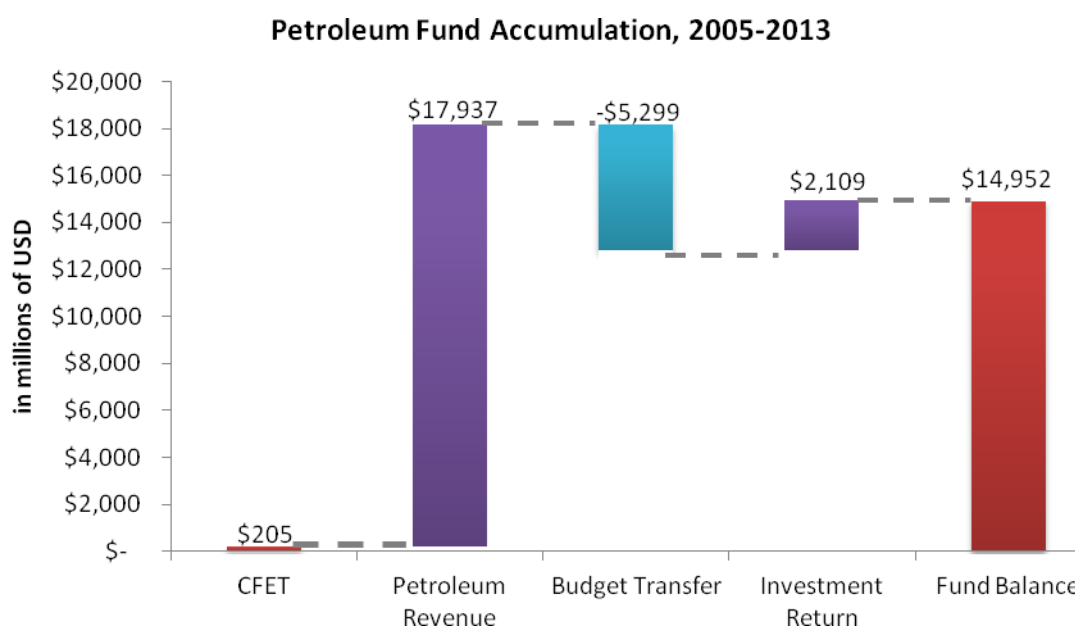
Produce and disseminate 5th and 6th Report TOR for Aggregate Body Engagement is finalised

TOR is advertised and Procurement processed was conducted by MSG representing from each Pillar

Validation of EITI implementation	N/A – MSG to discuss engagement of Validator for validation in 2015	2014	MSG
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4. Assessment of performance against EITI Requirements

The Petroleum Fund was established in 2005, requiring all incomes from the petroleum production to be deposited in the petroleum fund account. This is to manage the temporarily high income, but will eventually decrease before ending, when existing oil producing fields are depleted. Spending all the money as it flows in from petroleum activities would have been likely to seriously disrupt the small Timorese economy. It would also involve leaving nothing for later generations.



a). Petroleum Fund inflows – A combination of Production Sharing Contract (PSC) and taxation regimes generates revenues for Timor-Leste. From 2005 to 2013, the accumulated petroleum revenues in the form of payment of taxes, royalties/First Tranche Petroleum (FTP), profit oil and other related fees amounted to USD17.9 billion. This revenue mainly derived from the production of oil and gas in Bayu-Undan and later on Kitan (in late 2011).

The legislation requires Timor-Leste’s petroleum revenue to be invested entirely abroad. Since the inception of the Fund, the cumulative investment income amounted to about USD 2.1 billion by 2013.

b). Petroleum Fund outflow - Decisions on how much is withdrawn from the Fund, and for what purpose, are maybe the most important decisions for the Government. The Law requires transfers to be preceded by Parliament’s approval. In particular, transfers from the Fund in the Fiscal Year shall only take place after the publication of the budget law, or any subsequent changes thereto, in the Official Gazette, confirming the appropriation amount approved by Parliament for that Fiscal Year.

Between the period of inception of the Petroleum Fund in 2005 and the end of 2013, the total of USD 5.22 billion has been transferred from the Petroleum Fund to the State Budget. The Petroleum Fund balances steadily increase every year. It was calculated that by the end of 2013, Petroleum Fund for Timor Leste has reached USD14.95 billion, approximately ten times the non-oil GDP.

c). Requirement 1 - Effective oversight by the multi-stakeholder group as part of Timor-Leste's compliance with Requirement #1 of EITI requirements, Timor-Leste has shown its commitments throughout the years. Timor-Leste commitment started with unequivocally declaring its intention to implement the EITI at the 1st International Conference of EITI in London in June 2003

The country continues its commitment by appointing its senior individuals to lead EITI implantation in the country. For the year 2013, Timor-Leste appointed the Minister of Petroleum and Mineral Resources (formerly known as Secretary of State for Natural Resources) as the Chair person for the EITI Secretariat in TL and as Board member.

Continued after the declaration, Timor-Leste established the Multi Stakeholder Working Group (MSG) in 2008 with representatives from Government, Civil Society and Industry on voluntary commitment basis. Timor-Leste has not enacted any law concerning the EITI implementation in Timor-Leste. The effort to extend the invitation to the relevant institutions is ongoing with the example of state own company been invited to be part of MSG in 2013. The state own company, Timor Gap E.P. responded to the invitation in June 2013, where Timor GAP E.P., declared its submission to take part as members of TL EITI MSG. Multi Stakeholder Working Group in Timor-Leste are guided by their Terms of Reference to understand each pillar's roles and responsibilities in implementation of EITI Requirements in the country. Understanding the EITI requirement to create annual work plan, TL MSG approved its first work plan in September 2007 and since then its continues to be implemented and improved every year to reflect the current development in extractive industry activities and increasing awareness of the community. Reflect consultation with the key stakeholders.

As Timor-Leste complied with all of the EITI requirements from 2003 to 2010, the country went through its first validation in 2010, where Timor-Leste finally achieved its status as EITI compliant country.

In total Timor-Leste produced four EITI reports throughout the years. Two reports were produced prior to 2010 validation, EITI Reports for 2008 and 2009. Additional two EITI reports were produced for financial year 2010 and 2011.

d). Requirement 2 - Timely publication of EITI reports

Timor-Leste has produced 4 reports covering period of FY 2008, 2009, 2010 and 2011. The 2012 and 2013 are yet to be produced in 2014. The delay was due to discontentment of industry over the production of 3rd and 4th without their full acceptance on the information provided in the reports. This has led to lower participation in the meeting of the members of the MSG.

Another reasons being the consideration was given to the new EITI Standard launched in June 2013. The MSG has to review the reporting template to reflect the new EITI standard.

e). Requirement 3 - EITI reports that include contextual information about the extractive industries

The MSG has discussed the contextual information as per Requirement 3. The information will be included in the 5th and 6th TL EITI Reports.

f). Requirement 4 - The production of comprehensive EITI Reports that include full government disclosure of extractive industry revenues, and disclosure of all material payments to government by oil, gas and mining companies.

The reporting template that had been used in the past and to be used to produce future EITI reports has included full government disclosure of extractive industry revenues and payment made by oil companies.

While it was discussed at the MSG, the mining industry has not been officially included in the reporting template.

g). Requirement 5 - A credible assurance process applying international standards

The EITI reports were produced by internationally recognized independent auditor. The 2008 and 2009 reports were reconciled by Deloitte, while the 2010 and 2011 reports were reconciled by Moore Stephens.

h). Requirement 6 - EITI Reports that are comprehensible, actively promoted, public accessible, and contribute to public debate

The MSG is actively in disseminating information about EITI. Total thirteen times (13) number dissemination had been made since 2010 to 2013.

The Secretariat is actively participated in local and national events to show case the implementation of EITI in Timor-Leste.

i). Requirement 7 - The multi-stakeholder group to take steps to act on lessons learned and review the outcomes and impact of EITI implementation

Although it's not fully implemented, some of the recommendation from the auditor and validator has been implemented.

5. Multi-stakeholder group's response to recommendations from reconciliation and validation

In December 2009, the first TL EITI report was published. The first report covered revenues stream from companies to the government in the financial year 2008. The second report was launched in March 2011 covered revenues stream in financial year 2009. The Deloitte & Touche, the independent auditor of the Petroleum Fund of Timor-Leste, was appointed by the MSG to reconcile both 1st and 2nd report. Both reports were reconciled without any discrepancy.

As part of the MSG's Work plan and following the recommendation of the Validator to open the bidding process of the appointment of the Aggregating Body, the MSG decided to tender the engagement of the Aggregator Body. It takes about a year for the MSG to approve the Scope of Work and the tendering process. This has resulted in the delay in the publication of the third report.

Moore Stephens was selected to produce the third and fourth report in 2012 which covers financial year ending 2010 and 2011. These reports were not fully endorsed by Industry on the basis of the information contained in the reports did not follow the agreed template. However, the other two pillars contented with the report and believed that it would give more benefits to the Timorese population in terms of information about the revenues and its type of payment.

It is now part of the updated work plan to ensure that selection of aggregating body will be undertaken through a tender process

6. An overview of the multi-stakeholder group's responses to and progress made in addressing the recommendations from **reconciliation** and **Validation** in accordance with Requirement 7.1.a. (The multi-stakeholder group is encouraged to list each recommendation and the corresponding activities that have been undertaken to address the recommendations.)

<i>a) Validator</i>				
Recommended Action	Action Taken	Implementation Period	Executor	Remarks
1. MSG to discuss the possibility of Aggregator Body to verify company and government reports are consistent with their audited accounts.		N/A	MSG	The MSG aware that the EITI Requirement 5 requires a credible assurance on EITI report to contain reliable information.
2. MSG to share and discuss lessons learned before a new reporting round is embarked on.	MSG discussed the issue around the publication of the TL EITI 3 rd and 4 th report without fully endorsement from the industry.	2013	MSG	It was agreed that the MSG needs to review the reporting template and to ensure participation from all pillar
3. Strengthen capacity of the MSG and the Secretariat.	Training and capacity building to MSG members, including to participants from NGOs, is part of the annual MSG activities.	Annual activities	MSG	
4. Competitive selection of Aggregator Body.	Selection of Aggregating Body to produce 3 rd and 4 th report, including approval of scope of work.	2012	MSG	Moore Stephens was appointed to produce 3 rd and 4 th report.

b). Aggregating Body

Recommended Action	Action Taken	Implementation Period	Executor	Remarks
TL EITI Secretariat to establish a comprehensive TL-EITI database of all extractive companies operating in the oil sector and to <i>liaise with the Government Agencies to ensure it obtains adequate information regularly and updates its database accordingly.</i>	This plan has been included in EITI work plan			This was not implemented in 2013 due to lack of resources
MSG to ensure that submitted reporting templates by oil companies and governmental agencies are certified by a designated external auditor (in the case of extractive companies), or a public entity/authority in the case of Government Agencies.				This was not implemented in previous years report. MSG believes that the certification is performed by the Aggregating Body because TL EITI recruits auditors as its Aggregating Body.

7. Any specific strengthen or weakness to the EITI process

Throughout the implementation of EITI in the country, MSG has been involved in discussions on improvement of EITI implementation in the country and ensuring compliance with changes of EITI Standard.

It is evident that EITI implementation in Timor-Leste has been regarded as an example for all of the nations involved in EITI. This achievement on its own can be considered as strength in the EITI process.

It is also a great effort from MSG to ensure that all citizens in the country have access to information in relation to natural resources management and petroleum fund management. This was completed through visits to several villages in the country and focused on isolated areas.

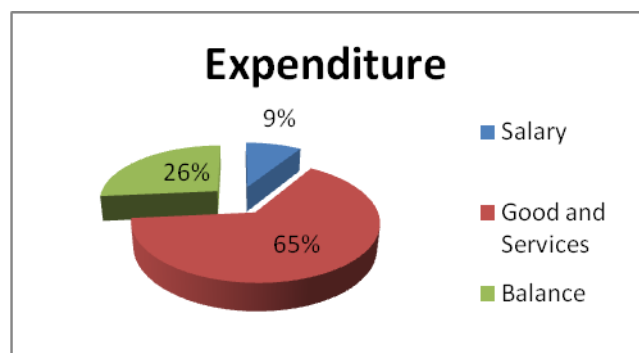
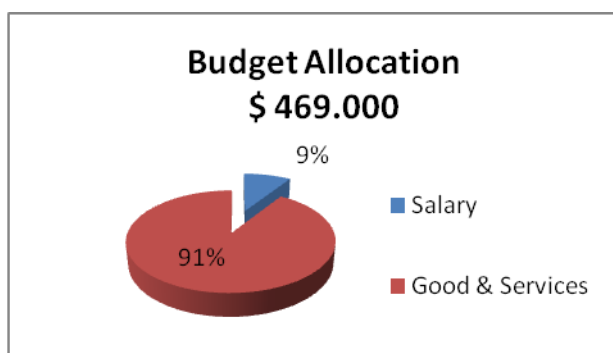
The government also utilises the internet availability in the country to provide extensive information on its petroleum fund management through the transparency portal for access to information related to state budget allocation and execution.

An area for potential weakness in implementation of EITI in Timor Leste is the lack of legislation on EITI. The government has not prepared law or any form of legislation to regulate EITI in the country.

Understanding the reality in the country and the dynamic in accessing of information throughout different regions, it can be stated that the way reports are disseminated could be seen as a weakness, as it is only based on regional level.

The EITI Secretariat presently is weak with lack of capacity in report writing. This requires Ministry support to recruit part time or full time consultant to assist this Secretariat.

a). Total cost of implementation



(The functioning of TL- EITI Secretariat derived from government fund through the Ministry of Petroleum Resources and Minerals. For the year 2013, the fund allocated to the EITI Secretariat amounted to US\$. 469.000, which was to cover salary for staff (7 staff) and Good and Service Outreach, Capacity Building, Dissemination, Board Meeting, and Report Reconciliation). The total expenditure for 2013 can be seen as illustrate in the pie chart above.

b). Membership of MSG

Multi-Stakeholder Group

History and Structure - On 24 August 2007, the EITI Secretariat was created through commitment to form Multi-Stakeholders Working Group (MSG). The Minister of Petroleum and Mineral Resources (formerly known as Secretary of State of the Natural Resources) was designated as focal point of the EITI process in Timor-Leste. The MSG is chaired by the Minister of Petroleum and Mineral Resources. In 2013, the multi stakeholder working group revisited its Terms of Reference to ensure compliance with the new EITI requirements. Thus, there was a slight change in the members of MSG in 2013.

The MSG comprises the following members:

- Minister of Petroleum and Mineral Resources (Chairperson);
- Two (2) representatives of the Ministry of Finance;
- Representative of the Banco Central de Timor-Leste (BCTL);
- Two (2) representatives of the Ministry of Petroleum and Mineral Resources;
- Three (3) representatives of the Civil Society; and
- Three (3) representatives of oil companies.
- One Representative of State Oil Company

Roles and Responsibilities - The MSG is dedicated to the overall EITI strategy, and to the supervision of the implementation of the EITI process, as well as the evaluation of its impact on sustainable development and alleviation of poverty. The Committee has a tripartite structure including representatives of the government, the private sector and civil society.

A National EITI Coordinator was appointed to manage the EITI Secretariat. The Secretariat is in charge of the implementation of decisions made by the MSG, and the day-to-day running of implementation activities for the EITI process in Timor-Leste.

c). Meetings – during 2013, the MSG held xxx meetings and made decision on....

No	Representative/Pillar	Number of meeting participated	Remarks
1	Government	9 times of meeting	
2	Industry	7 times of meeting	
3	CSO	9 times meeting	

Requirement 7.2 b all stakeholders should be able to participate in the production of the annual activity report and reviewing the impact of EITI implementation. Civil society groups and industry involved in the EITI, particularly, but not those serving on the multi stakeholder group, should be able to provide feedback on the EITI process and have their views reflected in the annual activity report

Approved by MSG

Date: 29 of July 2014