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Executive Summary

Thirteen 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 gradually begun to improve. Economic growth rates have been consistently strong as the country’s prospects have trended upward. However, despite some 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 five, eight, or ten year tax exemptions 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 is creating a Special Economic Zone in the exclave district of Oecusse.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

As Southeast Asia’s youngest country, Timor-Leste is attempting to establish effective and comprehensive legislative, executive, and judicial institutions, draft laws and regulations, and build government personnel capacity. Although instability and periods of violent upheaval marked the early part of the country’s history, Timor-Leste has been generally 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 is to use the country’s petroleum revenue to support non-petroleum economic development and become a middle-income country by 2030.

The Government of Timor-Leste has contracted with foreign firms to explore for and develop offshore oil and gas deposits; royalties and taxes are deposited in a sovereign Petroleum Fund, which held more than USD 16.5 billion in December 2014. The vast majority of government expenditure is funded by withdrawals from the Petroleum Fund. Outside the oil and gas sector, government spending, small-scale retail activity, and subsistence agriculture are primary sources of employment and contributors to Gross Domestic Product. 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 provide employment for new labor market entrants.

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 Government of Timor-Leste is starting to
fund more public services and larger public works projects. Other than the oil and gas sector, 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 Foreign Direct Investment**

The Timorese legal system 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 systems. 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. In accordance with Article 30 of the Private Investment Law, the Government of Timor-Leste announced the establishment of a one-stop-shop for investment and export promotion on January 5, 2015. The Specialized Investment Agency of Timor-Leste was established by decree law (no. 34/2014) to replace TradeInvest Timor-Leste. The Specialized Investment Agency (in Portuguese Agência Especializada de Investimento, AEI), is charged with attracting private investments and promoting exports. Specifically, AEI is required to produce six reports on the opportunities for private sector investment in Timor-Leste, serve as the liaison for private investors, and make foreign-trade related economic and financial policy recommendations to the Government of Timor-Leste.

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 works 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 Promotion**

Foreign investments in natural gas and oil, minerals, 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 Oecussi Special Economic Zone (ZEESM) Project. The government is still in the planning stages for these projects which have yet to be fully implemented but receive annual appropriations.

**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 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**

The Specialized Investment Agency of Timor-Leste reviews foreign investment applications which are then presented to the Private Investment Commission for further study and evaluation. The President of the Specialized Investment Agency chairs the Private Investment Commission which is composed of director generals or equivalent from the relevant government ministries in the areas of taxation, customs, land and properties, economic activities of licensing, professional training, labor, immigration, building and housing, territorial planning and the environment. Other ad-hoc members may also be called upon to be present during the meeting.

The Private Investment Commission evaluates applications for foreign investment permits, verifying the following:

a) Compliance of the application with requirements established in the National Development Plan, in the Procedural Regulation for Foreign Investment and other applicable legislation;

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

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

d) Positive operational balance of the business, according to the project proposal;
e) Environmental, infrastructural, and social implications which could condition the viability of the enterprise or that can result from its implementation;

f) Conditions for:
   i. Guaranteeing availability of necessary land for installation and functioning of the investment enterprise;
   ii. Ensuring consistency of the expected new jobs to be created in the short and medium term;
   iii. Establishing interconnection with other economic sectors.

The Specialized Investment Agency of Timor-Leste can issue a certificate of investment to projects approved by the Private Investment Commission that are valued at less than USD 20 million. Investments of more than USD 20 million or that require more than 5 hectares of state land for tourism or 100 hectares of state land for agriculture, livestock, or forestry require approval from the Council of Ministers. Investors can also request a Special Investment Agreement, through the Specialized Investment Agency, prior to submitting the project to the Council of Ministers for approval. According to the Specialized Investment Agency’s website, application fees are USD 500 for national investors and USD 2,000 for international investors, and investment decisions are issued within 30 days.

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 USD 1.5 million.

**Competition Law**

Timor-Leste does not have a Competition Law.

**Investment Trends**

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. While diminished projections about the remaining oil and gas reserves have left some investors concerned, the government is focused on developing the non-petroleum economy. Businesses remain cautiously optimistic and see many opportunities in Timor-Leste, despite business climate challenges. The government has made great strides in streamlining bureaucracy to make establishing business in Timor-Leste easier for both local and foreign investors. The government is using tax incentives to woo foreign companies. After signing a USD 40 million formal investment agreement with the Government of Timor-Leste, the CEO of Heineken Asia Pacific told the press that key factors in the decision to invest were the ease of negotiating with the government, tax incentives, and the long-term leasing arrangement.
Table 1

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<td>2013</td>
<td>USD 3,940</td>
<td>data.worldbank.org/indicator/NY.GNP.PCAP.CD</td>
</tr>
</tbody>
</table>

Millennium Challenge Corporation Country Scorecard

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 per capita gross national income (GNI) or USD 4,125 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/pages/docs/doc/report-guide-to-the-indicators-and-the-selection-process-fy-2015.

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 USD 5,000 and requires explicit authorization for sums in excess of USD 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. American citizens must have a tax identification number that demonstrates residency in Timor-Leste in order to maintain an individual bank account.

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 a separate 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 proper 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 -- are still evolving and short-staffed. Until October 2014, when Timor-Leste's Parliament voted to dismiss all foreign judges, prosecutors, and advisors from the judiciary, the government relied upon significant numbers of foreign experts and advisors to augment local resources. The government is currently studying how to administer the judicial sector in the wake of these dismissals but in the interim legal processes in the country have been severely adversely effected.

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. However, courts currently operate only in four of the thirteen districts and most cases at the local level are handled through traditional courts. 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; however, one U.S. oil company has successfully argued tax cases against the government in Dili District Court.

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 are not always properly equipped for 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.

International Arbitration

In 2013, the Government of Timor-Leste took Australia to international arbitration seeking to nullify the 2006 Treaty on Certain Maritime Arrangements in the Timor Sea (CMATS). Timor-
Leste maintains that the boundaries are incompatible with international standards. In October 2014 the two countries agreed to defer arbitration in favor of a six-month period of bilateral negotiations. By the conclusion of that period an agreement had still not been reached through both sides seem willing to continue negotiating.

**ICSID Convention and New York Convention**

Timor-Leste is a member state to the International Centre for Settlement of Investment Disputes (ICSID Convention). It is not signatory party to the convention of the Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention). Timor-Leste’s Court of Appeals must first 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**

**WTO/TRIMS**

Timor-Leste is not a member of the World Trade Organization (WTO), and therefore does not adhere to the WTO’s Trade Related Investment Measures (TRIMS).

**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 USD 50,000 and foreign investments of over USD 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 the Specialized Investment Agency 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 currently require investors to fulfill domestic content requirements; however, 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.

At least one member of the board of directors of a company or organization has to be a permanent resident 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.

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

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 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.

**Resources for Rights Holders**

Information not available.

### 8. Transparency of the Regulatory System

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.

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 generally 12 months.

Parliament and parliamentary committees regularly hold hearings about and debates on proposed laws. For certain major legislation, the government holds limited public consultations or solicits public comment.
9. Efficient Capital Markets and Portfolio Investment

Information not available.

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 USD 176.7 million as of December 2014. The overall non-performing loan rate was 47.4 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 USD 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 will 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 aspects, including air navigation.

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 Organization of Economic Cooperation and Development (OECD) guidelines on Corporate Governance of State Owned Enterprises (SOEs). Line ministers supervise SOEs but independent boards of directors administer 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 revenues 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's 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 online. As of December 2014 Petroleum Fund assets stood at USD 16.5 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). In 2012, the Sovereign Wealth Institute rated the Petroleum Fund as 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). Recent budgets have exceeded the annual ceiling; with the approval of Parliament, however, budgets have rarely been fully executed, returning up to one-third of the budget to the government coffers.

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 relevant 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.

OECD Guidelines for Multinational Enterprises

Timor-Leste has not adhered to the Organization of Economic Cooperation and Development (OECD) guidelines for Multinational Enterprises.

12. Political Violence

Under an agreement between the United Nations, Portugal, and Indonesia, a popular consultation was held in August 30, 1999 to allow the Timorese to vote on whether to remain part of Indonesia or to become independent. The majority chose independence; Timorese militias organized and, supported by the Indonesian military commenced a campaign of retribution. Approximately 1,300 Timorese were killed and as many as 300,000 people were forcibly relocated into West Timor as refugees. The majority of the country's infrastructure, including homes, irrigation systems, water supply systems, and schools, and nearly 100 percent of the country's electrical grid were destroyed. On September 20, 1999, at the request of the Timorese government, Australia led a deployment of peacekeeping troops (the International Force for East Timor, INTERFET), which brought the violence to an end.

After almost three years of UN administration, Timor-Leste became a fully independent republic with a parliamentary form of government on May 20, 2002. UN peacekeepers departed in 2005, leaving a special political mission in its stead. In 2006, however, civil order collapsed. In late May, 2006, the Government of Timor-Leste urgently requested police and military assistance from Australia, New Zealand, Malaysia, and Portugal. In August 2006, the UN Security Council passed Resolution 1704, creating the United Nations Integrated Mission in Timor-Leste (UNMIT). UNMIT’s mandate was to assist in restoring stability, rebuilding security sector institutions, supporting the Government of Timor-Leste to conduct the 2007 presidential and parliamentary elections, and achieving accountability for crimes against humanity and other atrocities committed in 1999. An Australian-led International Stabilization Force (ISF) supported UNMIT’s mission. Timor-Leste held free, fair, and largely peaceful presidential and parliamentary elections in 2007. Nobel Peace Prize Laureate Jose Ramos-Horta assumed the Presidency, while former guerilla leader and outgoing president Kay Rala Xanana Gusmao became Prime Minister.

In February 2008, followers of a fugitive former military police commander attacked President Ramos-Horta, who sustained gunshot injuries. Prime Minister Gusmao escaped unharmed in a separate attack against him the same day. The government, with the approval of Parliament, imposed a state of siege that temporarily imposed a curfew, curtailed freedom of assembly, and gave security forces greater latitude for arrests and searches. These emergency measures were scaled back as conditions stabilized over the following weeks. The state of emergency was lifted.
completely when the remainder of the rebels surrendered to authorities in April 2008. Most of them were convicted in March 2010 for their involvement in the assassination attempt; the President commuted their sentences later that year.

Since 2008, the government has succeeded in restoring calm and maintaining stability throughout the country. National elections for president and parliament in 2012 were peaceful, free, and fair. UNMIT and the ISF departed from Timor-Leste at the end of 2012.

13. Corruption

Transparency International ranks Timor-Leste at 133 out of 177 countries on its Corruption Perceptions Index but the Government of Timor-Leste is taking some 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; however she was pardoned by the President in August 2014.

The government is working to establish internal discipline and performance standards. The 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.

UN Anticorruption Convention, OECD Convention on Combating 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.

Resources to Report Corruption

Anti-Corruption Commission of Timor-Leste
Rua Sergio Vieira de Mello
Farol
Dili, Timor-Leste
Phone: +670 7305564; +670 7326597; or +670 7326599
E-mail: keixa@cac.tl
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. Timor-Leste does not have a BIT 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.

Bilateral Taxation Treaties

Timor-Leste does not have a bilateral taxation treaty with the United States.

15. OPIC and Other Investment Insurance Programs

The 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. Ex-Im 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 USD 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
• International Covenant on Civil and Political Rights
• International Covenant on Economic, Social, and Cultural Rights and
• International Convention on the Protection of All Migrant Workers and Members of Their Families.

17. Foreign Trade Zones/Free Ports/Trade Facilitation

There are no foreign trade zones in Timor-Leste. The National Parliament approved a law (no. 3/2014) to define and regulate a free trade zone in the exclave district of Oecusse called the Special Zone for Social Market Economy (ZEESM). According to the law, ZEESM will "prioritize activities of a socioeconomic nature to promote the quality of life and well-being of the community, namely:
• Development of commercial agriculture;
• Creation of an ethical financial center;
• Creation of a free trade zone;
• Increased tourism;
• Creation of a center for international studies and research on climate change;
• Creation of a center of green research;
• Implement and develop industrial activities, for export and import;
• Other economic activities that add value for the Region, as well as strengthening its international competitiveness."
18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

*Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy*

<table>
<thead>
<tr>
<th>Economic Data</th>
<th>Year</th>
<th>Amount</th>
<th>Year</th>
<th>Amount</th>
<th>Source</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Foreign Direct Investment</th>
<th>Host Country Statistical source*</th>
<th>USG or international statistical source</th>
<th>USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. FDI in partner country ($M USD, stock positions)</td>
<td>N/A</td>
<td>N/A</td>
<td>2013 10 BEA</td>
</tr>
<tr>
<td>Host country’s FDI in the United States ($M USD, stock positions)</td>
<td>N/A</td>
<td>N/A</td>
<td>2013 0 BEA</td>
</tr>
<tr>
<td>Total inbound stock of FDI as % host GDP</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A N/A</td>
</tr>
</tbody>
</table>

*Official FDI statistics not available.*
Table 3: Sources and Destination of FDI

IMF Coordinated Direct Investment Survey data are not available for Timor-Leste.

Table 4: Sources of Portfolio Investment

IMF Coordinated Portfolio Investment Survey data are not available for Timor-Leste.

19. Contact for More Information

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