

# Timor-Leste

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RISK & COMPLIANCE REPORT

DATE: January 2017

<b>Executive Summary - Timor Leste</b>	
<b>Sanctions:</b>	None
<b>FAFT list of AML Deficient Countries</b>	No
<b>Higher Risk Areas:</b>	Compliance with FATF 40 + 9 Recommendations Not on EU White list equivalent jurisdictions Corruption Index (Transparency International & W.G.I.) World Governance Indicators (Average Score) Failed States Index (Political Issues)(Average Score)
<b>Medium Risk Areas</b>	Weakness in Government Legislation to combat Money Laundering
<p><b>Major Investment Areas:</b></p> <p><b>Agriculture - products:</b>            coffee, rice, corn, cassava (manioc), sweet potatoes, soybeans, cabbage, mangoes, bananas, vanilla</p> <p><b>Industries:</b>            printing, soap manufacturing, handicrafts, woven cloth</p> <p><b>Exports - commodities:</b>            oil, coffee, sandalwood, marble            note: potential for vanilla exports</p> <p><b>Imports - commodities:</b>            food, gasoline, kerosene, machinery</p>	
<p><b>Investment Restrictions:</b></p> <p>Government of Timor-Leste policy welcomes foreign direct investment. It has contracted with foreign firms to explore for and develop offshore oil and gas deposits</p> <p>Foreign investors may invest in all sectors that are not specifically reserved to the State (such as postal services, public communications, protected natural areas, and weapons</p>	

production and distribution) or otherwise restricted by law (such as criminal and immoral activities).

Only Timorese nationals, either individuals or corporate entities, have the right to private land ownership; foreigners may conclude long-term (up to 50-year) leases.

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## Section 1 - Background

The Portuguese began to trade with the island of Timor in the early 16th century and colonized it in mid-century. Skirmishing with the Dutch in the region eventually resulted in an 1859 treaty in which Portugal ceded the western portion of the island. Imperial Japan occupied Portuguese Timor from 1942 to 1945, but Portugal resumed colonial authority after the Japanese defeat in World War II. East Timor declared itself independent from Portugal on 28 November 1975 and was invaded and occupied by Indonesian forces nine days later. It was incorporated into Indonesia in July 1976 as the province of Timor Timur (East Timor). An unsuccessful campaign of pacification followed over the next two decades, during which an estimated 100,000 to 250,000 individuals lost their lives. On 30 August 1999, in a UN-supervised popular referendum, an overwhelming majority of the people of Timor-Leste voted for independence from Indonesia. However, in the next three weeks, anti-independence Timorese militias - organized and supported by the Indonesian military - commenced a large-scale, scorched-earth campaign of retribution. The militias killed approximately 1,400 Timorese and forcibly pushed 300,000 people into western Timor as refugees. Most of the country's infrastructure, including homes, irrigation systems, water supply systems, and schools, and nearly 100% of the country's electrical grid were destroyed. On 20 September 1999, Australian-led peacekeeping troops deployed to the country and brought the violence to an end. On 20 May 2002, Timor-Leste was internationally recognized as an independent state. In 2006, internal tensions threatened the new nation's security when a military strike led to violence and a breakdown of law and order. At Dili's request, an Australian-led International Stabilization Force (ISF) deployed to Timor-Leste, and the UN Security Council established the UN Integrated Mission in Timor-Leste (UNMIT), which included an authorized police presence of over 1,600 personnel. The ISF and UNMIT restored stability, allowing for presidential and parliamentary elections in 2007 in a largely peaceful atmosphere. In February 2008, a rebel group staged an unsuccessful attack against the president and prime minister. The ringleader was killed in the attack, and most of the rebels surrendered in April 2008. Since the attack, the government has enjoyed one of its longest periods of post-independence stability, including successful 2012 elections for both the parliament and president. In late 2012, the UN Security Council voted to end its peacekeeping mission in Timor-Leste and both the ISF and UNMIT departed the country by the end of the year.



## Section 2 - Anti – Money Laundering / Terrorist Financing

### FATF status

Timor-Leste is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

### Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Timor-Leste was undertaken by the Financial Action Task Force (FATF) in 2012. According to that Evaluation, Timor-Leste was deemed Compliant for 1 and Largely Compliant for 14 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for 4 of the 6 Core Recommendations.

### Key Findings from latest Mutual Evaluation Report (2012):

While Timor-Leste has not conducted a national risk assessment, independent assessments make it clear that Timor-Leste is vulnerable as a target for organised crime smuggling and potentially terrorist activities, particularly given that the economy is 'dollarised' and cash-based, providing an attractive environment for the placement and layering of funds. The risks are intensified given controls at the land border with Indonesia are weak as are the maritime border controls in respect to the cross border movement of currency, goods and/or persons. In this environment, assessments suggest that the majority of proceeds of crime could stem from corruption, tax avoidance, smuggling, human trafficking, counterfeiting of currency, illegal gambling and prostitution.

Money laundering (ML) and terrorist financing (FT) have been autonomous offences in Timor-Leste since 2009. Timor-Leste has had no prosecutions or convictions for ML or FT. Three investigations in relation to ML are currently underway.

A significant and positive development for Timor-Leste's AML/CFT regime was the passage in December 2011 of a new AML/CFT Law, Law n° 17/2011. The AML/CFT Law greatly expands and deepens the AML/CFT measures that were previously only provided in regulation. The law allows for preventative measures including customer due diligence (CDD) and suspicious transaction reporting,(STR) as well as a proper legal basis to establish a financial intelligence unit (FIU) within the Central Bank of Timor-Leste (BCTL). The practical establishment of the FIU and supervision of new regulatory requirements have yet to occur and it is, overall, too early to assess the implementation of this nascent AML/CFT regime.

Timor-Leste plans to develop a comprehensive National AML/CFT Strategy in keeping with national priorities. Plans are underway to promote implementation of the new regime,

including developing and updating on-site examinations manuals and procedures for financial institutions as well as provide additional training for supervisors.

## US Department of State Money Laundering assessment (INCSR)

Timor-Leste was deemed a 'Monitored' Jurisdiction by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

### Perceived Risks:

Timor-Leste is not a regional or offshore financial center and has no free trade zones. The economy is cash-based, and the Ministry of Finance estimates only 1.3 percent of Timorese regularly use banking facilities. The national economy heavily depends on government spending financed by petroleum and natural gas revenues, supplemented by assistance from international donors. The private sector is small, concentrated in the service and retail sectors.

All three major banks in Timor-Leste are branches of foreign banks, chartered in Australia, Portugal, and Indonesia, and are subject to the reporting requirements of their home jurisdictions. In 2011, the Timorese government created a commercial bank, which focuses primarily on microfinance and financial inclusion. Together with the Portuguese bank, it accounts for approximately 90 percent of the depositors in the country. The government remains committed to the creation of a development and investment bank, expected to have partial foreign ownership.

Weak controls at the land border with Indonesia and even weaker maritime border controls make Timor-Leste vulnerable to smuggling, organized crime, and terrorist activities. Drugs, including methamphetamines and cocaine, have been seized in the country, though narcotics trafficking is not considered a significant source of illegal proceeds. Nevertheless, Timor-Leste is a transshipment point for drug traffickers, which suggests illegal proceeds would probably be discovered were it not for the inadequacy of reporting and data systems that makes it difficult to track cross-border activities.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

### CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: Combination approach  
Are legal persons covered: criminally: YES civilly: NO

### KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: NO Domestic: YES  
KYC covered entities: Banks, microfinance institutions, money exchanges and remitters, insurance

companies and brokers, casinos, financial and real estate service providers, accountants, auditors, and financial consultants

**REPORTING REQUIREMENTS:**

Number of STRs received and time frame: 39 in 2015

Number of CTRs received and time frame: Not applicable

STR covered entities: Banks, microfinance institutions, money exchanges and remitters, insurance companies and brokers, casinos, financial and real estate service providers, accountants, auditors, and financial consultants

**MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:**

Prosecutions: 1 in 2015

Convictions: 0 in 2015

**RECORDS EXCHANGE MECHANISM:**

With U.S.: MLAT: NO Other mechanism: YES

With other governments/jurisdictions: YES

Timor-Leste is a member of the Asia/Pacific Group on Money Laundering (APG), a FATF-style regional body.

**ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:**

The Government of Timor-Leste lacks critical technical and human capacity in the justice sector, making it difficult to enforce adequately the laws that are in place. In 2013, Parliament remedied the deficiencies in its 2011 AML/CFT law with the passage of a package of amendments, including specific reporting requirements for suspicious transactions and know-your-customer rules. In 2014, a financial intelligence unit was established.

Customer due diligence and reporting procedures have been implemented in banks, microfinance institutions, insurance companies, money transfer operators, and currency exchange bureaus. Securities brokers, casinos, real estate intermediaries, accountants, auditors, and financial consultants do not have a supervisory body responsible for the implementation of KYC and reporting procedures.

The law mandates cooperation between relevant Timorese authorities and competent foreign authorities. However, the details of that cooperation are not specified. Many of the particulars involved with the implementation of the law are contained in a long-pending Decree Law and enabling instructions.

On May 27, 2014, Timor-Leste became a party to the UN International Convention for the Suppression of the Financing of Terrorism. On June 3, 2014, Timor-Leste became a party to the 1988 UN Drug Convention.

The government should continue to raise the capacity of its supervisory, enforcement, and prosecutorial entities to ensure its laws are effectively implemented and it is able to pursue money laundering or terrorist financing cases through to successful prosecutions. Timor-Leste also should ensure reporting and KYC provisions are enforced in all appropriate entities.



### **US State Dept Narcotics Report 2016 (introduction):**

Timor-Leste remains a minor market for illegal drugs, but international trafficking networks appear to be increasingly exploiting the country as a transshipment zone. Timorese authorities and international observers believe that drug couriers are taking advantage of Timor-Leste's porous borders and insufficient law enforcement capacities to transport illegal narcotics through Timor-Leste to Indonesia and elsewhere in the region. According to Timorese officials, the bulk of drugs transiting their way to Indonesia are an unknown quantity of methamphetamine, heroin, marijuana and cocaine. The Timorese government is aware of the problem and is trying to enhance its counternarcotic capabilities in the face of significant challenges.

Timor-Leste is a prime target for development of drug trafficking due to its strategic location near key countries like Indonesia, China, Thailand, Australia, and New Zealand. Existing data collection efforts are insufficient to accurately measure the scope of drug trafficking throughout the country.

According to available information, there is little, if any, organic narcotics production in Timor-Leste. Methamphetamine precursor chemicals pseudo-ephedrine and ephedrine are readily available in numerous Dili pharmacies and there is no purchase limit, nor any requirement for customer information at the time of purchase.

### **Corruption**

As a matter of policy, the Government of Timor-Leste does not encourage or facilitate illicit drug production or distribution, nor is there any evidence that it is involved in laundering the proceeds of the sale of illicit drugs. In 2009, the Timorese National Parliament approved the creation of an Anti-Corruption Commission. The government has also taken steps to develop the legislative framework necessary to combat corruption, and an anticorruption law is currently pending before the National Parliament. However, the application and enforcement of legislation is hampered by limited institutional capacity. Weak institutions, high levels of poverty, large public spending, and the dominance of a cash economy have contributed to a growing concern about corruption. Allegations of potential involvement of security personnel in illegal activities raise the risk that elements of the security services could be co-opted by narcotics traffickers.

### **US State Dept Trafficking in Persons Report 2014 (introduction):**

Timor-Leste is classified a Tier 2 (watch list) country - a country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

Timor-Leste is a source and destination country for men, women, and children subjected to forced labor and sex trafficking. Timor-Leste may be a source for women and girls sent to

India, Singapore, and other countries in Southeast Asia and the Middle East for domestic servitude. Timorese women and girls from rural areas may be lured to the capital with the promise of better employment prospects and then forced into prostitution or domestic servitude. Timorese family members place children in bonded domestic and agricultural labor in order to pay off family debts. Foreign migrant women, including those from Indonesia, China, and the Philippines, are subjected to sex trafficking in Timor-Leste. Some foreign migrant women are recruited for legitimate work in their respective countries, but after their arrival are reportedly forced by brothel "bosses" and clients to use drugs or alcohol and to provide sexual services. Traffickers allegedly retain the passports of victims, and rotate sex trafficking victims in and out of the country every few months. Transnational traffickers may be members of Indonesian or Chinese organized crime syndicates. According to some NGOs, men and boys from Burma, Cambodia, and Thailand are forced to work on foreign fishing boats operating in Timorese waters where they face conditions of confinement, no medical care, and malnutrition.

The Government of Timor-Leste does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. In November 2013, the government hosted a seminar with the Indonesian embassy on transnational crimes, which included trafficking in persons. Despite these measures, the government did not demonstrate evidence of overall increasing efforts to address human trafficking over the previous year; therefore, Timor-Leste is placed on Tier 2 Watch List. Long-awaited anti-trafficking legislation remained pending despite having been submitted to the Council of Ministers in early 2012. The government did not investigate or prosecute any trafficking offenses or convict any traffickers. The government allocated funding to an NGO shelter to assist trafficking victims; however, the NGO did not expend those funds for that purpose because the government did not identify or refer any victims to these services. The government's victim identification efforts remained inadequate, and law enforcement officials received limited training to address this gap.

## International Sanctions

None Applicable

## Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	35
World Governance Indicator – Control of Corruption	27

## Corruption and Government Transparency - Report by US State Department

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.

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.

### Current Weaknesses in Government Legislation (INCRS Comparative Tables):

According to the US State Department, Timor-Leste does not conform with regard to the following government legislation: -

**Record Large Transactions** - By law or regulation, banks are required to maintain records of large transactions in currency or other monetary instruments.

**Arrangements for Asset Sharing** - By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

**States Party to UN 1988 Convention** - States parties to the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, or a territorial entity to which the application of the Convention has been extended by a party to the Convention.

**International Terrorism Financing Convention** - States parties to the International Convention for the Suppression of the Financing of Terrorism, or a territorial entity to which the application of the Convention has been extended by a party to the Convention.

### EU White list of Equivalent Jurisdictions

Timor-Leste is not currently on the EU White list of Equivalent Jurisdictions

### World Governance indicators

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

### Failed States Index

[To view Failed States Index Ctrl + Click here](#)

### Offshore Financial Centre

Timor Leste is not considered to be an Offshore Financial Centre

## Section 3 - Economy

Since its 1999 independence, Timor-Leste has faced great challenges in rebuilding its infrastructure, strengthening the civil administration, and generating jobs for young people entering the work force. The development of oil and gas resources in offshore waters has greatly supplemented government revenues. This technology-intensive industry, however, has done little to create jobs for the unemployed in part because there are no production facilities in Timor-Leste. Gas is piped to Australia. In June 2005, the National Parliament unanimously approved the creation of a Petroleum Fund to serve as a repository for all petroleum revenues and to preserve the value of Timor-Leste's petroleum wealth for future generations. The Fund held assets of US\$9.3 billion as of December 2011. The economy continues to recover from the mid-2006 outbreak of violence and civil unrest, which disrupted both private and public sector economic activity. Government spending increased markedly from 2009 through 2012, primarily on basic infrastructure, including electricity and roads. Limited experience in procurement and infrastructure building has hampered these projects. The underlying economic policy challenge the country faces remains how best to use oil-and-gas wealth to lift the non-oil economy onto a higher growth path and to reduce poverty. On the strength of its oil-wealth, the economy has achieved real growth between 8-12% per year for the last several years, among the highest sustained growth rates in the world.

### **Agriculture - products:**

coffee, rice, corn, cassava (manioc), sweet potatoes, soybeans, cabbage, mangoes, bananas, vanilla

### **Industries:**

printing, soap manufacturing, handicrafts, woven cloth

### **Exports - commodities:**

oil, coffee, sandalwood, marble

note: potential for vanilla exports

### **Imports - commodities:**

food, gasoline, kerosene, machinery

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

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
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](mailto:BaxterGS@state.gov) Local lawyers list: [http://timor-  
leste.usembassy.gov/service3/attorneys.html](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](http://www.opic.gov)). Potential U.S. investors and exporters are encouraged to contact the U.S. EXIM bank ([www.exim.gov](http://www.exim.gov)) and the United States Trade and Development Agency ([www.ustda.gov](http://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) (Millions U.S. Dollars)	2011	\$1.128 billion	2012	\$1.293 billion	<a href="http://www.worldbank.org/en/country">http://www.worldbank.org/en/country</a>
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 (Millions U.S. Dollars, stock positions)	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 (Millions)	N/A	N/A	2011	\$2 million	(BEA) click selections to reach

<i>U.S. Dollars, stock positions)</i>					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 <i>(calculate)</i>	2011	19%	2012	18%	UNCTAD, World Bank

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

## Section 5 - Government

### Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

### Legal system:

civil law system based on the Portuguese model; note - penal and civil law codes to replace the Indonesian codes were passed by Parliament and promulgated in 2009 and 2011, respectively

### International organization participation:

ACP, ADB, AOSIS, ARF, ASEAN (observer), CPLP, EITI (compliant country), FAO, G-77, IBRD, ICAO, ICRM, IDA, IFAD, IFC, IFRC, ILO, IMF, IMO, Interpol, IOC, IOM, IPU, ITU, MIGA, NAM, OPCW, PIF (observer), UN, UNCTAD, UNESCO, UNIDO, Union Latina, UNMISS, UNWTO, UPU, WCO, WHO, WMO

## Section 6 - Tax

### Exchange control

For more information - <http://timor-leste.gov.tl/?lang=en>

### Treaty and non-treaty withholding tax rates

For more information - <http://timor-leste.gov.tl/?lang=en>



## Methodology and Sources

### Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

### Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
<a href="#">FATF List of Countries identified with strategic AML deficiencies</a>	Not Listed	AML Deficient but Committed	High Risk
<a href="#">Compliance with FATF 40 + 9 recommendations</a>	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
<a href="#">US Dept of State Money Laundering assessment (INCSR)</a>	Monitored	Concern	Primary Concern
<a href="#">INCSR - Weakness in Government Legislation</a>	<2	2-4	5-20
<a href="#">US Sec of State supporter of / Safe Haven for International Terrorism</a>	No	Safe Haven for Terrorism	State Supporter of Terrorism
<a href="#">EU White list equivalent jurisdictions</a>	Yes		No
<a href="#">International Sanctions UN Sanctions / US Sanctions / EU Sanctions</a>	None	Arab League / Other	UN , EU or US
<a href="#">Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network</a>	>69%	35 – 69%	<35%
<a href="#">World government Indicators (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Failed States Index (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Offshore Finance Centre</a>	No		Yes

### **Section 3 - Economy**

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

### **Section 4 - Foreign Investment**

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

### **Section 5 - Government**

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

### **Section 6 - Tax**

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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