



Executive Summary

Twelve years after independence, Timor-Leste eagerly welcomes investment and development opportunities. Plagued by conflict and turmoil during its formative years, the country is experiencing its first period of sustained peace and stability. The country's infrastructure and the government's provision of basic utilities have improved. Growth rates have been consistently strong as the country's economic prospects have trended upward. However, despite positive indicators, the country still has a long way to go as it struggles with a legacy of unclear and incomplete legislation; inadequate dispute resolution and regulatory mechanisms; insufficient personnel capacity; deficient infrastructure; and corruption. Much of the country's industries remain unregulated and early entrants into the market will have to navigate this unknown territory. The Government of Timor-Leste (GOTL) offers investment incentives to offset some of these challenges, including 5, 8, or 10 years of tax exemption depending on the location of the investment. Investment opportunities outside of the oil and gas sector are gradually increasing, with interest growing in the telecommunications, construction, and agricultural sectors. The GOTL is planning to build major petroleum sector infrastructure along the south coast and to create a Special Economic Zone in the exclave district of Oecusse.

1. Openness To, and Restrictions Upon, Foreign Investment

As Southeast Asia's youngest country, Timor-Leste is in the midst of establishing effective and comprehensive legislative, executive, and judicial institutions, drafting laws and regulations, and building government personnel capacity. Although instability and periods of violent upheaval marked the early part of the country's twelve year history, the country has experienced sustained calm since 2008. This peace is underscored by the departure of the United Nations Integrated Mission in Timor-Leste (UNMIT) peacekeeping operation and the International Stabilization Force (ISF) at the end of 2012. This young and vibrant country is eager to take advantage of its current tranquility to focus on achieving the country's development goals, as laid out in the Strategic Development Plan 2011-2030. One of the primary goals of the Plan seeks to use the country's petroleum revenue to support economic development and a transition to a middle-income country by 2030. Although Timor-Leste has only 1.2 million people, it has one of the world's most rapidly growing populations and Timorese authorities are interested in expanding private sector economic activity to generate increased employment opportunities.

Attitude Toward FDI

The Government of Timor-Leste optimistically welcomes foreign direct investment (FDI). The private sector, while also optimistic about the country's investment potential, is a bit more cautious. To date, the oil and gas sector accounts for the vast majority of FDI and the largest component by far of the country's overall economy. However, the GOTL is interested in diversifying and is taking steps to facilitate the process. In 2005, the Government established TradeInvest Timor-Leste, an agency aimed at promoting foreign investment and assisting investors. The Government also tasked Timor-Leste's Secretary State for the Support and

Promotion of the Private Sector with the dual goals of developing the country's nascent private sector and creating a favorable climate for FDI.

ConocoPhillips is the country's largest investor with a 57.2 percent share in the Bayu-Undan gas condensate development, located in the Timor Sea Joint Petroleum Development Area (JPDA). Other companies that are or have been active in the JPDA include Shell, Woodside Petroleum, BHP Petroleum, Marathon Petroleum, and Enterprise Oil. Eni commenced production at the Kitan field in the JPDA in 2011.

Other major foreign investors in Timor-Leste include Portugal Telecom; it holds a 76 percent share of Telecomunicações Públicas de Timor (TPT), which owns 54 percent of Timor Telecom. Portugal's Entrepósito also maintains a substantial presence in the automotive, construction, contracting, and retail sectors. Indonesia's Telin and Vietnam's Viettel both acquired telecommunications licenses in 2012 and have entered the market since 2013. Private business partners from Singapore, China, Indonesia, and Australia are among investors in Timor-Leste, particularly in the hospitality, tourism, export-import, logistics, and consumer goods sectors.

Other Investment Policy Reviews

Timor-Leste's political stability is encouraging and businesses are beginning to gain confidence in the young nation. Commerce is increasing and the GOTL is starting to fund more public services and larger public works projects. Other than the oil and gas sector, other investment opportunities exist in the services, tourism, and agriculture sectors. Obstacles to investment include bureaucratic inefficiency; infrastructure bottlenecks; a paucity of local financing options; the absence of rules governing real property ownership and other essential legislation; uncertain implementation of government procurement procedures; significant deficiencies in personnel capacity; and perceptions of malfeasance, conflict of interest, and corruption.

Laws/Regulations of FDI

In many ways, the Timorese legal system lacks cohesion as it is based on a mix of Indonesian laws and regulations, acts passed by the United Nations Transitional Administration, and post-independence Timorese legislation. The country has yet to undergo a comprehensive overhaul of these overlapping yet disparate laws. Timor-Leste has two official languages, Tetun and Portuguese, and two working languages, Indonesian and English; all new legislation is enacted in Portuguese and is based on the civil law tradition.

The Private Investment Law specifies the conditions and incentives for both domestic and foreign investment, and guarantees full equality before the law for international investors. Other major laws affecting incoming foreign investment include the Companies Code of 2004, the Commercial Registration Code, and the Taxation Act of 2008. A government agency, TradeInvest Timor-Leste, reviews foreign investment applications to ensure compliance with all applicable requirements and helps applicants navigate licensing and registration procedures. All investors, both foreign and domestic, are required to obtain an Investor's Certificate. The Certificate costs \$500 for domestic investors and \$2,000 for foreign investors and requires approximately 30 days to process.

The government's Business Verification and Registration Service office (SERVE – *Serviço de Registo e Verificação Empresarial*) processes business registration and licensing. For companies involved in civil construction, food processing or pharmaceutical industries, SERVE will work closely with relevant ministries, particularly the Ministry of Commerce, Industry and Environment, to facilitate their business licenses. Getting a business license takes between five days and one month.

Industrial Strategy

Foreign investments in natural gas and oil, minerals, wholesaling, and retailing fall outside of the scope of the Private Investment Law and are handled through various resolutions or regulations. In the case of foreign investments that are of particular value to the national development strategy, the option of a special investment agreement is available; such an agreement must be authorized by the Council of Ministers and provides the possibility of tax reductions or exemptions, customs incentives, leases of state property, and up to a 100-percent cost sharing in the training of employees. However, the Private Investment Law does not set out criteria for determining which investments fall under this category. To date, the Council of Ministers has authorized only two projects, both of which have high political interest: the South Coast Project – aimed at developing refineries and infrastructure for the petroleum industry along Timor-Leste's south coast – and the Oecusse Special Economic Zone (ZEESM) Project. These projects have yet to be fully implemented.

Limits on Foreign Control

Foreign investors may invest in any sector other than postal services, public communications, protected natural areas, and weapons production and distribution, as these are specifically reserved for the state. Investors are also prohibited from investing in sectors otherwise restricted by law (such as criminal and immoral activities).

Section 54 of Timor-Leste's Constitution grants the right of land ownership exclusively to Timorese nationals, either individuals or corporate entities; however, foreigners may conclude long-term (up to 50-year) leases. There is no national legislation governing land ownership and investors who wish to lease property must often sort through competing claims from the Portuguese colonial administration, the Indonesian occupation era, and the post-independence period.

Privatization Program

Companies, foreign and domestic, may incorporate as a general partnership, limited partnership, limited liability company, or joint stock company; foreign companies may also register as a local branch.

Screening of FDI

TradeInvest Timor-Leste reviews foreign investment applications which are then presented to the Private Investment Commission for further study and evaluation. The Private Investment Commission evaluates applications for foreign investment permits, verifying the following: Compliance of the application with requirements established in the National Development Plan, in the Procedural Regulation for Foreign Investment and other applicable legislation;

Suitability, capacity, experience and availability of financial resources necessary for implementation and operation of the proposed investment enterprise;

Capacity, experience and business or technical characteristics of the promoter or its managers in order to guarantee implementation and operation of the enterprise;

Positive operational balance of the business, according to the project proposal;

Environmental, infrastructural and social implications which could condition the viability of the enterprise or that can result from its implementation;

Conditions for:

Guaranteeing availability of necessary land for installation and functioning of the investment enterprise;

Ensuring consistency of the expected new jobs to be created in the short and medium term;
Establishing interconnection with other economic sectors.

The Private Investment Commission submits its recommendations and the foreign investment application to the State Secretary for Support and Promotion of Private Sector for final approval, except in cases where:

The investment project is equal to or greater than \$20 million

The project requires use of state land with an area equal to or greater than 5 hectares for tourist purposes or 100 hectares for agricultural, fishery or forestry purposes;

Any other project which the State Secretary for Support and Promotion of Private Sector, decides should get higher level review because of possible political, social, economic, financial or other reasons.

In the abovementioned cases, the Council of Ministers must make the final approval. Government Decree no.6/2005 on Procedural Regulation for Foreign Investment describes among other things, the timing and investment application review process. The minimum capital requirement for Foreign Direct Investment is \$1.5 million.

Upon the final approval and authorization by the State Secretary for Support and Promotion of Private Sector or the Council of Ministers, TradeInvest will issue an Investment Certificate to the investor. It takes an estimated 30 days to process an investment application.

Although foreigners may serve on the board of a Timorese company, at least one of the company's directors must live in Timor-Leste. Business registration and commercial licenses are processed at SERVE. On April 24, SERVE announced one-day registration for sole trader businesses and single shareholders with limited liability. The GOTL has registered 12,360 companies, foreign and domestic, since 2009.

Competition Law

Timor-Leste does not have a Competition Law.

Investment Trends

For the last six years, Timor-Leste has experienced a period of strong economic growth, based mostly on public expenditure and private sector activity, driven by oil and gas revenues. The Asian Development Bank estimates that non-offshore petroleum based GDP grew by 8% in 2013. The strong growth rate is slightly lower than in recent years. Timor-Leste's Central Bank estimates that the country's FDI has increased over the last five year period, primarily in the civil construction and oil and gas sectors. Business contacts are cautiously optimistic and see many opportunities in Timor-Leste, despite business climate challenges. However, Prime Minister Xanana Gusmao's publicly stated intent to resign during the second half of 2014 has made the political situation more uncertain and infused some investors with more caution about the country's growth prospects. In one of the world's most oil dependent economies, investors are also concerned about revised projections that known offshore oil and gas reserves will run dry by 2020, earlier than previously anticipated.

Table 1: The following chart summarizes several well-regarded indices and rankings.

Measure	Year	Rank or value	Website Address
TI Corruption Perceptions index	2013	119/177	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation's Economic Freedom index	2013	170/178	http://www.heritage.org/index/ranking
World Bank's Doing Business Report "Ease of Doing Business"	2014	172/189	http://doingbusiness.org/rankings
Global Innovation Index	2013	N/A	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	3,620 USD	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

Table 1B - Scorecards: The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a 2012 per capita gross national income (GNI) or \$4,085 or less. A list of countries/economies with MCC scorecards and links to those scorecards is available here: <http://www.mcc.gov/pages/selection/scorecards>. Details on each of the MCC's indicators and a guide to reading the scorecards, are available here: <http://www.mcc.gov/documents/reports/reference-2013001142401-fy14-guide-to-the-indicators.pdf>.

Measure	Year	Index/Ranking
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MCC Gov't Effectiveness	2014	-0.81
MCC Rule of Law	2014	-0.73
MCC Control of Corruption	2014	-0.41
MCC Fiscal Policy	2014	42.5
MCC Trade Policy	2014	64.4
MCC Regulatory Quality	2014	-0.70
MCC Business Start Up	2014	0.770
MCC Land Rights Access	2014	0.09
MCC Natural Resource Protection	2014	50.9
MCC Access to Credit	2014	21
MCC Inflation	2014	13.1

2. Conversion and Transfer Policies

Foreign Exchange

The U.S. dollar is the official currency of Timor-Leste. There are no official currency controls, although the Central Bank of Timor-Leste imposes reporting requirements for the importation or exportation of cash above \$5000 and requires explicit authorization for sums in excess of \$10,000. Three foreign banks operate in Timor-Leste -- Bank Mandiri (Indonesia), ANZ Bank (Australia), and Banco Nacional Ultramarino (Portugal). In addition to the Central Bank's requirements, these banks may also impose reporting requirements for transactions above a certain amount in order to comply with home-country anti-money laundering regulations.

Remittance Policies

Timor-Leste does not have a policy specifically governing remittances and there is very limited data on Timorese working abroad.

3. Expropriation and Compensation

Timor-Leste does not yet have an expropriation law. However, both Article 54 of the Constitution and the Private Investment Law permit the expropriation or requisition of private property in the public interest only if just compensation is paid to the investor. The Private Investment Law calls for the equal treatment of foreign and national investors in expropriation cases and prohibits nationalization policies or land policies that deliberately target the property of investors.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

The justice system -- police, prosecutors, and courts -- is still evolving and short-staffed. The government relies upon significant numbers of foreign experts and advisors to augment local resources. The Office of the Prosecutor General has continued to accumulate experience and to

establish case management and other essential systems. Timor-Leste has established courts of first instance and a court of appeal. Additional courts foreseen in the Constitution and legislation, such as specialized tax courts, have not yet been established. The U.S. Embassy is not aware of any major court cases testing the sanctity of contracts or enforcement of contracts that have been processed to conclusion.

Bankruptcy

Timor-Leste does not yet have a commercial code or bankruptcy law.

Investment Disputes

Civil disputes are generally handled through the domestic court system, which is ill-equipped to handle the demands that are currently placed upon it. The Timorese justice system suffers from a shortage of qualified judges and attorneys, incomplete and piecemeal national legislation; and insufficient geographical coverage. New legislation is enacted in Portuguese while many legislators, prosecutors, judges, attorneys, police officers, plaintiffs, and defendants do not speak the language. Legal professionals lack specialized technical expertise to address complicated commercial or tax cases.

ICSID Convention and New York Convention

Timor-Leste is party to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (the ICSID Convention). It is not party to the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. Timor-Leste's Court of Appeals must recognize a foreign judgment or arbitral award in order for it to be enforced in the country.

Duration of Dispute Resolution

A World Bank study found that a contract enforcement dispute takes on average 1,285 days to settle, one of the slowest and most expensive processes in the world.

5. Performance Requirements and Investment Incentives

Foreign direct investments in Timor-Leste require the incorporation of a business or purchase of national assets and can involve either the transfer of freely convertible currency from overseas to a financial institution legally established in Timor-Leste, or the importation of goods and services purchased using overseas financial resources with a total value of transferred resources exceeding \$100,000.

Outside of a few select sectors, such as oil and gas, Timor-Leste does not impose performance requirements such as local partnering, gradual nationalization, domestic marketing obligations, domestic sourcing of inputs or technology transfer. Therefore, non-oil and gas related entities with foreign investor status may be 100-percent foreign equity. However, 5 percent of the shareholders of oil and gas related entities must be Timorese. The investment laws do not impose restrictions on the sale of investments by a foreign investor.

In the Strategic Development Plan 2011-2030 and in its five-year program approved in September 2012, the government announced that it would develop a National Labor Content

policy that would require both domestic and foreign investors to devote a minimum percentage of the value of "major projects" to either the employment or training of Timorese citizens. Details of the policy have not yet been clarified.

The Private Investment Law guarantees the right of investors to contract foreign workers, in accordance with relevant immigration regulations. Applications for work visas can be lengthy and bureaucratic, but are generally granted upon presentation of the appropriate documents.

WTO/TRIMS

Timor-Leste is not a member of the World Trade Organization (WTO), so does not have any obligations under the WTO's Trade Related Investment Measures provisions.

Investment Incentives

The Government of Timor-Leste offers investment incentives, including tax credits and import duty exemptions, to both domestic and international investors. For domestic investments worth over \$50,000 and foreign investments of over \$1.5 million, investors benefit from five years of exemption from income, sales, and services taxes, as well as exemptions of customs duties for goods and equipment used in the construction or management of the investment. The period of exemption is extended to eight years for investments in Rural Zones (outside of the cities of Dili and Baucau) and to ten years for investments in Peripheral Zones (the exclave of Oecusse and the island of Atauro). Even after these periods have expired, investors may deduct from their tax obligations up to 100 percent of the costs of constructing or repairing transportation infrastructure.

Research and Development

Any foreign firm willing to participate in a subsidized research and development project may submit an investment proposal and seek advice from TradeInvest Timor-Leste on the possibility of Public Private Partnership (PPP) initiatives in the relevant sector. The government currently focuses on PPPs for major construction projects and has not been involved actively in Research and Development programs.

Performance Requirements

Timor-Leste does not require investors to fulfill domestic content requirements. At least one member of the board of directors has to be a permanent residence of Timor-Leste. Any foreign investors willing to invest in Timor-Leste will be granted temporary residence and if the investor has been in Timor-Leste for a minimum consecutive period of three years, he/she will be granted permanent residence.

According to Article 27 of the Private Investment Law, an investor must employ Timorese workers and promote their vocational training for those in technical and management positions.

Data Storage

There is no specific requirement forcing investors to establish and maintain a certain amount of data storage in the country. However, investors are required to provide TradeInvest Timor-Leste with regular data on the progress of their business.

6. Right to Private Ownership and Establishment

Foreign and domestic entities may establish and own business enterprises and engage in remunerative activity. Private entities may establish, acquire, and dispose of interests in business enterprises.

7. Protection of Property Rights

Timorese legislation provides for the ownership and lease of real property. Only Timorese individuals and corporations may own land; foreign entities may lease land for up to 50 years. Other forms of property rights established under Portuguese and Indonesian legislation have been in effect in Timor-Leste in the past and may still enjoy recognition. Timorese law provides for pledges on corporate shares.

Due to the destruction of the property registry in 1999 and the absence of authorizing legislation, it is not possible to register title deeds. Nonetheless, the notion of property ownership persists, properties are bought and sold, and the courts deal with real estate issues.

Real Property

There continues to be confusion over land and property ownership as there are competing claims on property arising from various occupancies during the Portuguese, Indonesian, and post-independence eras. These uncertainties are compounded by a history of displacement, overlapping titles, and lack of legal clarity regarding land ownership. A 2010 World Bank report found that the resolution of land ownership disputes is often dominated by the use of customary norms and local or traditional authorities, especially outside of urban areas. This, combined with the lack of a comprehensive land law, makes solidifying land titles and property rights a difficult task. However, the government is making some progress as it undertakes efforts to map properties and adjudicate conflicting claims. Parliament passed a package of land laws in 2012, but the then-President vetoed the legislation and new drafts are still under debate.

Intellectual Property Rights

Section 60 of Timor-Leste's Constitution provides for the protection of literary, scientific, and artistic work. However, legislators have yet to codify or systematize domestic protection of intellectual property rights. Timor-Leste is not party to any international agreements on intellectual property rights. As a result, some international companies have resorted to printing cautionary notices in local newspapers in order to establish claims to their trademarks and patents. However, the dearth of domestic legislation in this area means that it is unclear the extent of legal protection this affords.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Embassy point of contact: Shawn Baxter BaxterGS@state.gov Local lawyers list: <http://timor-leste.usembassy.gov/service3/attorneys.html>

8. Transparency of the Regulatory System

In June 2013, with assistance from the International Finance Corporation, the government established SERVE (Service for Registration and Verification of Entrepreneurs) as a one-stop business registration center for both foreign and domestic investors. SERVE is the government's attempt to streamline the business registration process to less than five days from start to finish. Prior to the opening of SERVE, business operators had to visit three different government ministries to complete a process that could take upwards of one year. In its first seven months of operation, SERVE has registered over 4,000 businesses, approximately half of which are construction related enterprises.

In addition to registering businesses, SERVE can also issue business licenses for what it determines to be low-risk undertakings. The Ministry of Commerce must issue business licenses for high-risk endeavors. Currently, both business registration and licensing are free. However, there are proposals to institute a small fee for business license renewals. The initial business license is valid for 12 months. Renewals are also for 12 months by default; however, it is unclear whether renewals can be valid for longer periods.

SERVE's only office is in Dili, with plans to open a new office in the Oecusse exclave by the end of 2014. SERVE staff is training local community Business Development Center personnel in business registration requirements, with the hopes that by the end of 2014, they will be able to accept business registration applications outside of the capital.

The country's regulatory system is still in its formative stages. The existing tax, labor, environment, health and safety, and other laws and policies do not present any obvious impediments to investment. However, the lack of a comprehensive law governing land and property rights is an issue of concern.

In 2011 and 2012, the government issued a number of tax assessments on private firms (both foreign and domestic) stretching back several years, with compounded interest plus penalties. Several of the affected firms have contested these assessments, and the disputes are still being addressed through the courts or international arbitration.

The Ministry of Finance launched an online Procurement Portal in 2011, intended to increase transparency by providing equal access to information on government tenders and procurement contracts. However, updates are inconsistent and not all tenders appear to be included in the site. In 2012, the government hired an internationally-recognized firm to serve as its procurement agent for major projects but there are still concerns about nontransparent and unfair procurement practices.

Parliament and parliamentary committees regularly hold hearings about and debates on proposed laws. For certain major legislation, the government holds public consultations or solicits public comment.

9. Efficient Capital Markets and Portfolio Investment

Money and Banking System, Hostile Takeovers

The three foreign banks operating in Timor-Leste have modest loan portfolios. According to Central Bank data, commercial bank credits to the private sector totaled \$176.9 million as of December 2013. The overall non-performing loan rate was 49.5 percent.

In 2011, the Government converted its microfinance institution into the National Commercial Bank of Timor-Leste (BNCTL) and expanded its mandate to include the provision of credit to small and medium-sized enterprises. While it has begun to implement some functions such as government payroll and the payment of social transfers, the BNCTL is still seeking international partners to meet its increased lending responsibilities. The Government recently injected an additional \$10 million into BNCTL and removed monetary caps on loans to any single applicant in an attempt to provide additional credit for Small and Medium Enterprises. There are no capital markets yet.

10. Competition from State-Owned Enterprises

In November 2008, the Timorese government transformed Timor-Leste's Public Broadcasting Service, Radio Televisão de Timor-Leste (RTTL), into a state-owned enterprise known as RTTL, E.P. RTTL, E.P. is wholly owned by the state under the supervision of the State Secretary of Social Communication, governed by an independent Board of Directors.

In mid-2011, the government established TimorGAP, E.P., a 100-percent state-owned petroleum company intended to partner with international firms in exploration and development of Timor-Leste's petroleum resources and to provide downstream petroleum services. TimorGAP is supervised by the Minister of Petroleum and Mineral Resources, but is governed by an independent Board of Directors. Firms that partner with TimorGAP are to receive preferential treatment in tenders for petroleum projects.

The government also created SAMES, E.P. in April 2004 (Government Decree No. 2/2004), a public enterprise that imports, stores and distributes medicines and medical products and equipment. In November 2005 (Government Decree No.8/2005), the government established ANATL, E.P., a state-owned company to administer the domestic airports in all its aspects, including air navigation. However, due to limited management and technical resources, the two public enterprises have not been fully operating as state owned companies but merely as a state autonomous self-funded institutions.

The Government of Timor-Leste has shares in one private company, Timor Telecom, a telecommunications provider. It owns 20.6 percent, while Telecomunicações Públicas de Timor (TPT), of which Portugal Telecom is the major shareholder, owns 54 percent. In 2013, two private foreign companies began telecommunications operations, ending Timor Telecom's monopoly of the fixed and mobile network. In exchange for the end of the monopoly, Timor Telecom acquired certain equipment procured by the government and will retain no-cost usage rights of some government-owned infrastructure and equipment until 2062.

Several autonomous government agencies are active in the economy: the Institute of Equipment Management (IGE), the Dili Port Authority (APORTIL), and the National Aviation Authority (AACTL). Postal and communications services may shift from the Ministry of Transportation

and Communications to autonomous agency-status eventually. Timor-Leste Electricity Company (EDTL) has recently ceased to be an autonomous institution and currently operates under the direct supervision of the General Directorate for Electricity. Other autonomous and self-funded institutions are the National Petroleum Authority (ANP, which regulates the oil and gas sector), and a lottery operated by the Ministry of Tourism. A newly created National Authority of Communication (ANC) under the Ministry of Transport and Telecommunication will eventually shift to become an autonomous and self-funded institution.

OECD Guidelines on Corporate Governance of SOEs

Timor-Leste has not adhered to the OECD Guidelines on Corporate Governance of SOEs. Line ministers supervise SOEs but independent boards of directors administered them. Senior management reports directly to a 5-7 member Board of Directors. Line ministers are responsible for nominating or dismissing the President of the Board of Directors with approval from the Council of Ministers.

Sovereign Wealth Funds

Established in 2005, the Petroleum Fund is Timor-Leste's sovereign wealth fund. The Minister of Finance is responsible for its overall management and investment strategy; the Central Bank of Timor-Leste is responsible for its operational management, although the Minister of Finance has the authority to select a different operational manager. By law, all petroleum and related revenue must be paid into the Fund, with the balance of the Fund invested in international financial markets for the benefit of present and future generations of Timor-Leste citizens. Most of the Fund's receipts are invested in U.S. Treasuries, but the Petroleum Fund Law permits the investment of up to 50 percent of the Fund in equities, 10 percent of which may be in exotic investments. The Petroleum Fund publishes monthly, quarterly, and annual reports on-line. As of December 2013, Petroleum Fund assets stood at \$14.9 billion. The law governing the Fund provides that there shall at all times be appointed an independent auditor, which shall be an internationally recognized accounting firm (most recently Deloitte Touche Tohmatsu). The Sovereign Wealth Institute rated the Petroleum Fund an 8 out of a possible 10 points for transparency. The Petroleum Fund is the primary source of funding for the government budget, with a ceiling on annual withdrawals set by law at 3 percent of Timor-Leste's total petroleum wealth (defined as the current Petroleum Fund balance plus the net present value of future petroleum receipts).

In July 2010, Timor-Leste became the third country in the world and the first in Asia to be certified as compliant with the Extractive Industries Transparency Initiative (EITI). EITI is a G-8 endorsed undertaking that involves a country's government, extractive-sector companies, and civil society in ensuring transparency of resource sector payments and revenues.

11. Corporate Social Responsibility

Many firms, including leading foreign investors, support community activities, ranging from sponsoring the Tour de Timor bicycle race and other high-profile events to investing in education and rural employment, including partnering with USAID-funded activities. A Chamber of Commerce and Industry has been established and there is an active Rotary Club, but general awareness of corporate social responsibility is low.

12. Political Violence

Since 2008, Timor-Leste has experienced a period of relative calm. National elections for president and parliament in 2012 were peaceful, free, and fair. Despite the country's tumultuous past, the overall crime and safety situation is stable and has not changed significantly since the 2012 departure of the United Nations Integrated Mission in Timor-Leste (UNMIT) peacekeepers and the Australia/New Zealand International Stabilization Force (ISF).

13. Corruption

Transparency International ranks Timor-Leste at 119 out of 177 countries on its Corruption Perceptions Index. Despite the low ranking, the Government of Timor-Leste is taking some promising steps to combat corruption. In 2010, the Anti-Corruption Commission (CAC), an independent agency, opened its doors. That same year, the Office of the Prosecutor General also forwarded its first high-profile corruption case to the courts. Since then, the CAC has referred several cases to the Office of the Prosecutor General and has several ongoing investigations. In September 2012, former Minister of Justice Lucia Lobato was convicted of maladministration of funds and sentenced to three-and-a-half years in prison in relation to charges brought while she was still in office. Her appeal was denied by the Court of Appeals, which increased her sentence to five years in December 2012.

The government is working to establish internal discipline and performance standards. The U.S. Millennium Challenge Corporation Threshold Program that focused on supporting anti-corruption efforts ended in March 2014.

Bribery is a crime, subject to up to four years of imprisonment. It is illegal to bribe a foreign official, although Timorese law would not apply to an attempted bribery of a foreign official overseas. Bribes cannot be deducted from taxes.

There are several corruption watchdog organizations active in Timor-Leste, both local and international. A recent survey on perceptions of corruption found that 57 percent of Timorese believe corruption is a serious and growing problem, although not as important a concern as poverty and unemployment.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

The Government of Timor-Leste has signed and ratified the UN Convention against Corruption. Timor-Leste is not a party to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

14. Bilateral Investment Agreements

Timor-Leste and Portugal have signed an Agreement on Mutual Protection and Promotion of Investment. Timor-Leste signed a Bilateral Investment Treaty (BIT) with Germany in 2005, but it has not entered into force.

Bilateral Taxation Treaties

Timor-Leste does not have a BIT or bilateral tax treaty with the United States. U.S. investors cannot deduct taxes paid in foreign jurisdictions on income earned in Timor-Leste from their local tax obligations.

15. OPIC and Other Investment Insurance Programs

The U.S. Overseas Private Investment Corporation (OPIC) and the Government of Timor-Leste signed an Investment Incentive Agreement in 2002. OPIC is open for business in Timor-Leste and welcomes contact from potential U.S. investors (www.opic.gov). Potential U.S. investors and exporters are encouraged to contact the U.S. EXIM bank (www.exim.gov) and the United States Trade and Development Agency (www.ustda.gov) as well.

Timor-Leste has been a member of the Multilateral Investment Guarantee Agency (MIGA) since 2002. The International Finance Corporation (IFC) maintains an office in Timor-Leste, co-located with the World Bank Country Office in Dili.

16. Labor

The shortage of skilled labor is a significant constraint on private sector growth in Timor-Leste. Business executives report difficulties locating skilled tradespeople to undertake or manage new construction projects. Public and private sector employers consistently encounter problems locating managerial, clerical, and other office staff. There is a surplus of young, inexperienced unskilled labor, with 15,000 new entrants into the labor market each year in an economy with an estimated total of 75,000 formal sector jobs. The government, donors, and employers place enormous emphasis on education and training in order to build local capacity.

The 2012 Labor Law put in place regulations for labor conditions, including a 44-hour work week, standard benefits such as leave and premium pay for overtime, and minimum standards of worker health and safety. In June 2012, the government set the minimum wage for full-time employment at \$115 per month. Enforcement of labor laws is uneven, but increasing.

The Government of Timor-Leste has acceded to many of the major international labor and human rights conventions including: International Labor Organization (ILO) Convention No. 29 on Forced Labor; ILO Convention No. 87 on Freedom of Association and Protection of the Right to Organize; ILO Convention No. 98 on the Right to Organize and Collective Bargaining; ILO Convention No. 182 on the Worst Forms of Child Labor; the International Covenant on Civil and Political Rights; the International Covenant on Economic, Social, and Cultural Rights; and the International Convention on the Protection of All Migrant Workers and Members of Their Families.

17. Foreign Trade Zones/Free Ports

There are no foreign trade or free trade zones in Timor-Leste. The GOTL is planning to pilot a free trade zone in the exclave district of Oecusse. However, laws defining and regulating the

establishment of the project, known as the Special Zone for Social Market Economy (ZEESM), have yet to be approved by Parliament.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy

	Host Country Statistical source*		USG or international statistical source		USG or international Source of data (Source of Data: BEA; IMF; Eurostat; UNCTAD, Other)
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) <i>(Millions U.S. Dollars)</i>	2011	\$1.128 billion	2012	\$1.293 billion	http://www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country <i>(Millions U.S. Dollars, stock positions)</i>	N/A	N/A	2012	\$10 million	(BEA) click selections to reach. Bureau of Economic Analysis Balance of Payments and Direct Investment Position Data U.S. Direct Investment Position Abroad on a Historical-Cost Basis By Country only (all countries) (Millions of Dollars)
Host country's FDI in the United States <i>(Millions U.S. Dollars, stock positions)</i>	N/A	N/A	2011	\$2 million	(BEA) click selections to reach Balance of Payments and Direct Investment Position Data Foreign Direct Investment Position in the United States on a Historical-Cost Basis By Country only (all countries) (Millions of Dollars)
Total inbound stock of FDI as % host GDP	2011	19%	2012	18%	UNCTAD, World Bank

<i>(calculate)</i>					
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The GOTL only has data up to 2011 and has yet to publish any data for 2012-2013. Data on U.S. FDI in Timor-Leste and Timor-Leste FDI in the U.S. is not available.

Total Stock of FDI in U.S. Dollars (source: Central Bank of Timor-Leste)

- 2008 - 70.8 million
- 2009 - 119.3 million
- 2010 - 147.8 million
- 2011 - 196.1 million
- 2012 - 214.9 million
- 2013 - 233.5 million

TABLE 3: Sources and Destination of FDI

Data unavailable.

TABLE 4: Sources of Portfolio Investment

Data unavailable.

19. Contact Point at Post

NAME Shawn Baxter

TITLE Political and Economic Chief

ADDRESS OF MISSION/AIT Av. De Portugal, Praia dos Coqueiros, Dili, Timor-Leste

TELEPHONE NUMBER +670 332-4684 ext. 2146

EMAIL ADDRESS BaxterGS@state.gov