

Timor-Leste

RISK & COMPLIANCE REPORT

DATE: March 2018

Executive Summary - Timor Leste	
Sanctions:	None
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	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)
Medium Risk Areas	US Dept of State Money Laundering assessment Weakness in Government Legislation to combat Money Laundering
<p>Major Investment Areas:</p> <p>Agriculture - products:</p> <p>coffee, rice, corn, cassava (manioc), sweet potatoes, soybeans, cabbage, mangoes, bananas, vanilla</p> <p>Industries:</p> <p>printing, soap manufacturing, handicrafts, woven cloth</p> <p>Exports - commodities:</p> <p>oil, coffee, sandalwood, marble</p> <p>note: potential for vanilla exports</p> <p>Imports - commodities:</p> <p>food, gasoline, kerosene, machinery</p>	
<p>Investment Restrictions:</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 is no longer categorised by the US State Department as a Country/Jurisdiction of Primary Concern in respect of Money Laundering and Financial Crimes. The last report released in 2017 is as follows: -

OVERVIEW

Timor-Leste is a small economy, with limited data available regarding illicit funds and limited awareness, even by stakeholders, of money laundering issues. The most prevalent source of illicit proceeds is corruption, which a recent assessment described as “endemic” in the public sector. Capacity is low in government entities that supervise, enforce, and investigate suspicious financial transactions. The government has committed to increasing that capacity, as well as increasing awareness among the public and private sectors.

In 2016, Timor-Leste published its first National Risk Assessment of Money Laundering and Terrorist Financing (NRA) and adopted a National Action Plan (NAP) to address the areas of concern identified in the NRA.

VULNERABILITIES AND EXPECTED TYPOLOGIES

There are no reliable estimates for the amount of illicit funds in Timor-Leste or the ways in which money is laundered. Most experts agree that corruption is the largest source of criminal proceeds in the country, and the NRA identifies tax evasion, drug trafficking, fraud, and trafficking in persons as other potential areas of concern. Timor-Leste is not a regional or offshore financial center and has no FTZs. The economy is primarily cash-based, with only approximately 45 percent of the adult population having access to financial services. There are only four commercial banks in country, three of which are branches of foreign banks chartered in Australia, Portugal, and Indonesia and subject to the reporting requirements of those jurisdictions.

Capacity to investigate money laundering in Timor-Leste is low, and most investigations focus on the predicate offenses. Authorities are aware that building capacity in this area is crucial and have prioritized capacity-building for law enforcement, judiciary, the Central Bank, and the FIU in order to combat money laundering.

The NRA identifies the primarily cash economy, the use of the U.S. dollar, and the unregulated flow of cash across the borders as the primary vulnerabilities that might make Timor-Leste an attractive location for money laundering and financial crimes.

KEY AML LAWS AND REGULATIONS

The Government of Timor-Leste adopted an AML law in 2011 (Law no. 17/2011), which

Parliament amended in 2013 (Law no. 5/2013/III) to remedy identified deficiencies. A Decree Law (no. 16/2014) regulating the governance and powers of the FIU came into force in 2014, and the FIU was established in the same year. The Government of Timor-Leste has comprehensive KYC and STR regulations for entities under the purview of the Central Bank. These include banks, insurance companies, microfinance institutions, money transfer operators, and the currency exchange bureau.

The law mandates cooperation between relevant Timorese authorities and competent foreign authorities. However, the details of that cooperation are not specified.

Timor-Leste is a member of the APG, a FATF-style regional body.

AML DEFICIENCIES

Securities brokers, casinos, accountants, auditors, and financial consultants do not fall under the supervision of the Central Bank, so are not subject to KYC or STR regulations.

Timor-Leste's FIU is not a member of the Egmont Group of FIUs, but, as part of the NAP, is actively pursuing membership with a goal of becoming a member by 2018.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Enforcement and investigation capacity related to money laundering and financial crimes is low. The country is taking steps to implement the 1988 UN Drug Convention and has been responsive to recommendations from international experts. In 2015, there was only one money laundering prosecution.

The publication of its NRA in 2016 and the associated NAP indicate the commitment of the government in this area. The NAP has ten strategic objectives for implementation through 2020: a robust framework for AML policy development and implementation; increased understanding of the risks in country; bringing the legal framework into compliance with international standards; increased investigative and prosecutorial capacity related to money laundering and predicate offenses; increased supervisory body capacity; enhanced implementation of preventative measures; the development of FIU capacity to collect, analyze, and disseminate reports; enhanced transparency of the beneficial ownership of legal entities; the development and enhancement of cooperation, both domestically and internationally, among responsible authorities; and enhanced public awareness.

US State Dept Narcotics Report 2017:

Introduction

Timor-Leste remains a minor market for illegal drugs, but international drug trafficking networks may be 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, Australia, New Zealand, and elsewhere in the region. According to Timorese officials, methamphetamine is the primary drug transiting the country. The Timorese government is aware of the problem and is trying to enhance its drug control capabilities in the face of significant challenges. Existing data collection efforts are insufficient to accurately measure the scope of drug trafficking throughout the country.

According to available information, there is little production of organic drugs in Timor-Leste. Methamphetamine precursor chemicals including pseudoephedrine 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.

Conclusion

Timor-Leste is only beginning to focus on and fully understand the scope of narcotics issues. There is political will to combat drugs, but the legal and investigative framework needed to mount an effective home grown counternarcotics strategy remain in the very early stages.

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

Timor-Leste is classified a Tier 2 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 Indonesia and other countries for domestic servitude. Timorese women, girls, and occasionally young males from rural areas are lured to the capital with the promise of better employment or education prospects and subjected to sex trafficking or domestic servitude; at least one village chief has been complicit in this form of trafficking. Timorese family members place children in bonded domestic and agricultural labor, primarily in rural areas but also in the United Kingdom, to pay off family debts. Foreign women, including those from Indonesia, China, and the Philippines, are vulnerable to sex trafficking in Timor-Leste. Transnational traffickers may be members of Indonesian or Chinese organized crime syndicates. Some NGOs report fishermen on foreign vessels operating in Timorese waters may be vulnerable to trafficking. Police may accept bribes from establishments involved in trafficking or from traffickers attempting to cross borders illegally. Police have been identified as clients of commercial sex venues investigated for suspected trafficking.

The Government of Timor-Leste does not fully meet the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. The government reported prosecuting six defendants and convicting two traffickers, though lack of details made it difficult to verify these were cases of human trafficking as defined in international law. The government reestablished the inter-ministerial working group on trafficking, designated the Ministry of Justice as the lead agency to coordinate its efforts, and finalized a national action plan to combat trafficking. Authorities did not employ formal procedures for victim identification, leaving some victims vulnerable to punishment for crimes committed as a direct result of trafficking. Although the overall availability of specialized services, shelter, or long-term support for victims was limited, the government reported providing services to 10 victims and referring additional victims to government-funded NGOs for support.

International Sanctions

None Applicable

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	38
World Governance Indicator – Control of Corruption	35

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 gaining independence in 1999, 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 offshore oil and gas resources has greatly supplemented government revenues. This technology-intensive industry, however, has done little to create jobs in part because there are no production facilities in Timor-Leste. Gas is currently piped to Australia for processing, but Timor-Leste has expressed interest in developing a domestic processing capacity.

In June 2005, the National Parliament unanimously approved the creation of the Timor-Leste 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 \$16.5 billion, as of December 2014. Oil accounts for 90% of government revenues, and the drop in the price of oil in 2014 has led to concerns about the long-term sustainability of government spending. The Ministry of Finance maintains that the Petroleum Fund is sufficient to sustain government operations for the foreseeable future.

Annual government budget expenditures increased markedly between 2009 and 2012 but dropped significantly in 2013-15. Historically, the government failed to spend as much as its budget allowed. The government has focused significant resources 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.

Agriculture - products:

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

Industries:

printing, soap manufacturing, handicrafts, woven cloth

Exports - commodities:

oil, coffee, sandalwood, marble

Imports - commodities:

food, gasoline, kerosene, machinery

Section 4 - Investment Climate

Executive Summary

After fourteen years of independence, Timor-Leste welcomes foreign investment and business development. Plagued by conflict and turmoil in the first decade of its formative period, Timor-Leste has experienced sustained peace and stability since 2008. A smooth government transition in 2015 is a further signal of the country's readiness to move forward. The government is making a concerted effort to improve the country's basic infrastructure,

including roads, airports, electricity, and telecommunications. The government is also implementing a fiscal reform process that will bring its system into compliance with best practices, as it seeks to join the Association of Southeast Asian Nations (ASEAN). In addition, economic growth rates are consistently strong. However, challenges remain as the country is still struggling with incomplete and unclear legislation, inadequate regulatory mechanism, corruption, insufficient personnel capacity, and deficient infrastructure. The private sector is weak, and government's ability to regulate industry is limited. The government offers investment incentives to offset some of these challenges including five, eight, or ten year tax holidays depending on the location of the investment. Investment opportunities outside of the oil and gas sector are increasing, with interest growing in the agricultural sectors, construction, telecommunication, and tourism. The government is also working on a major petroleum sector infrastructure project along the south coast and has created Special Economic Zones in Oecusse exclave and Atauro Island.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2015	123 of 168	transparency.org/cpi2015
World Bank's Doing Business Report "Ease of Doing Business"	2015	173 of 189	doingbusiness.org/rankings
Global Innovation Index	2015	N/A	globalinnovationindex.org/content/page/data-analysis
U.S. FDI in partner country (\$M USD, stock positions)	2015	N/A	BEA/Host government
World Bank GNI per capita	2014	USD 2,680	data.worldbank.org/indicator/NY.GNP.PCAP.CD

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) of \$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>.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

As a new country in Southeast Asia, Timor-Leste has made a considerable effort to establish effective legislative, executive, and judicial institutions, draft laws and regulations, and build government personnel capacity. Despite instability and periods of violent upheaval in the early years of the country, Timor-Leste has been generally calm since 2008. In 2011, the National Strategic Development Plan was approved unanimously by the National Parliament. The plan focuses on using petroleum revenues to support non-petroleum economic development and become a middle-income country by 2030. A peaceful government transition in February 2015 marks political maturity in the country and its readiness to focus on economic development issues. In early 2016, Timor-Leste successfully hosted its first business forum of members of the Community of Portuguese Speaking Countries (CPLP), where about 500 business people were given the opportunity to establish business networks and explore business and investment opportunities. The government used the opportunity to reiterate its interest in and openness to foreign investors.

The government, through its autonomous agency, the National Petroleum and Minerals Authority (ANPM), has contracted with foreign firms to explore and develop offshore oil and gas deposits. Taxes and royalties collected by the government and its agency are deposited in a sovereign petroleum fund, which held about USD 16.2 billion in December 2015. Government expenditures are mostly dependent on this fund. Besides the oil and gas sector, government spending, small-scale retail activities, and subsistence agriculture are the primary sources of employment and contributors to Gross Domestic Product. While approximately 1.2 million people live in Timor-Leste, it is also one of the world's most rapidly growing populations, with over sixty percent of the population under the age of 30 and a birth rate of 5.2. Timorese authorities are interested in expanding private sector economic activities to provide employment for new labor market entrants.

Timor-Leste is applying for full membership into the Association of Southeast Asian Nations (ASEAN) and currently serves as President of the Community of Portuguese Speaking Countries. The government views building these international ties as part of its effort to increase investment opportunities within the country. Timor-Leste is also pursuing trilateral economic cooperation with Indonesia and Australia to boost cross-country investment.

There are no laws or practices in the country that U.S. investors allege discriminate against foreign investors by prohibiting, limiting or conditioning foreign investment in a sector of the economy. Under the constitution, only citizens may own land. However, article fourteen of the Private Investment Law No.14/2011 states that foreigners can be granted the right to private property for investment and reinvestment projects subject to the limits set out in the Constitution and in legislation on land and commercial companies.

Other Investment Policy Reviews

Timor-Leste has not yet conducted any investment policy reviews through OECD, WTO, or UNCTAD. The country is in the process of designing and adopting fiscal and economic reform that will include introduction in early 2016 of new laws on private investment, export promotion, commercial companies, sanctions, taxation, and the value-added tax (VAT). Timor-Leste's political stability has given opportunities for business to grow. Commerce is increasing and the government is funding additional public services and larger public works projects. Other than the oil and gas sector, investment opportunities exist in the service, tourism, agriculture, and infrastructure sectors.

While the government is committed to improving its services in critical sectors, challenges remain. Bureaucratic inefficiency, infrastructure bottlenecks, a paucity of local financing options, the absence of a real property law and other essential legislation, uncertain implementation of government procedures, significant deficiencies in human capacity, and perceptions of malfeasance, conflicts of interest, and corruption are the notable challenges.

Laws/Regulations on 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 is working on a review of its legislation to harmonize the system, but has yet to undergo a comprehensive overhaul of the 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 (Law No.14/2011) 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 Specialized Investment Agency, a one-stop-shop for investment and export promotion on January 5, 2015. The agency became TradeInvest Timor-Leste in November 2015. The agency has the responsibility to promote Timorese exports and investment opportunities in the country and to encourage domestic entrepreneurship. In March 2016, the government held a public consultation to discuss the adoption of a new private investment policy, replacing 14/2011, that it plans to present to the Council of Ministers in April 2016. The policy is designed to align Timorese legislation and regulation with best practices in ASEAN (under the ASEAN Comprehensive Investment Agreement) and under UNCTAD. The policy will complement new laws currently under development on taxation and will remove business tax incentives from the investment regime, instead placing them in the taxation legislation.

Business Registration

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. Between its opening and July 2015, the agency registered over 10,000 businesses, approximately half of which are construction-related enterprises.

Although the agency has a website (www.serve.gov.tl), it is not updated regularly. Business registration and application is currently done by visiting the office in person. Getting a business license takes between five days and one month. For companies involved in civil construction, food processing, or pharmaceutical industries, the agency works closely with

relevant ministries, particularly Ministry of Commerce, Industry and Environment, to facilitate business licenses.

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.

Industrial Promotion

As outlined in the Government of Timor-Leste's Strategic Development Plan, key investment areas are oil and gas, agro industry, forestry and livestock, fisheries, tourism, energy, infrastructure, civil construction, and transportation. Information has been disseminated both in domestic and international expos and CPLP business and economic forums.

TradeInvest Timor-Leste is facilitating investment in the country by providing services to existing and potential large domestic and foreign investors. The country does not have any specific definitions of micro, small and medium-sized enterprises.

Limits on Foreign Control and Right to Private Ownership and Establishment

Under Private Investment Law 14/2011, 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 comprehensive 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 Executive Director of TradeInvest chairs the Private Investment Commission which is composed of directors general or the 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 documents required for investments include:

- TradeInvest application form
- Descriptive project summary
- Identification of promoters, professional CV/Firm Corporate Capability
- Copies of contracts
- Bank credentials
- Business plan
- Documents of Land Ownership
- Lot location
- Project Brief(s)
- Budget for construction/remodeling
- Technical plans (i.e. Architecture, Engineering, etc.)
- Environmental Impact Assessment

TradeInvest 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 TradeInvest Timor-Leste, prior to submitting the project to the Council of Ministers for approval. According to the TradeInvest 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.

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 import or export 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 specific policy governing remittances. The government has facilitated many young Timorese going overseas for industrial and agricultural work but the data is still limited.

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.

Before expropriation occurs, the affected occupants or claimants, if non-occupying, are given 30 days to leave the property and 10 days to file cases at the local courts. If no claims are filed during the 10 days, the occupants should clear the property before being evicted. During the last five years, expropriation primarily affected urban squatters occupying state property.

4. Dispute Settlement

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

Timor-Leste has a civil law system influenced by the Portuguese law system. The justice system -- police, prosecutors, and courts -- is 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 increasing domestic capacity and signing new agreements with international actors to administer the judicial sector in the wake of these dismissals, but legal processes in the country remain adversely affected.

In December 2015, the government established a Legislative Reform and Justice Sector Commission whose mission is to recommend law reform, evaluate how laws are being implemented, and to help harmonize legislation. As stipulated in the country's strategic development plan, the commission will review and improve the existing legal instruments, with the goals of ensuring protection of rights, liberties and guarantees; improving access to the law; and bringing legislation closer to the democratic ideals and the citizens of Timor-Leste.

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 justice mechanisms, which focus on collective restorative justice, rather than retributive justice. 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. The company recently came to a confidential negotiated settlement with the government in most of the remaining pending cases.

Bankruptcy

Timor-Leste does not yet have a bankruptcy law. In 2015, the World Bank ranked the country 189 of 189 in resolving insolvency.

Investment Disputes

Civil disputes are generally handled through the domestic court system, which is 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 not been reached, although neither side requested reopening of arbitration. In 2015, the Government of Timor-Leste ramped up pressure for the negotiations to move forward while at the same time sending mixed signals about its intention to pursue the issue via arbitration in lieu of negotiations.

The government also pursued international arbitration against at least one private company in a tax dispute. There were four cases filed against the company at Singapore Arbitration in 2014. After more than a year of process, both sides signed a negotiated agreement in February 2016 that resolved most of the pending cases.

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 a 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 – Local Courts

A World Bank study in 2015 found that a contract enforcement dispute takes on average 1,285 days to settle in Timor-Leste, one of the slowest and most expensive in the world. Notable underlying causes include limited capable human resources in the local courts to resolve the disputes.

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 service taxes, as well as exemption from 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. The new private investment policy and taxation law under discussion will change this incentive structure, if adopted. Specific details of the changes envisioned are not yet public.

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

Timor-Leste does not have any specific requirements forcing investors to establish and maintain a certain amount of data storage in the country.

6. Protection of Property Rights

Real Property

Land and property ownership in Timor-Leste is still unclear and uncertain. The country does not yet have legislation regulating the competing claims on land and properties 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.

Intellectual Property Rights

Section 60 of Timor-Leste's constitution provides for the protection of literary, scientific, and artistic work. In addition, article 1223 of the Civil Code stipulates the necessity of having specific regulations to protect authors of those types of works. However, legislators have yet to create specific regulations 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

A [list of lawyers](http://timor-lestembassy.gov/mobile//service3/attorneys.html) in Timor-Leste is available here: [ttp://timor-lestembassy.gov/mobile//service3/attorneys.html](http://timor-lestembassy.gov/mobile//service3/attorneys.html)

7. 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. In February 2016, the government reached a negotiated settlement with one private firm on most of the outstanding assessments.

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. The Audit Chamber, under the Court of Appeals, is responsible for reviewing government procurements above a USD5 million threshold. In October 2015, the Audit Chamber rejected the government's proposed USD720 million contract with a large Korean company for a large development on the south coast, on the basis of "non-compliance with fundamental norms currently in place in Timor-Leste." The government appealed the decision, but no final judgment has been issued yet.

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.

8. Efficient Capital Markets and Portfolio Investment

Information is not available.

Money and Banking System, Hostile Takeovers

There are four commercial banks operating in Timor-Leste; ANZ of Australia, Mandiri of Indonesia, BNU of Portugal, and a subsidized national bank, National Commercial Bank of Timor-Leste. According to Central Bank data, commercial banks credit to the private sector totaled USD 190.7 million as of December 2015. The overall non-performing loan rate was 22.92 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. In 2014, the government 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.

9. 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 April 2015, government converted SAMES, E.P. into SAMES, I.P., an autonomous institution which operates under the tutelage and supervision of the Ministry of Health. 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) owns 54 percent. In 2015, the government expressed its interest in buying Timor Telecom shares from Oi Company, which owns 76 percent of TPT shares. The acquisition would give the government a 61 percent controlling interest. A feasibility study has been done and presented to the Council of Ministers for further action. 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 and Mineral

Authority (ANPM), 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 Central Bank of Timor-Leste publishes monthly, quarterly, and annual Petroleum Fund reports online in English, Tetun, and Portuguese. As of December 2015 Petroleum Fund assets stood at USD 16.2 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 February 2016, 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 2008, Timor-Leste participated for the first time in the IMF-hosted international working group on SWF. The country follows the best practices of the Santiago Principles.

10. Responsible Business Conduct

Businesses are generally aware of expectations and standards for responsible business conduct, although regulation of those standards is inconsistent. The government monitors business compliance with labor and environmental regulations, although the capacity to do so is insufficient. The government does not appear to factor responsible business conduct policies into procurement decisions.

There have been no high-profile business-related instances of corporate impact on human rights. Civil society and other organizations are generally able to monitor and promote

human rights, both related to corporate actions and otherwise, without undue interference from the government.

Timor-Leste is not an adherent to the OECD Guidelines for Multinational Enterprises. In July 2010, it 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. The criteria and procedures by which the national government awards natural resource contracts or licenses are specified in the 2005 Petroleum Act. The process actually used to award contracts is broadly consistent with the procedural requirements set by law or regulation. Once a contract or license is awarded, the government makes public the basic terms of the awards. The government publishes quarterly reports on its Petroleum Fund on the Central Bank website.

11. Political Violence

Timor-Leste has emerged from a history of colonialism, occupation, and recent civil strife to the period of domestic calm that it now enjoys. After twenty-five years of occupation by Indonesia, a popular consultation was held in August 30, 1999 under an agreement between the United Nations, former colonial power Portugal, and Indonesia, to allow the Timorese to vote on whether to remain part of Indonesia or to become independent. The majority chose independence; Timorese militias opposed to the decision 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 due to domestic political struggles which led to armed conflict between the police and military. 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.

In 2014 and 2015, Timor-Leste was challenged with minor internal political turmoil when dissident leader Mauk Moruk, who is also a younger brother of a respected veteran leader, Cornelio Gama, launched a political attack against then Prime Minister Xanana Gusmao, accusing his government of corruption, nepotism and collusion and called for a revolution. His group allegedly launched a series of attacks against security forces which resulted in a four-month joint security operation against his group. In August 2015, security forces killed Mauk Moruk during the operation.

12. Corruption

Transparency International ranks Timor-Leste at 123 out of 168 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. While struggling with a lack of available judges, the court continues to conduct hearings on other former government members, such as former Minister of Finance, Emilia Pires, together with former Vice Minister of Health, Madalena Hanjam. Other corruption cases involving high-profile leaders, including the current President of the National Parliament, have not moved forward as of April 2016, due to claims of immunity. Business people operating in country increasingly report concerns about operational difficulties they ascribe to lower-level corruption in bureaucratic processing areas such as licensing, importation, and taxation.

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 attempted bribery of a foreign official overseas. Bribes cannot be deducted from taxes.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Timor-Leste has signed and ratified the UN Anticorruption Convention. However, 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 77305564; +670 77326597; or +670 77326599
Email: keixa@cac.tl

Lalenok ba Ema Hotu (LABEH) – The Mirror for the People
Avenida Presidente Nicolao Lobato-Comoro-(in front of SDN.07-Malinamuc)

Comoro
Dili, Timor Leste
Phone: +670 3331068
Email: gil.silva@labehe.org

13. 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.

14. Foreign Trade Zones/Free Ports/Trade Facilitation

There are no foreign trade zones in Timor-Leste. However, the National Parliament has approved a law (No.3/2014) to define and regulate a free trade zone in the Oecusse enclave called the Special Zone for Social Market Economy (ZEESM). The ZEESM as stipulated in the law 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

- Implementation and development of industrial activities for export and import
- Other economic activities that add value for the region, as well as strengthening its international competitiveness

The government has recently approved a decree law on the development of Atauro (an island outside Dili) as part of ZEESM and is pursuing the possibility of creating another free trade zone.

15. Foreign Direct Investment and Foreign Portfolio Investment Statistics

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

Economic Data	Host Country Statistical source		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (\$M USD)	2013	\$1319	2014	\$1417	www.worldbank.org/en/country

Table 3: Sources and Destination of FDI

FDI between the U.S. and Timor-Leste is limited, and data is not available.

Table 4: Sources of Portfolio Investment

No data is available for Timor-Leste.

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

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