



Vote for FRETILIN!

2007 Parliamentary Elections

“Defending Timor-Leste’s independence”

Briefing paper for international journalists

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Timor-Leste Petroleum Fund: Eradicating the Myths

1 Background on Timor-Leste’s Petroleum Fund

The Petroleum Fund of Timor-Leste devised by the Government of Dr. Mari Alkatiri came into existence by the enactment of the Petroleum Fund Law Number 9/2005 promulgated in August 2005. The intention of the law is to have all payments of whatsoever form related to petroleum activities to be paid into the specially established Petroleum Fund. The Petroleum Fund will contribute to the wise management of the petroleum resources for the benefit of both current and future generations. The Petroleum Fund is a tool that contributes to sound fiscal policy, where appropriate consideration and weight is given to the long-term interests of Timor-Leste’s citizens.

One of its express aims is to maintain national spending from development separated from oil and gas income, thus avoiding what has been called “Dutch Disease”. It is not a substitute for sound fiscal management, but can help build public awareness and support for wise and long-term management of petroleum wealth, for the benefit of both current and future generations.

The challenge for Timor-Leste as with all other oil rich developing countries is to avoid the “oil curse” or “resource curse”. The experiences from these other developing oil producing countries give reason for the Timorese people to have serious concerns about a future with oil and gas receipts flowing in as it has in recent years, without the capacity of the national economy to absorb it into productive sectors. That would result in large amounts of public spending and consumption without any developed productive sector to replace the petroleum wealth.

In other words, the Petroleum Fund is at the heart of the FRETILIN government’s plans for the sustainable development of the nation’s economy.

2 Management of the Petroleum Fund

The Petroleum Fund is coherently integrated into the State Budget and gives a clear and reliable representation of the development of public finances as Timor-Leste develops. The Petroleum Fund is prudently managed and operated with the highest standards of transparency and accountability to the national parliament and the people of Timor-Leste.

The Government of Timor-Leste, represented by the Minister of Planning and Finance, is responsible for the overall management and investment strategy of the Petroleum Fund.

Article 11.3 of the Petroleum Fund law gives the responsibility to the Banking and Payments Authority (BPA) to undertake the operational management of the Fund under an agreement with the Minister. The BPA is an independent government agency established by law and is the forerunner to what will become Timor-Leste’s Central Bank. It already performs many of the functions of a central bank.

A Management Agreement between the BPA and the Ministry of Planning and Finance was signed in 2005.

To execute its responsibility, the BPA established the Petroleum Fund Management Department in August 2005. The Department is headed by an Executive Director accountable to the General Manager, and comprises an Investment Division with responsibility for investment management, and a Risk Management Division responsible for performance measurement and to monitor and manage risk. Other divisions of the BPA provide support for the Fund’s operations, including Accounting, Settlements, Information Technology and Internal Audit.

The BPA commenced Petroleum Fund operations in September 2005 after the Government transferred an opening balance of \$205 million. The mandate given to the BPA in the Management Agreement includes a requirement to passively manage the Fund close to a defined benchmark.

Details of the mandate and benchmark are in the Management Agreement and the Quarterly Reports. The portfolio is managed 100% internally within the BPA.

The BPA also provides the secretariat for the Investment Advisory Board, which is established in the Petroleum Fund law to provide the Minister with advice on the Fund's investment strategy.

To ensure transparency, the BPA submits Quarterly Reports on the performance of the Petroleum Fund to the Minister of Planning and Finance, with the reports being published within 40 days of the end of each quarter. The first report was published (Report No. 1) on 30 September 2005 and the latest report (Report No. 7) was published on 31 March 2007.

The publications of the reports are aimed at ensuring transparency, and all previous reports are available on the BPA's web site: www.bancocentral.tl The Petroleum Fund's Annual Report, which contains a more complete description of the Fund's activities and its audited financial statements, is published by the Ministry of Planning and Finance. These documents are all publicly available and published periodically.

3 Petroleum Fund Investment Advisory Board

The Investment Advisory Board (IAB) is established under the requirement of Article 16 of the Law No 9/2005 on the Petroleum Fund to provide strategic investment advice concerning the investments of the Petroleum Fund to the Minister of Planning and Finance. The responsibilities of the IAB are:

- developing for the Minister performance benchmarks of desired returns from, and appropriate risks of, the investments of the Petroleum Fund;
- advising the Minister on the investment instructions that the Minister shall provide to the Investment Managers of the Petroleum Fund appointed pursuant to Article 12;
- advising the Minister on the performance of the external Investment Managers and making recommendations to the Minister on the appointment or removal of external Investment Managers; and
- advising the Minister on the need for changes in the overall investment strategy or management of the Petroleum Fund, including the making of recommendations as to such changes.

The secretariat of the IAB is located at the BPA.

The Chairman of the Board is elected by its members to serve a one-year term and may be re-elected. The first Chairman was Mr. Abraão de Vasconcelos, General Manager of the BPA. He was re-elected for a second term in the Board meeting held in 19 January 2007.

The Petroleum Fund Law establishes the Board which is made up of the following persons:

- The Director of Treasury
- The Head of the Central Bank
- Two persons appointed by the Minister who have significant experience in investment management
- One other person appointed by the Minister

4 Petroleum Fund Consultative Council

The Petroleum Fund law establishes the Consultative Council as an independent oversight body; independent of both government and parliament.

This role of this independent Consultative Council to:

- advise Parliament on the operations of the Petroleum Fund
- act as a "watchdog" and contribute to informed public debate and sound management of petroleum wealth (it is mandated by law to consult widely, arrange consultation meetings)

The members are appointed by the different constitutional bodies; i.e. they are separately appointed by President, Parliament, Government and civil society. There are also positions in the Council for former

