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Statement by the Hon. **EMILIA PIRES**,
Governor of the Bank and the Fund
For the **DEMOCRATIC REPUBLIC OF TIMOR-LESTE**

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SPEECH

HON. EMILIA PIRES
Minister of Finance
Democratic Republic of Timor-Leste

Fellow Governors,
Government Ministers,
Distinguished guests,
Ladies and gentlemen.

I am honored to be here at the World Bank and International Monetary Fund Annual Meeting to update both my colleagues from around the globe and my colleagues from these two pivotal institutions, the World Bank and the International Monetary Fund, that bring us together each year.

This year has been a year of historical context, when I believe the developing and the developed, while from vastly different contexts, are merging to meet many of the same challenges. The g20 agricultural Ministers were brought together for the first time to discuss food insecurity, land rights and use and increased productivity, a common theme in the developing world. Much of the Euro zone is in debt crisis with budget deficits set to worsen not unlike many fragile and post conflict nations. People around the world are insecure about their livelihoods given the pressure from economic forecasts and looming financial conditions. There is no disparity between People's will for a secure livelihood in any part of the world.

Last year, I broached the topic of the necessity of collectivism in facing these challenges as a global community. Even though Timor-Leste is one of the smallest nations in the world, I believe we were able to contribute to the value of collectivism in 2011. In August, Timor-Leste hosted the **Extractive Industry Transparency Initiative Conference; Beyond the EITI**, bringing together 28 countries. This marked the launch of the Timor-Leste Transparency Model, five pillars which extend the principles of EITI for better, more inclusive, resource management. Timor-Leste was able to begin the global dialogue on how the EITI principles can be expanded to a 360-degree value chain of fiscal accountability, promoting good governance and better results for the People of resource rich countries.

Timor-Leste was only the third country in the world to become EITI compliant. For a nation like Timor-Leste, that is highly dependent on natural resources to fund future economic growth and human development, these initiatives were considered vital. Today, the nations reaching compliance has grown ten-fold, both developing and developed, standing collectively on the issue of transparent regulations, and strong, open and accountable governance in resource management.

If we can reach this milestone in resource management, there is no doubt we can reach a level of consensus on transparent global fiscal and economic policies which affect us all as interconnected borders, regions and continents.

2011 marked the launch of Timor-Leste's Strategic Development Plan (SDP) 2011-2030, outlining the policies to transform Timor-Leste into an upper middle income country with a healthy, educated and secure population by 2030. However; if the IMF sees the euro zone debt crisis as a trigger for overheating emerging market economies, Timor-Leste's experience tells us, yes, this is a valid

concern. While Timor-Leste is not an emerging economy, it is an economy that is growing exponentially due to its life span, oil wealth and strategic plans.

As we invest into our own economy, importing both materials and labour for infrastructure works while also investing into our own human capacity to reduce the reliance on foreign experts and exports, we are feeling the fiscal pressure of domestic inflation. Add drivers like increases in international food prices, depreciation of the US Dollar and increases in recurrent expenditure and we faced a dramatic increase in domestic inflation to 12.4% by June 2011. This compels us to continually review fiscal policy and monitor closely our accelerated growth and planning.

Given these factors and others, Timor-Leste has taken the necessary steps to diversify the Petroleum Fund with an investment policy better aligned to the fiscal policy and Timor-Leste's nation building program. The amended legislation passed by National Parliament on August 23, 2011 strengthens the already internationally acclaimed governance framework embedded in the architecture of the original 2005 law. A key change in the amended law was to apply the fundamental financial market principle of diversification. The Petroleum Fund Law now allows for investment instruments other than US Government bonds and hopefully, increasing the share of equities will increase the expected long-term return. The law now allows 50% of the fund to be invested in equities and other asset classes rather than the conservative 10% as per the former mandate in the law.

Having successfully reformed much of the public finance management system, confidence in capacity has increased with positive results; increased budget execution, increased tax collection and compliance, increased decentralization and increased automation with transparency and accountability at the forefront of the reforms. This year, the **Timor-Leste Transparency Portal** was launched which

made the State Budget on-line for all to analyze, study and explore as well as the **e-Procurement Portal**. By January 2012, the e-Procurement Portal will be on-line for equality, fairness and anti-graft assurances. In all, four on-line portals will be available to the public in 2012 including the aid portal and the results portal which will show the outcomes of State expenditure.

Although Timor-Leste's challenges remain vast, last year at the 2010 Annual Meeting, we reported the Petroleum Fund was US\$6,592 billion, averaging a return of US\$138 million per month from oil and gas revenues with a forecast of US\$150 million per month for 2011 or \$8.7 billion by year end. The Petroleum Fund balance as of 2 September, 2011 reached \$8.8 billion with an actual average of \$176.4 million per month. Prudently managed, the Petroleum Fund will be an enabling tool to transform the nation's non-oil economy, build the necessary basic and core infrastructure for private sector growth and also begin the arduous task of educating our People so they may take their chosen path in the course of Statebuilding.

With these measures, Timor-Leste has proudly been able to go into the second year leading the G7+, seventeen fragile and post conflict countries including Afghanistan, Burundi, Central African Republic, Chad, Democratic Republic of Congo, Ethiopia, Guinea Bissau, Haiti, Ivory Coast, Liberia, Nepal, Papua New Guinea, Sierra Leone, Solomon Islands, Somalia, South Sudan, and Timor-Leste. Together, these nations have consolidated a united voice, with a focus in 2011 on identifying Peacebuilding and Statebuilding Goals (PSG's) as a prerequisite to achieving the Millennium Development Goals. Timor-Leste continues to co-chair the International Dialogue with the Netherlands, promoting the Peacebuilding and Statebuilding agenda with global organizations, development partners and partner countries to ensure the voice of the post conflict and fragile nations gets heard with one message and a future vision for the betterment of our People.

In closing, Timor-Leste, as one of the world's newest nations, still only a decade long in its nation-building cycle continues on an upward trajectory. The United Nations is now preparing for withdrawal following consecutive years of calm and stability since 2007.

With elections slated for 2012, we are confident in the strengthened abilities and reforms to the State and its Institutions that democratic principles will prevail, the nation will stay on course and Timor-Leste will maintain its strategic plan for a future of peace and prosperity for its citizens.

Thank you.