Monitoring Investment Dynamics

Assesing Investment Certificate, Declaration of Benefits & Special Investment Agreement
(2016-2023)

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TradeInvest Timor-Leste

REPORT

Monitoring Investment Dynamics: Assessing Investment Certificates, Declaration of Benefits and Special Investment Agreement (2016-2023)

By

TradeInvest Timor-Leste, SERVE, Tax Authority, MOP, MCI and IGT

Acknowledgment

TradeInvest Timor-Leste (TITL) expresses gratitude to several entities whose unwavering support proved invaluable throughout our operations. Special recognition is extended to Business Registration and Verification Services (SERVE), Tax Authority (TA), General Labor Inspector (IGT), the National Directorate of Building Permits under the Ministry of Public Works (MOP) and the General Directorate of Commerce and Industry within the Ministry of Commerce and Industry (MCI). Their collaborative efforts significantly contributed to the success of our initiatives.

A heartfelt acknowledgment is reserved for our diligent monitoring team, whose relentless dedication in the field was pivotal to the execution of our objectives. Their tireless commitment and diligence underscored the success of the monitoring activities.

Lastly, sincere appreciation is extended to all directors and advisors from the pertinent ministries. Their guidance and support were instrumental in facilitating the funding for the monitoring activity, ensuring its successful implementation.

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TERMS AND ABBREVIATIONS

TITL	TradeInvest Timor-Leste
DIP	Directorate of Investment Promotion
DEP	Directorate of Export Promotion
DERM	Directorate of External Relation and Marketing
DAF	Directorate of Administration and Finance
CAIPE	Comissão de Avaliação do Investimento Privado e Exportação
SERVE	Business Registration and Verification Services
TA	Tax Authority
MoP	Ministry of Public Works
MCI	Ministry of Commerce and Industry
NAEL	National Agency for environment Licensing
PIL	Private Investment Law
GD	Government Decree
DDI	Domestic Direct Investor
FDI	Foreign Direct Investor
JV	Joint Venture
IC	Investor Certificate
DB	Declaration of Benefits
SIA	Special Investment Agreement
Lda	Single Shareholder Company with limited liability
ROI	Return of Investment
S. A	Joint Stock Company
USA	United States of America
USD	United States Currency
$	Dollar
%	Percentage

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EXECUTIVE SUMMARY

This report explores Timor-Leste's investment landscape from 2016 to 2023, uncovering anomalies, disparities, and opportunities. Through data-driven graphs and sector-specific analyses, it offers insights into investment trends, geographical distributions, types, and employment dynamics. Highlights include:

1. **Annual Capital Investment & Investment Count Trends:** 2020 stood out with a sharp capital investment decline due to COVID-19 and political instability, revealing vulnerability to external influences, urging adaptable strategies
2. **Geographical Allocation of Investments:** Stresses regional disparities and the need for balanced development. Strong ties with Timor-Leste, Australia, and Singapore highlight the importance of fostering these relationships for sustained growth.
3. **Investment Allocation Based on Country of Origin**: Timor-Leste leads in local development investments, while Australia and Singapore signify strong economic bonds, calling for continuous relationship nurturing.
4. **Investment by Type:** Domestic Direct Investment (DDI) (41% holds the largest share, indicating a reliance on local funding sources. Favorable conditions for local investors are evident, as DDI prevails over Foreign Direct Investment (FDI) (40%) and 23% Joint Venture.

5. **Investment Proposed Amount ($1.2 billion) vs. Actual Investment ($627.6 million):** Investments often exceed initial projections, signaling project resilience or unforeseen stability. Some notably surpass projections, suggesting exceptional overachievement or rapid progress.

6. **Return on Investment (ROI) Analysis:** Entities showcase varying ROIs – totalling $156 million, reflecting strengths and vulnerabilities within sectors influenced by infrastructure, market demand, and global changes.

7. **Monitoring and Evaluation Challenges:** Anomalies in data submission and participation impact transparency and completeness in assessments. Scheduling conflicts and non-disclosure of financial data hinder comprehensive evaluations, highlighting engagement challenges.
8. **Fiscal Incentives and Investment Realization:** Fiscal incentives amounted $12 million boost vital sectors, but disparities in usage raise concerns about fair distribution and industry variety. Understanding non-utilization patterns is crucial.
9. **Investments by Sector and Job Creation:** Disparities in investment values and job creation across sectors underscore growth potentials. Anomalies in Finance, Health, and Agriculture sectors suggest opportunities for deeper exploration and strategic investment optimization.
10. **Employment Dynamics and Demographics:** The reliance on local labor is evident, predominantly held by Timorese nationals. Gender disparities suggest the need for strategies promoting workforce diversity and inclusivity.

In essence, this analysis stresses the need for adaptive policies, transparency, refined fiscal incentives, and inclusive strategies to foster sustainable growth, job creation, and balanced development in Timor-Leste.

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I. Introduction

Welcome to the comprehensive monitoring report by the Directorate of Investment Promotion of TradeInvest Timor-Leste. This report serves as a meticulous analysis of the national (DDI) and international (FDI) private sectors that have been recipients of Investment Certificates (IC), Declaration of Benefits (DoB), and Special Investment Agreements (SIA) between 2016 and 2023.

At TradeInvest Timor-Leste, our dedication to fostering economic growth and development through strategic investment facilitation is unwavering. This report stands as a testament to our commitment to transparency, oversight, and the continued advancement of Timor-Leste's investment landscape.
The meticulous examination within this report encompasses an extensive evaluation of both national and international private sector investments, focusing on the diverse range of industries and initiatives that have received official recognition and support from our agency. It aims to offer a comprehensive view of the performance, trends, challenges, and opportunities that have characterized these vital sectors.

This monitoring report has been meticulously curated, drawing from a wealth of data, rigorous assessments, and insightful interpretations. It does not merely review past accomplishments but also serves as a guiding compass, illuminating the path forward for our stakeholders, investors, and decision-makers.

As we navigate through this report, we invite you to explore the nuanced insights and analyses that underpin our assessment of the private sectors. Your engagement and feedback are invaluable as we strive for continuous improvement, adaptability, and the sustained enhancement of Timor-Leste's investment ecosystem.

We extend our gratitude to all stakeholders and contributors who have played a pivotal role in shaping this report. Your commitment to the growth and prosperity of our nation through strategic investments is deeply appreciated.

Thank you for joining us on this journey of monitoring and shaping the future of our private sectors.

Warm regards,

Directorate of Investment Promotion
TradeInvest Timor-Leste

II. Methodology

2.1. Description of Monitoring Methods Used

The monitoring process employed a blend of quantitative and qualitative methodologies. Surveys were conducted among international and national investors who received Certificates of Investment, Declaration of Benefits, and Special Investment Agreements between 2016 and 2023.

2.2. Data Collection Techniques

2.2.1. Questionnaire

A unified questionnaire, available in Portuguese, English, and Tetum, was crafted for both local and international investors. It aimed to gather quantitative data such as annual income, employment figures, tangible and intangible assets, employee salaries, investment types, and other pertinent information crucial for the monitoring report's development. These questions were formulated based on discussions with technical officers, reflecting the ongoing progress of investment projects.

2.2.2. On-site Visit & Interview

Site visits and interviews were conducted from the third week of October until the last week of October 2023, extended into the first week of December for investors who postponed interviews or physical questionnaire submissions. These visits engaged investors (owners) and their management teams, gathering qualitative insights into challenges impacting their growth in Timor-Leste.

2.3. Tools and Technologies Utilized

2.3.1. Information Material

TradeInvest's Investment Promotion department prepared the unified questionnaire, checklist, site visit forms, and copies of investment certificates. During field monitoring, TradeInvest staff validated on-site visit forms to confirm the alignment of provided business plans with the actual status of the investment projects. The information concerning investment progress, employment figures, challenges, and taxes was collected through questionnaires filled and submitted by the investors.

III. Key Performance Indicators (KPIs) Analysis

This section presents a comprehensive overview of the Key Performance Indicators (KPIs) monitored to assess the multifaceted dimensions of the investment landscape and its impact on various sectors. The following KPIs have been meticulously tracked and analyzed to provide a comprehensive insight into the investment scenario:

3.1. Overview of KPIs Tracked

The outlined KPIs delve into crucial facets of investment performance, tracking its nuances across geographical, financial, and sectoral dimensions. Each indicator offers a unique perspective, enabling a holistic assessment of investment efficacy, financial outcomes, sectoral contributions, and employment trends. This thorough analysis aims to elucidate trends, patterns, and potential areas for optimization within the investment framework. Let's delve into the specifics of these KPIs:

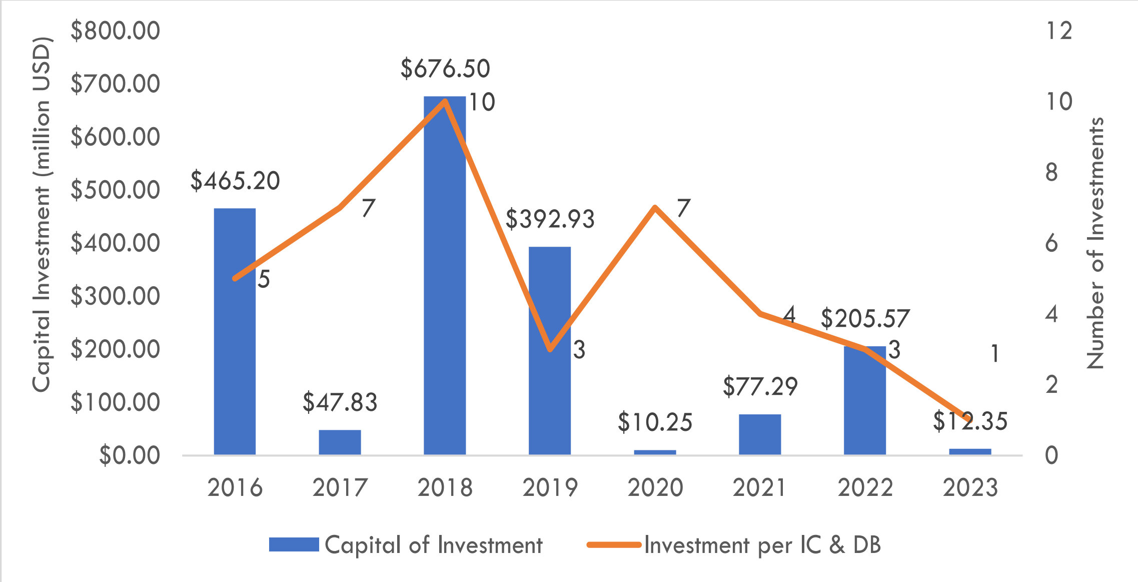
1. Investment Trends
2. Investment by Location
3. Investment by Country of Origin
4. Investment by Type
5. Investment Value vs. Actual
6. Analyzing Current Investment Value against Return on Investment (ROI)
7. Comparative Analysis: Present Investment Values and Fiscal Incentives
8. Investments by Sector
9. Sectors Overview: Actual Investment and Job Creation
10. Employment Dynamics and Demographics

This comprehensive array of KPIs aims to present a nuanced understanding of the investment landscape, fostering informed decision-making and strategic planning within the context of financial growth and sectoral development. Let's delve deeper into the analysis of each KPI to extract valuable insights and trends.

3.2. Data Analysis and Trends

3.2.1. Investment Trends

The graph below tracks the annual fluctuations in invested capital and the count of investments per entry from 2016 to 2023, highlighting a significant anomaly in 2020. This anomaly suggests potential external influences shaping investment trends during that period.



Graph 1: Annual Capital Investment & Investment Count Trends

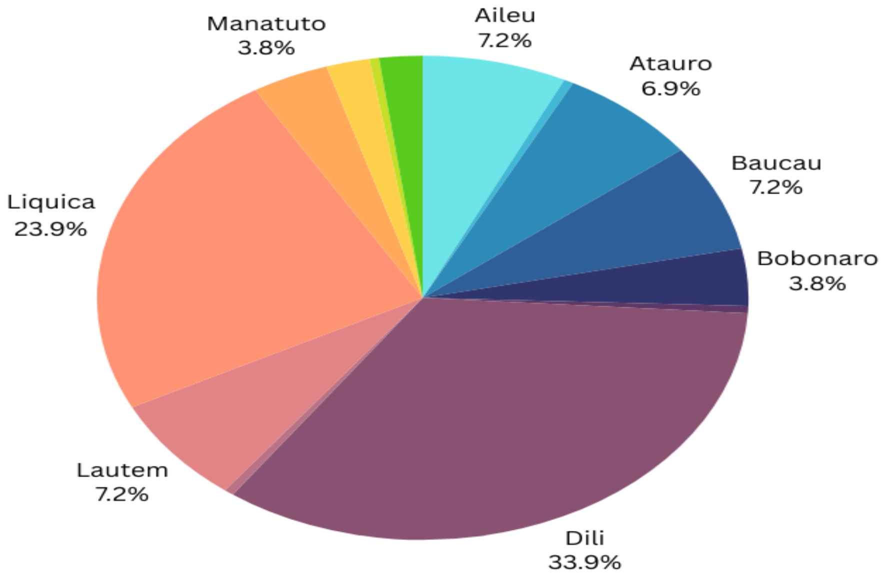
Over the span of 2016 to 2023, the investment landscape exhibited considerable volatility. Annual capital investments fluctuated significantly, notably peaking at $676.5 million in 2018 and sharply declining to $392.9 million in 2019, followed by subsequent unpredictable variations. In contrast, the count of investments per entry displayed fewer irregular shifts, fluctuating between 1 and 10 across the years.

The year 2020 stands out as an anomaly, marked by a drastic plunge in capital investment from $392.9 million in 2019 to a mere $10.2 million. This steep decline appears attributable to the economic shock induced by COVID-19, exacerbated by ongoing political instability, both likely catalysts for shifts in investment behavior. Notably, the varying count of investments per entry hints at inconsistent distribution mechanisms. In contrast, the significant surge observed in 2018 hints at potentially high-value projects or heightened investor confidence during that period. However, this momentum was hindered as the company couldn't engage in investment activities due to the absence of a signed special agreement with the Government of Timor-Leste, eventually resolved in 2022.

Over time, the investment landscape displayed notable shifts. While 2018 showed strong investment activities, subsequent years brought unpredictable trends, especially the sharp decline in 2020. Though the count of investments per entry had fewer notable changes, it highlighted ongoing uncertainty. Further exploration into the reasons behind these fluctuations could provide valuable insights into the economic conditions and regulatory dynamics that influenced investment behaviors during this period.

3.2.2. Investment by Location

The presented graph offers a comprehensive overview of investment distribution across Timor-Leste's municipalities, shedding light on both the number of projects and their associated
investment capital.



Graph 2: Geographical Allocation of Investments

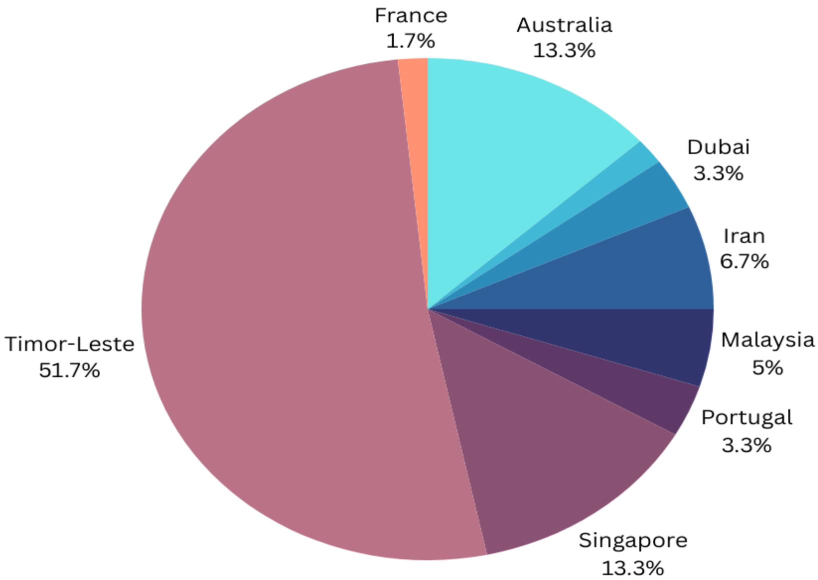
The pie chart depicting investment distribution across various regions reveals a stark disparity in investment percentages, notably led by **Dili** at 34%. This dominant portion signifies the capital city's significant allure for investments, portraying it as a pivotal hub for economic activity within the country. Following this, **Liquiça** and **Manatuto** claim smaller but still considerable portions of the pie at 24% and 4%, respectively. This delineates these regions as secondary investment destinations with relatively lower shares but noticeable attractiveness for investors.

Conversely, **Covalima, Ermera**, and **Ainaro** exhibit the smallest segments of the pie, each at 0.5%, marking them as regions with relatively lower investment values compared to other areas. The substantial discrepancy between **Dili** and these regions denotes an anomaly, underscoring a concentration of economic activities and investment opportunities within the capital city. This concentration potentially leads to regional disparities, affecting the overall economic landscape.

The pie chart illuminates the disproportionate distribution of investments, with **Dili** commanding the largest share. Factors such as infrastructure, economic incentives, or policy frameworks likely contribute to the capital's attractiveness to investors. Understanding these driving forces is imperative for addressing regional inequalities and crafting policies that promote more balanced economic development across the country.

3.2.3. Investment by Country of Origin

The presented graph provides an overview of the investment composition categorized by the country of origin.



Graph 3: Investment Allocation Based on Country of Origin

When examining the investment contributions by country of origin, Timor-Leste emerges as the dominant investor, representing a significant portion of the investments at 51.7%. This notable share signifies a substantial commitment to local economic development or strategic investments within the country. Following this, Australia and Singapore contribute similarly substantial percentages at 13.3% each, reflecting robust economic relations or significant investment interests in the region.

Conversely, China, Iran, Malaysia, Portugal, and France each hold smaller percentages, between 1.7% to 6.7%, portraying moderate to lower investment contributions compared to the top investors. Notably, Timor-Leste stands out as an anomaly, with a notably higher investment value compared to other countries, indicating a distinct level of involvement or strategic focus on local investments.

Timor-Leste's substantial investment showcases a strong commitment to bolstering the local economy, potentially driven by national policies or strategic initiatives aimed at fostering economic growth. The significant contributions from Australia and Singapore suggest robust economic ties or vested interests in the region, potentially stemming from strong trade partnerships or strategic investment endeavors.

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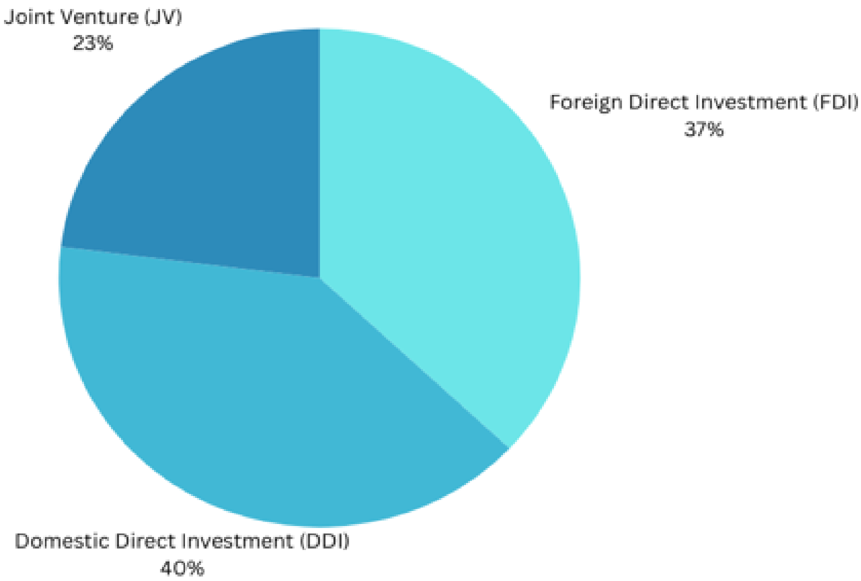
3.2.4. Investment by Type

The provided graph delineates the various types of investments made in Timor-Leste across the fiscal years from 2016 to 2023.



Graph 4: Type of Investment

The pie chart illustrating investment by type demonstrates that Domestic Direct Investment (DDI) holds the largest percentage at 40%. This significant portion signifies a prevalent reliance on local funding sources or initiatives, indicating a robust emphasis on domestic economic growth within the dataset. Following closely, Foreign Direct Investment (FDI) represents 37%, showcasing a substantial external investment presence in the region. Meanwhile, Joint Ventures (JV) hold a smaller but still notable share at 23%.

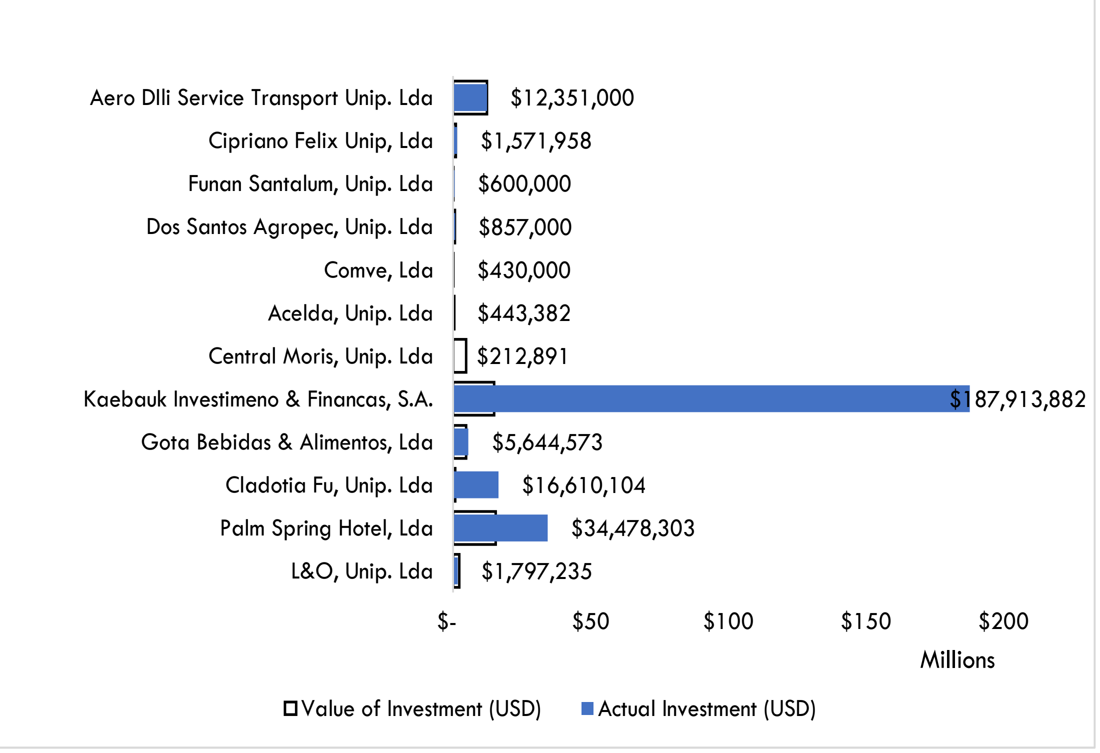
The dominance of Domestic Direct Investment (DDI) presents a trend where local investments surpass both Foreign Direct Investment (FDI) and Joint Ventures (JV). This trend underscores a strong preference for domestic funding sources or channels, potentially reflecting favorable conditions for local investors or government initiatives promoting domestic investments. The presence of FDI as the second-largest contributor highlights a robust external investment presence but slightly lower than domestic investments. The smaller proportion of JV indicates a relatively lower inclination towards collaborative ventures or partnerships among entities or nations within the dataset.

The prevalence of Domestic Direct Investment (DDI) suggests a substantial emphasis on local economic growth, potentially indicating a conducive environment or government incentives favoring local investors. The sizable contribution of Foreign Direct Investment (FDI) showcases the attractiveness of the region to external investors, despite slightly trailing behind domestic investments. Meanwhile, the smaller share of Joint Ventures (JV) may indicate a lesser preference for collaborative ventures or partnerships within the dataset, potentially due to varying business or investment strategies among entities or nations.

3.2.5. Investment Value vs. Actual

The graphical representation about to be shown demonstrates a consistent pattern where, in most cases, the current investments surpass the initially proposed amounts. This reflects that, for the majority of projects, the actual investment exceeds the originally proposed values.

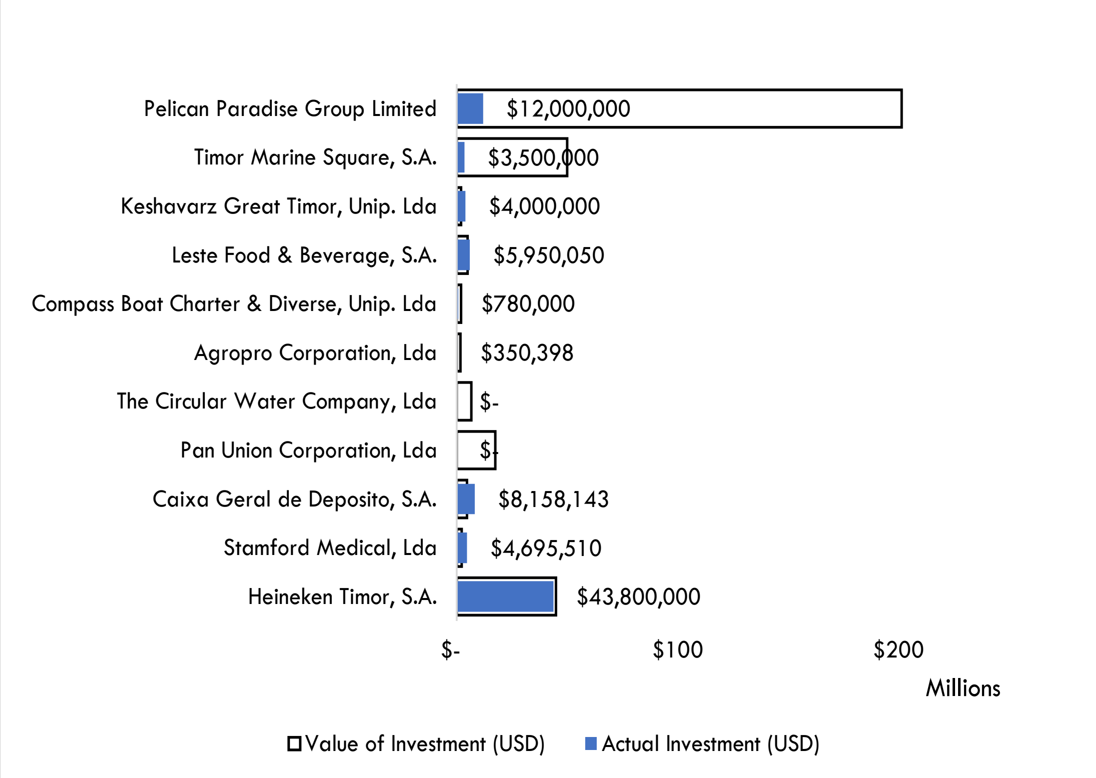
The visual comparison between the initially proposed investments and the current investment status demonstrates a consistent trend among different investment categories: Domestic Direct Investments (DDI), Foreign Direct Investments (FDI), and Joint Ventures (JV). In many cases, the current investment surpasses the initially proposed figures. This consistent pattern indicates a prevailing trend where actual investments exceed the projected targets across diverse projects and investment categories.



Graph 5. Investment proposed amount Vs Actual investment

In the Domestic Direct Investment (DDI) sphere, notable projects like **Kaebauk Investimento & Financas, S.A.** in financial services and **Palm Spring Hotel, Lda.** in the Tourism sector present considerable gaps between the initial proposals and current investment numbers. These projects' present investments notably exceed the proposed amounts, signaling a substantial overachievement in realized investments compared to the initial targets.

The consistent pattern of current investments consistently lagging behind proposed amounts hints at potential hurdles in executing investment plans across multiple sectors. Noticeable disparities in projects like **Kaebauk Investimento & Financas, S.A.** and **Palm Spring Hotel, Lda.** underscore instances where actual investments substantially surpass the proposed figures, suggesting an unexpected overperformance or accelerated progress beyond projected investment targets. These discrepancies might arise from streamlined regulations, unforeseen economic stability, or exceptional strides during the implementation phase.



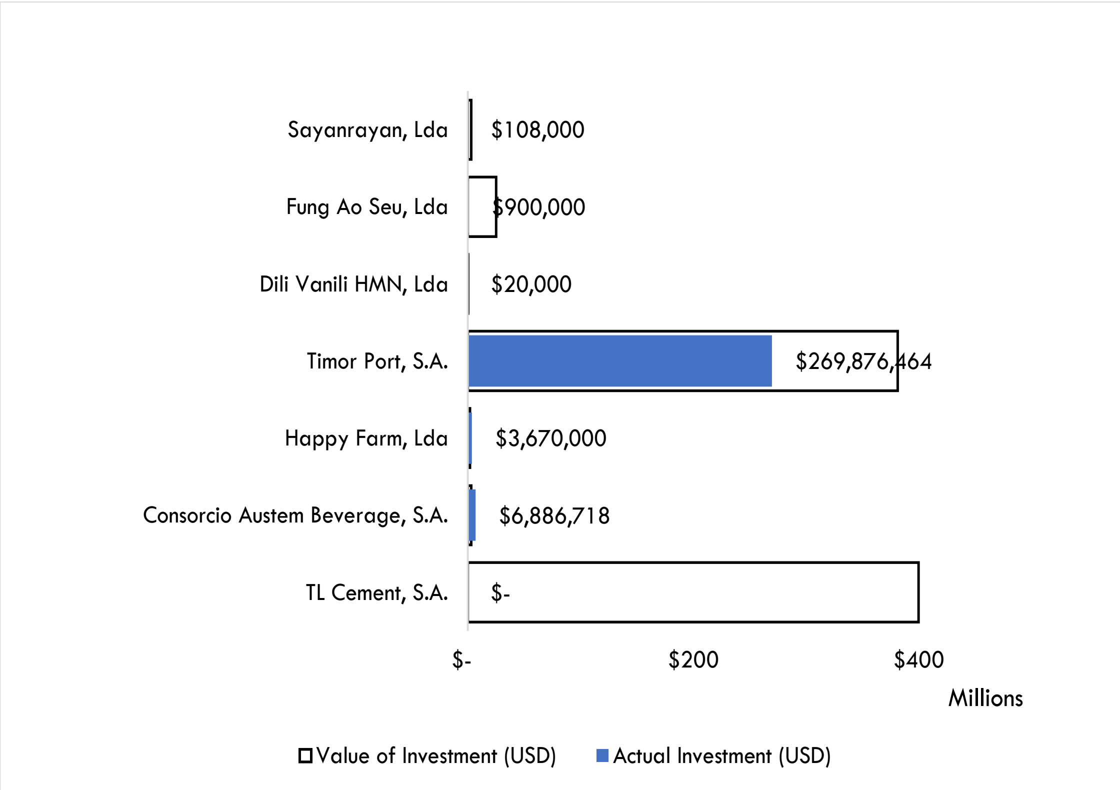
Graph 6. Investment proposed amount Vs Actual Investment

The Foreign Direct Investment (FDI) landscape in Timor-Leste is depicted through pivotal projects, each showcasing distinct trajectories. Across various sectors, there is a consistent trend of projects demonstrating substantial growth and increased investment commitment over time. These FDI ventures portray the evolving nature of investments within the country's diverse economic domains.

In the financial services sector, **Caixa Geral de Deposito, S.A.** initially proposed $4.7 million and notably escalated its commitment to $8.1 million, highlighting a significant increase in investment. Similarly, in the industry sector, **Leste Food & Beverage, S.A.**, Stamford Medical, Lda, and **Keshavarz Great Timor Unipessoal, Lda** all began with modest proposals and experienced considerable growth in their investment commitments. These instances showcase a consistent trend of surpassing initial investment projections, representing anomalies compared to static or declining investment trends often observed in certain projects.

On the contrary, Pelican Paradise Group Limited and Timor Marina Square, S.A., both operating within the tourism sector, exhibit an investment shortfall, with gaps nearing approximately $150 million and $45 million, respectively, from their initially proposed investments. This discrepancy arises as the execution of investment activities is progressively underway.

The highlighted FDI projects underscore the potential for expansion and increased investment commitments within Timor-Leste's economic sectors. The substantial growth in investment figures across multiple sectors suggests favorable conditions for foreign investors, indicating confidence in the country's economic prospects. These anomalies where projects surpassed initial proposals reflect a positive trajectory, signaling the capacity and willingness of investors to bolster their commitments within Timor-Leste's economy.



Graph 7. Investment proposed amount Vs Actual investment

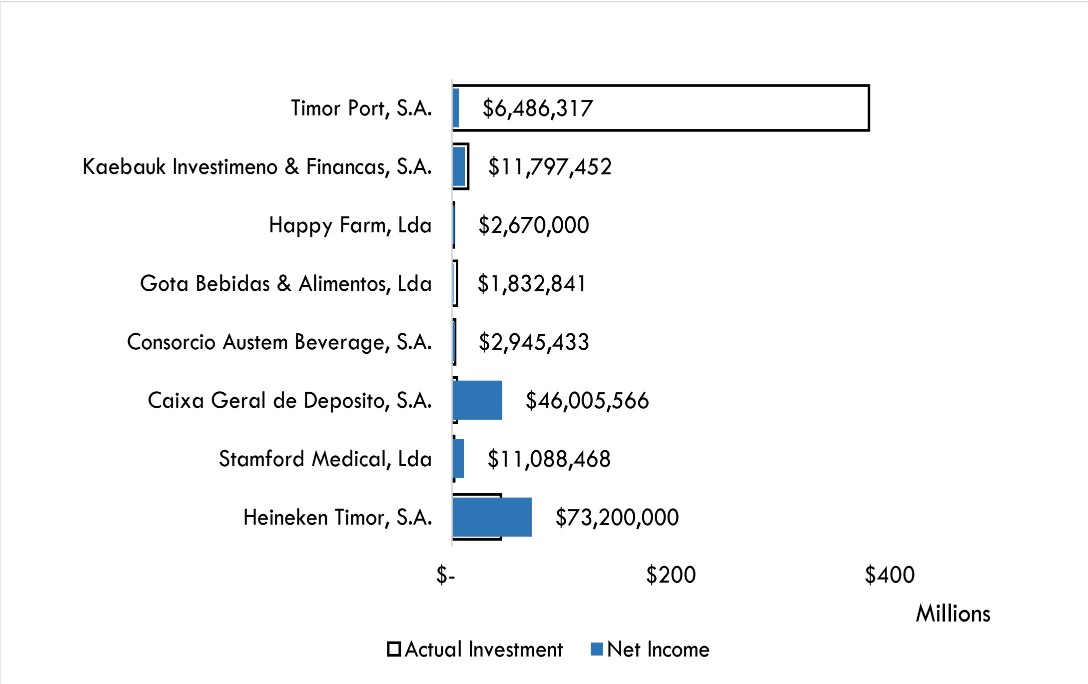
Within the Joint Ventures (JVs) category, Consorcio Austem Beverage, S.A. illustrates a positive trend, having increased its initial investment proposal of $3 million to a current investment of $6.8 million within the Industry sector. However, a prevalent trend emerges across multiple projects where the current investment levels consistently fall below the initial proposals, indicating a widespread scenario of investments not meeting projected targets.

The absence of assessable data for several projects during the monitoring period presents challenges in accurately evaluating their investment progress. Additionally, notable companies like TL Cement, The Circular Water, and Pan Union have yet to commence their investment projects, contributing to an observed delay in project initiation. These delays significantly impact the collective investment timeline, resulting in a substantial gap between the proposed and realized investment amounts.

While certain Joint Ventures exhibit positive trajectories of increased investment commitments, the broader observation of consistently lower current investment levels than initial proposals raise concerns about the overall investment realization within the specified analysis period. The delay in project initiation by notable companies further contributes to the gap between proposed and realized investment amounts, indicating challenges in project execution and timeline adherence.

3.2.6. Analyzing Current Investment Values Against Return on Investment (ROI)

The graph provided offers insights into the present investment values alongside their respective gross and net incomes.

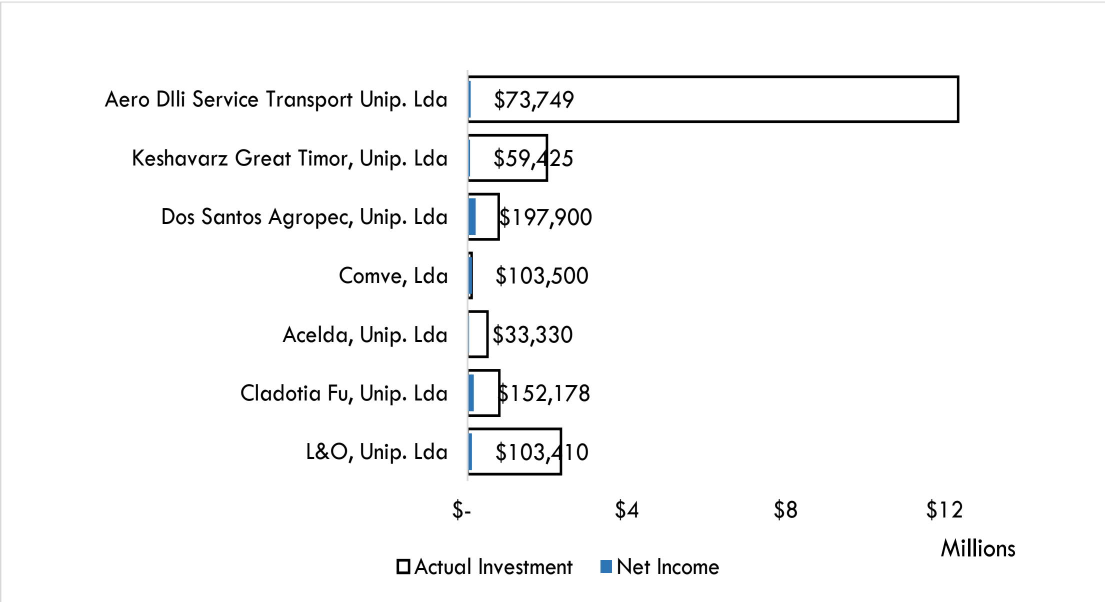


Graph 8. Investment amount Vs Return on Investment

The graph portraying the relationship between current investment amounts and their respective Return on Investment (ROI) sheds light on the present investment values and their associated gross and net incomes. The cumulative current investment of $627.6 million and the cumulative ROI of $156 million primarily stem from investments made by notable entities like Timor Port, Heineken Timor, Caixa Geral de Deposito, Kaebauk Investment, Palm Spring Hotel, Aero Dili Service Transport, and Pelican Paradise Group Limited.

Several entities stand out for their notable return on investment concerning gross and net income in comparison to their initial investments. Entities like Kaebauk Investment, Heineken Timor, Caixa Geral de Deposito, Stamford Medical, and Aero Dili Service Transport exhibit substantial ROI. This suggests their competitive strength and market prominence within their respective industries, indicating a successful investment strategy.

Conversely, projects such as Acelda, Consorcio Austem Beverage, Comve, Dos Santos, L&O, Happy Farm, and Gota Bebidas are anticipated to experience an elevated trend in gross income in the near future. This suggests an impending surge in their income generation, signifying promising growth potential for these projects. The observation of varied ROIs among different entities indicates diverse performance levels and potential market dynamics impacting investment returns.

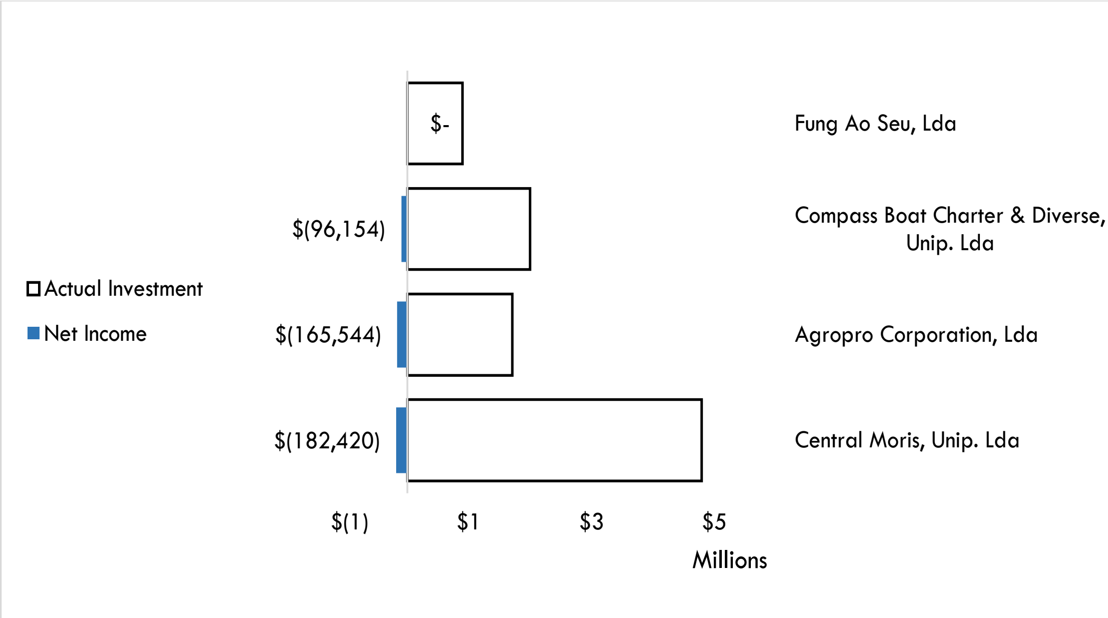


Graph 9. Investment amount Vs Return on Investment

The graph depicting the relationship between investment amounts and Return on Investment (ROI) reveals critical insights into specific company performances. Notably, entities like Fung Ao Seu, Agropro Corporation, Central Moris, and Compass Boat Charter & Diverse faced substantial losses in both gross and net income. These setbacks were primarily driven by deficiencies in infrastructure, including limited irrigation systems and constrained accessibility. Furthermore, fluctuations in market demand and the overarching influence of global climate changes significantly contributed to these investment challenges.

The anomalies observed within the performance of certain companies, specifically Fung Ao Seu, Agropro Corporation, Central Moris, and Compass Boat Charter & Diverse, contrast starkly with the positive returns experienced by other entities within the investment landscape. This deviation serves as a significant point of comparison, highlighting varied performance levels and vulnerabilities within different sectors. The identified deficiencies in infrastructure, coupled with challenges related to market fluctuations and global climatic shifts, underscore the multifaceted nature of investment setbacks within these entities.

Insights gleaned from this analysis underscore the intricate interplay of factors influencing investment performance. The challenges faced by these companies, including inadequate infrastructure, fluctuating market demands, and the broader impact of global changes, depict the multifaceted nature of their investment setbacks. Additionally, the compounding effects of the COVID-19 pandemic further intensified these challenges, significantly impacting the business operations of these entities in preceding periods.



Graph 6. Investment amount Vs Return on Investment

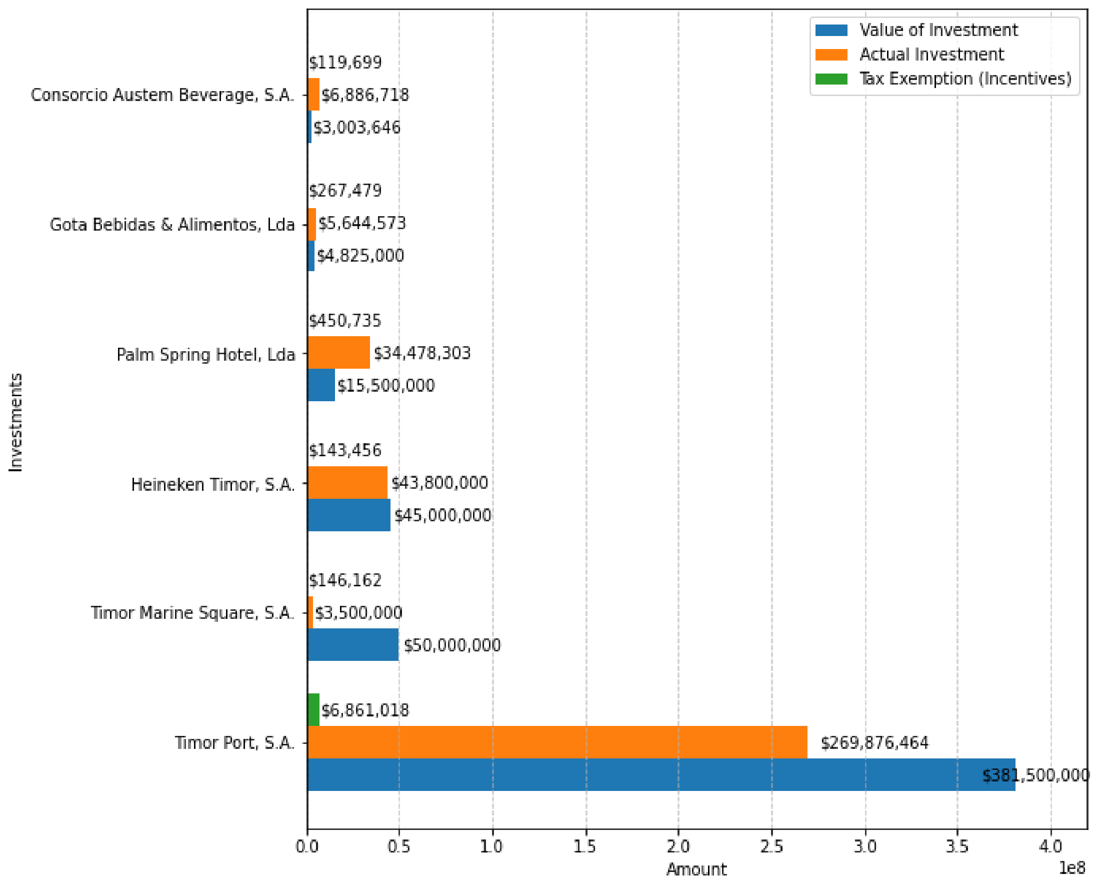
Several obstacles hindered the monitoring and evaluation processes within the investment landscape. Cladotia Fu faced difficulties in conducting site visits due to scheduling conflicts, impacting the efficacy of the monitoring activity. Similarly, companies like Agropro Corporation and Cipriano Felix failed to submit their questionnaires within the stipulated timeframe, affecting the compilation of the monitoring report. Moreover, specific companies such as TL Cement, The Circular Water, and Pan Union refrained from disclosing financial data, citing their non-operational status as the reason for withholding this information.

These instances present anomalies in the monitoring and data collection process, diverging from the anticipated flow of information and hindering comprehensive assessments. Cladotia Fu's scheduling conflicts, non-responsiveness from Agropro Corporation and Cipriano Felix, and the non-disclosure of financial data by TL Cement, The Circular Water, and Pan Union create a contrast to the expected participation and transparency within the monitored entities. These anomalies indicate discrepancies in engagement levels and data sharing among companies within the investment landscape.

Insights from these instances highlight hurdles in the monitoring and evaluation procedures, impacting the comprehensive assessment of the investment landscape. The challenges faced by Cladotia Fu, Agropro Corporation, Cipriano Felix, TL Cement, The Circular Water, and Pan Union in participating in the monitoring activities or providing crucial financial data underline impediments in ensuring transparency and completeness in the assessment process.

3.2.7. Comparative Analysis: Present Investment Values and Fiscal Incentives

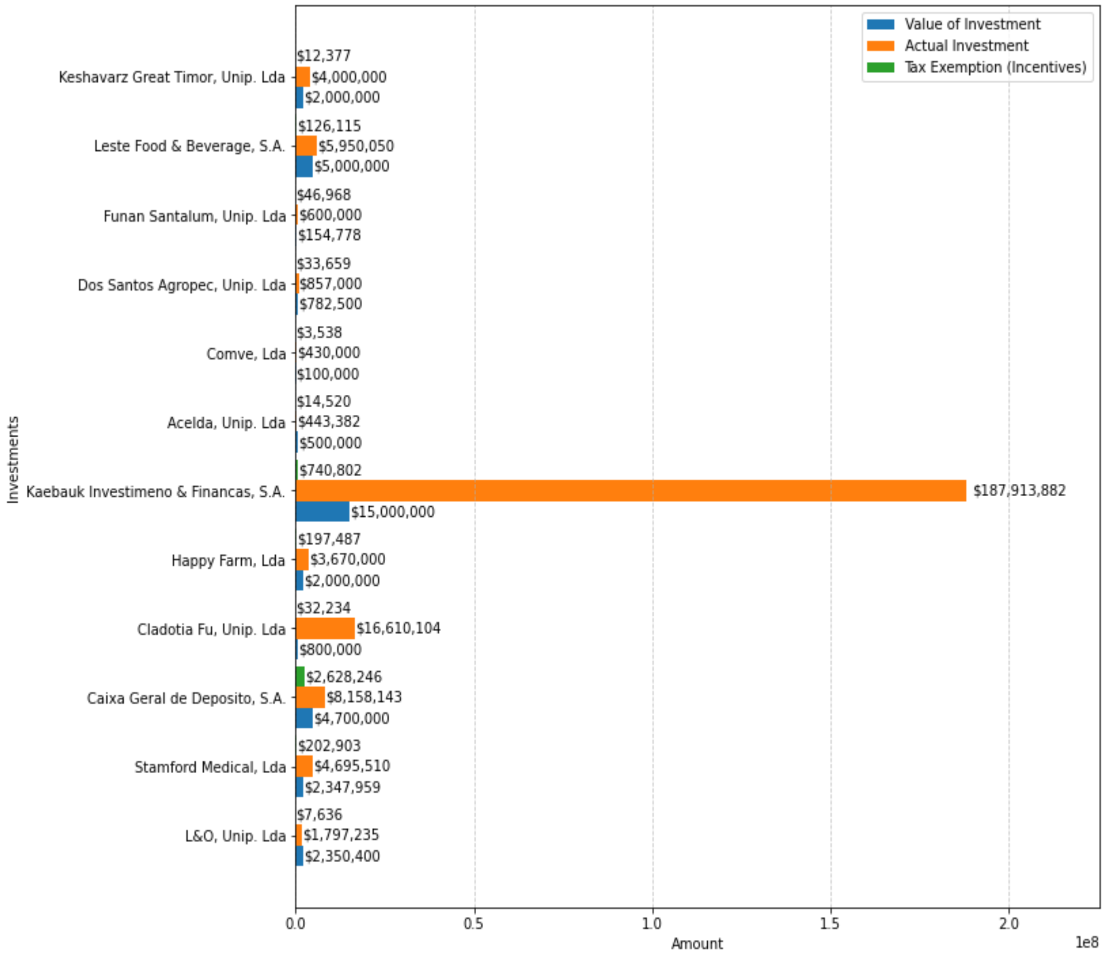
Between 2016 and 2023, the investment landscape experienced a notable surge, reaching a total value of $627.6 million -- an indication of substantial capital influx. However, within this financial trajectory, a distinctive anomaly arises in the form of fiscal incentives granted, totaling $12 million. These incentives encompass a diverse spectrum, encompassing income taxes, service taxes, sales taxes, import customs duties, and excise taxes. Notably, a significant majority of these incentives, amounting to $6.9 million, was attributed to Timor Port, S.A. This prominence suggests a pivotal role undertaken by this entity in handling sales, excise, and import customs duties, notably linked to substantial projects such as the International Tibar port and the development of prestigious hotels like the Five Star Hilton Hotel and Five Star Timor Marina Square Hotel.



Graph 10: Investment amount Vs fiscal incentives

A nuanced examination of tax exemptions unveils a discernible trend. Income taxes, service taxes, and excise taxes accounted for $3.6 million, $0.00, and $984, respectively—reflecting a comparatively minor impact within the fiscal incentive spectrum. In contrast, sales taxes and import customs duties emerged prominently, totaling $8.4 million. This emphasis indicates a strategic alignment of these specific taxes with incentivized sectors, particularly during the construction and operational phases of significant infrastructure projects and upscale hotels.

This insight portrays a deliberate and strategic endeavor aimed at stimulating specific sectors critical for infrastructural and hospitality development. The preeminence of sales and import customs duties within the incentive structure underscores a concerted effort to fortify these sectors, fostering an environment conducive to substantial infrastructural expansion and a thriving hospitality industry. Furthermore, the targeted allocation of these incentives to pivotal projects underscores the government's strategic vision in fostering economic growth through precision-focused fiscal policies.

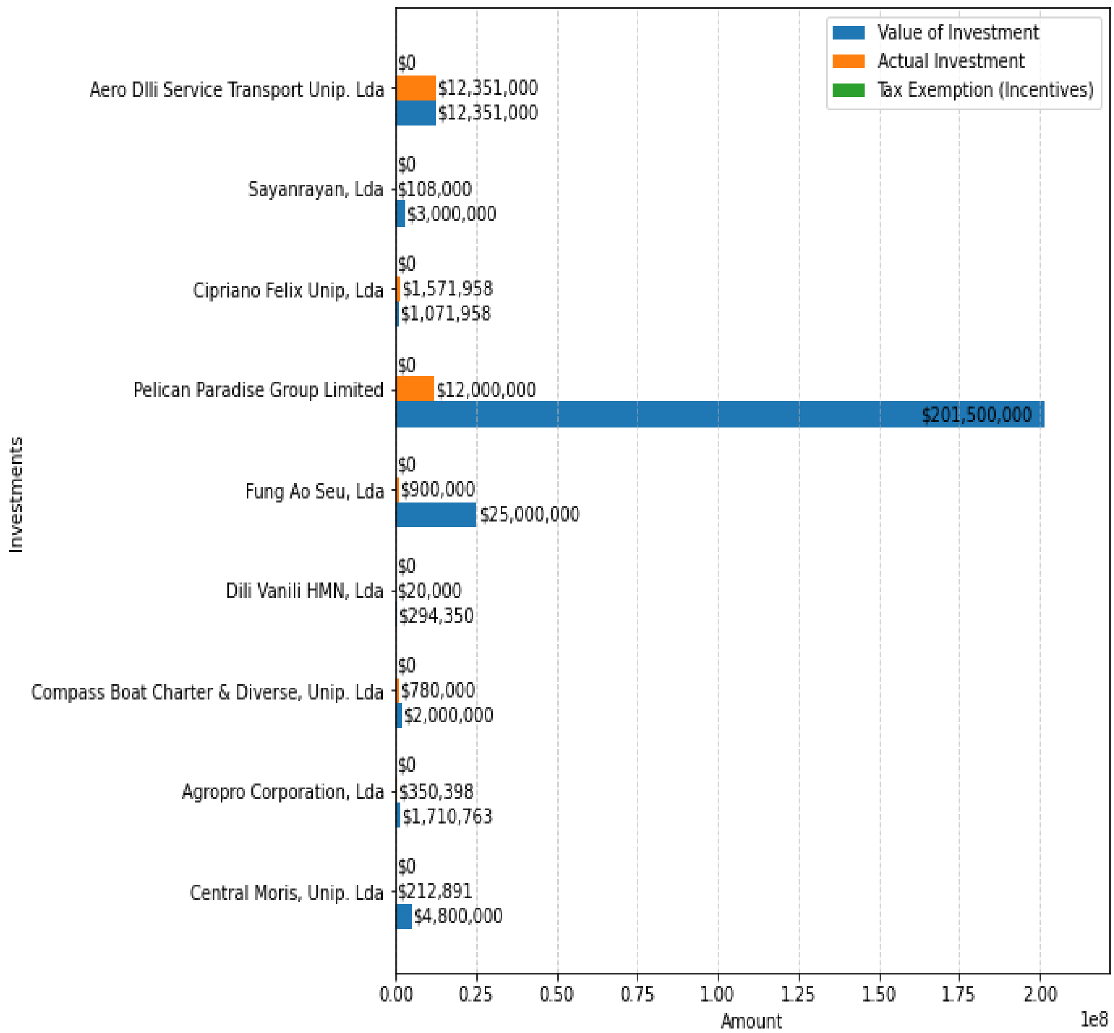


Graph 11. Project investment amount Vs fiscal incentives

During the same period, a consistent trend similar to Timor Port, S.A., is observed in several other entities like Kaebauk Investimentu & Financas, Gota Bebidas & Alimentos, Stamford Medical, Timor Marina Square, and Heineken Timor. These entities received fiscal incentives ranging from $143,455.88 to $740,802.00, displaying a reliance on these incentives during construction and operational phases. This reliance predominantly stems from the importation of raw materials vital for their production and packaging processes within Timor-Leste.

This pattern reveals a systematic strategy of aligning fiscal incentives with entities engaged in construction and operations heavily reliant on imported raw materials. While this signifies deliberate support for critical sectors, the concentration of incentives among select entities might pose concerns regarding sectoral diversity and equitable distribution.

The insight drawn highlights a targeted effort to stimulate industries dependent on raw material imports, fostering localized production and economic growth. However, a cautious approach is necessary to ensure fair distribution among diverse entities, fostering a more inclusive and competitive business landscape while sustaining economic development.



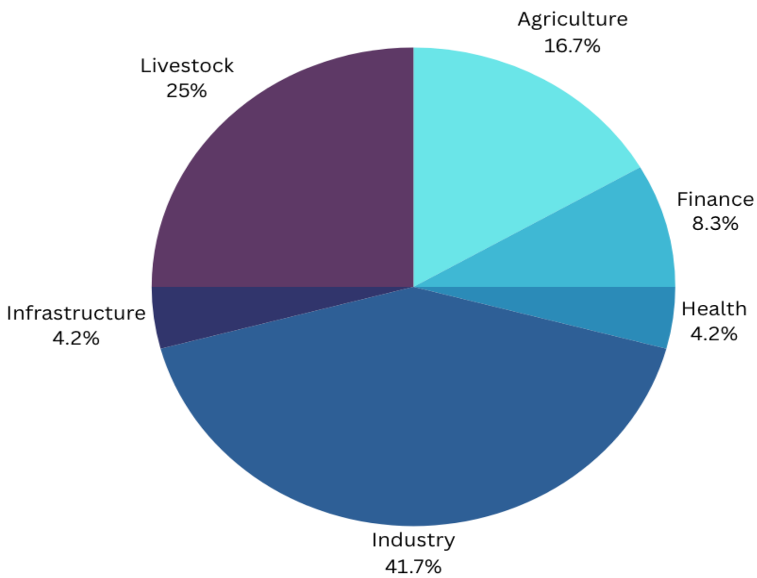
Graph 12. Project investment amount Vs fiscal incentives

A noticeable deviation exists among specific entities—Agropro Corporation, Central Moris, Compass Boat Charter, Kaebauk Investimento, and L&O—as they have opted not to leverage the advantages provided by free import taxes. This departure from the common practice of engaging with such tax benefits raises inquiries into the distinct circumstances surrounding these entities' decisions, diverging from the prevailing trend among businesses.

A plausible explanation could stem from these entities' reliance on local supply chains rather than resorting to importing goods. This strategic preference might indicate a deliberate choice based on ease of access or cost-efficiency, diminishing the necessity of utilizing tax benefits associated with imports. Another perspective suggests that these entities might lack comprehensive knowledge or familiarity with the procedural requisites for accessing these tax incentives.

The non-utilization pattern of tax incentives prompts a critical evaluation of decision-making mechanisms employed by these entities, indicating a potential need for enhanced informational resources or guidance. Improving clarity and accessibility of information could significantly optimize operational efficiencies and financial structures, underscoring the importance of refining policies or outreach programs to encourage broader participation and optimal utilization of available fiscal incentives. Understanding the rationale behind this behavior holds paramount importance, emphasizing the need to discern the unique motivations influencing these entities' decisions. Further insights derived from this analysis could contribute to refining policies, fostering more widespread and effective utilization of tax incentives among diverse entities.

3.2.8. Investments by Sector



Graph 13. Investment flows by sector

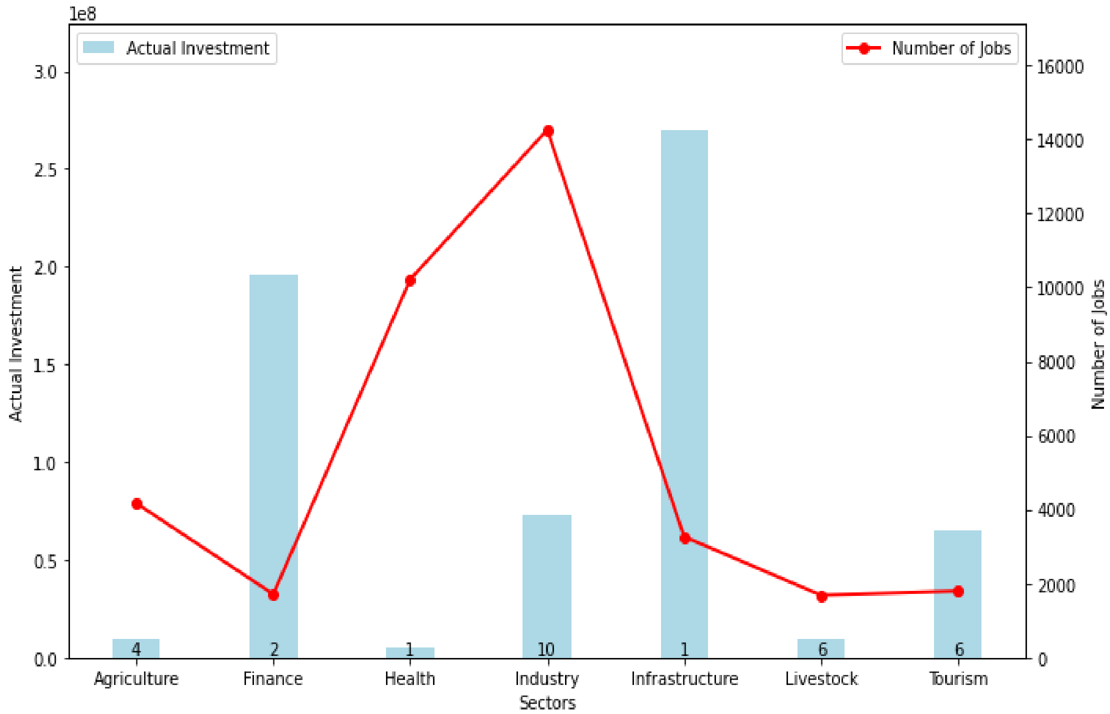
The graph delineates the investment distribution across diverse economic sectors. The Industry sector prominently leads with 11 projects and an initially proposed investment of $488.4 million, having now grown to $572.5 million, constituting approximately 33% of the total sector investment. Following closely, both Livestock and Tourism sectors each present six projects. Despite an initial investment projection of $291.7 million, both sectors currently stand at $74.5 million, collectively representing only 6% of the entire investment sector. The Agriculture sector follows with four proposed investments totaling $27.6 million, now accounting for a current investment of $9.7 million.

Notably, the Finance and Health sectors, despite having fewer projects (2 and 1 respectively), stand out as the only sectors where the current investment surpasses the initial proposed amounts. Finance, initially anticipated at $22 million, has surged impressively to $200.8 million in current investment, showcasing substantial growth. This anomaly stands in contrast to other sectors, indicating a remarkable deviation in investment progression from initial proposals, particularly in Finance and Health.

The significant expansion of the Finance sector's current investment compared to its initial projection indicates a substantial shift or increased confidence in this sector's potential growth. Conversely, the disparity between proposed and current investments in sectors like Livestock and Tourism signifies potential challenges or slower-than-expected growth in these areas. This analysis suggests a need for deeper exploration into the reasons behind these discrepancies, potentially uncovering industry-specific obstacles or emerging opportunities that might impact investment trends.

3.2.9. Sectors Overview: Actual Investment and Job Creation

The graph presents key sector metrics: company counts, actual investment values, and job figures per sector. It provides an overview of investment distribution and job creation potential in Agriculture, Finance, Health, Industry, Infrastructure, Livestock, and Tourism, shedding light on their economic contributions.



Graph 14. Actual investment vs Number of Jobs

Across diverse sectors, a notable disparity in investments, job creation, and company engagement is evident. Finance and Infrastructure sectors lead in investment values, with $196.1 million and $269.9 million respectively, showcasing substantial strategic importance or opportunities within these domains. In contrast, the agriculture sector reveals moderate investments at $9.8 million despite generating 4,164 jobs, indicating potential underinvestment compared to Finance and Infrastructure.

Anomalies arise in the health sector, where despite only one company (Stamford Medical) operating, it generates a significant 10,218 jobs against a comparatively low investment value of $4.7 million. This discrepancy suggests undervaluation or untapped potential within the Health sector. Similarly, the Livestock sector shows lower investment value at $9.7 million, contrasting with 1,680 jobs, indicating a potential need for increased investments to leverage job creation potential.

The disparities between investment values, job creation, and the number of companies operating across sectors underscore distinct growth potentials. Finance and Infrastructure sectors present promising investment opportunities, while anomalies in Agriculture, Health, and Livestock sectors highlight potential areas for further exploration and investment optimization. Closer examination of sectors like Agriculture, Health, and Livestock could enhance their socio-economic impacts by aligning investment strategies with their job creation potentials.

Sector-Specific Analysis

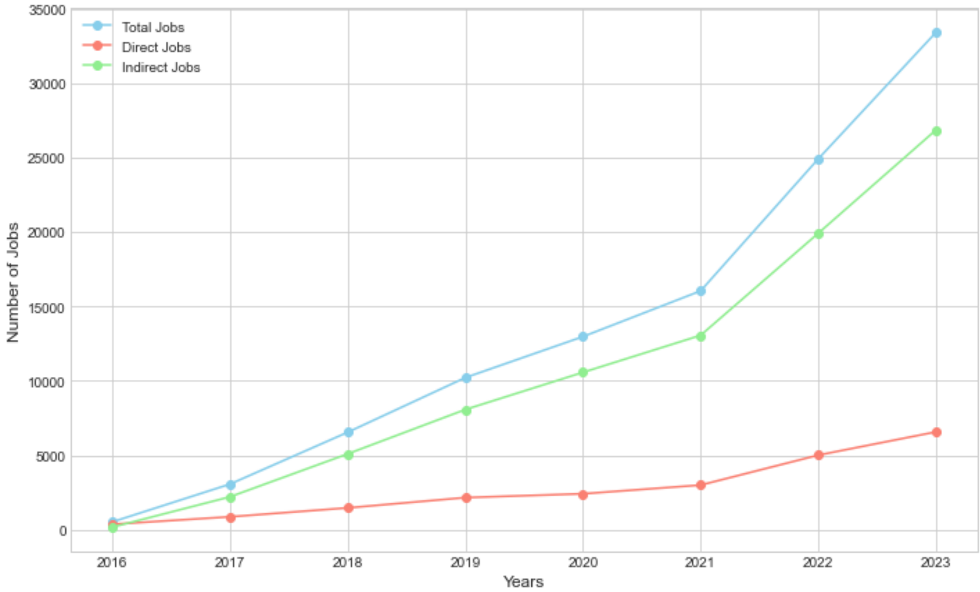
- **Industry Sector:** Though boasting the most companies (10) and a significant job count of 14,257, the current investment stands at $72.5 million, notably lower than the initial proposal of $488.4 million, indicating potential challenges or delays in achieving projected investments and job creation targets.

- **Agriculture Sector:** While hosting four companies and generating 4,164 jobs, the current investment of $1.6 million falls substantially short of the initial proposal of $27.5 million, indicating a significant gap between proposed and realized investments.
- **Livestock Sector:** With six companies and 1,680 jobs, the current investment of $17.9 million surpasses the initial proposal of $8.4 million, showing promising growth but room for further expansion.
- **Tourism Sector:** This sector, with six companies and 1,794 jobs, has seen substantial investment growth, reaching $283.7 million compared to the initial $64.9 million proposal, highlighting significant sectoral expansion.
- **Finance Sector:** Comprising two companies and 1,708 jobs, the current investment of $196 million exceeds the initial proposal of $19.7 million, indicating a significant increase in investment intentions.
- **Health Sector:** Despite only one company, Stamford Medical, generating 10,218 jobs, the current investment of $4.6 million exceeds the initial proposal of $2.3 million, reflecting a potential for further investment to match job creation.
- **Infrastructure Sector:** Represented by Timor Port, this sector's investment currently stands at $269.8 million compared to the initial $381.5 million proposal, suggesting potential delays in achieving the proposed investment goals.

This thorough examination of each sector uncovers specific patterns and chances for growth. It underscores the importance of making smart investments that directly match the potential to create jobs in different industries. The focus is on investing wisely to generate more employment opportunities across diverse sectors.

3.2.10. Employment Dynamics and Demographics

This graph depicts the job creation performance across all investment sectors in Timor-Leste during the fiscal years spanning 2016 to 2023.



Graph 15. Employment creation

The data reflects consistent and substantial growth in job creation from 2016 to 2023, with a cumulative total of 33,007 jobs generated during this period. This growth is primarily contributed by Timorese nationals, accounting for 79% of the total workforce, while 21% comprises foreign citizens. Indirect jobs constitute the majority, representing 73% of the created employment at 25,686, followed by direct jobs at 21%, amounting to 7,321. An additional 6% of the employment (2,221 jobs) constitutes direct part-time roles during the construction phase and the initial operation of an investment project.

The distribution of employment by gender showcases a consistent trend where male participation remains notably higher than female. Presently, male workers account for 69% of the workforce, while female representation stands at 31%. This consistent pattern of gender disparity in workforce participation might signify a prevalent trend or a sector-specific characteristic.

The dominance of Timorese nationals in the workforce suggests a substantial reliance on local employment, contributing significantly to job creation and fostering economic growth within the region. However, the disparity in gender representation, with a higher percentage of male employees, highlights a potential area for improvement in promoting gender diversity and inclusivity in the workforce. Strategies aimed at enhancing female participation in the workforce could not only address gender imbalances but also harness the untapped potential of the female labour force, fostering a more diverse and inclusive working environment. Additionally, the allocation of part-time roles during construction and project initiation phases underlines the transitional nature of employment patterns during specific project phases. Understanding these nuances can aid in tailoring policies and strategies for optimal workforce management across various operational stages.

V. Impact Assessment

5.1. Effects on Project/Process Goals:

1. Investment Volatility and Operational Disruptions:
   - Bureaucratic obstacles and delayed payments disrupted project implementation and financial stability, impacting ongoing and proposed ventures.
2. Budgetary Challenges and Resource Management:
   - Challenges in obtaining business visas and navigating administrative hurdles affected accurate forecasting and planning, impacting budget allocations and resource management.

5.2. Stakeholder Implications:

1. Regional Disparities and Investor Confidence:
   - Concentration of investments in specific regions, coupled with political instability and high travel costs, affected investor confidence and potential opportunities for underrepresented areas.
2. Policy Impact and Land Accessibility:
   - Complex administrative frameworks and land accessibility hurdles raised concerns about equitable resource distribution, potentially influencing policy frameworks and regulatory measures.

5.3. Lessons Learned:

1. Adaptation to External Influences and Improved Monitoring:
   - Understanding and navigating political instability, delayed payments, and bureaucratic complexities require robust monitoring systems for better adaptability and decision-making.
2. Equitable Resource Allocation and Investor Engagement:
   - Recognizing the need for equitable resource allocation across regions, streamlining administrative processes, and fostering investor confidence through stable policies and transparent frameworks.

This revised assessment encapsulates how challenges within Timor-Leste's investment landscape directly impact project goals, stakeholder implications, and the crucial lessons learned from navigating these hurdles.

X. Conclusion

The comprehensive analysis of Timor-Leste's investment landscape from 2016 to 2023 presents a nuanced portrayal of the economic trajectory, emphasizing key anomalies, sectoral disparities, and employment dynamics. The thorough examination of investment trends, geographical distributions, country-specific contributions, investment types, and sectoral overviews provides critical insights into the multifaceted nature of the nation's economic development.

The 2020 anomaly, with a significant investment drop from COVID-19 and political instability, underscores investment vulnerability, demanding adaptable strategies. Dili's concentrated investments show regional disparities, necessitating balanced growth policies. Moreover, Timor-Leste, Australia, and Singapore's dominance in investments highlights strong ties, urging continued relationship nurturing.

The prevalence of Domestic Direct Investment (DDI) over Foreign Direct Investment (FDI) and Joint Ventures (JV) signifies a reliance on local funding sources, indicative of favorable conditions for local investors or government initiatives promoting domestic investments. This trend emphasizes the significance of fostering an environment conducive to both local and foreign investors, ensuring a diverse and resilient investment landscape.

The consistent trend of actual investments exceeding initial projections across categories underscores project resilience, potentially due to streamlined regulations or unexpected economic stability during implementation phases. Simultaneously, Return on Investment (ROI) analysis exposes varying entity performance, featuring successes and setbacks. Challenges in monitoring and evaluation, such as data discrepancies and participation anomalies among entities, emphasize the difficulty in ensuring comprehensive and transparent assessments.

The strategic allocation of fiscal incentives to specific taxes and projects, notably within sectors critical for infrastructural and hospitality development, demonstrates a deliberate effort to stimulate targeted industries. However, it necessitates a cautious approach to ensure fair distribution and encourage sectoral diversity.

Sector-specific analyses underscore anomalies in investment progression and job creation targets, signaling potential hurdles or slower-than-expected growth in certain sectors and untapped potentials in others. Additionally, the predominantly Timorese-driven employment dynamics emphasize the region's dependence on local labor and the imperative to mitigate gender disparities, fostering a more diverse and inclusive workforce.

In summary, this report reveals a complex economic landscape with anomalies, disparities, and opportunities. It emphasizes the need for adaptive policies, transparent monitoring, strategic fiscal incentives, and inclusive strategies to foster sustainable growth, job creation, and balanced development in Timor-Leste's sectors and regions.

VI. Recommendations

Recommendations to address the challenges outlined in this monitoring report revolve around establishing a robust communication and coordination framework among key ministries, including the Land and Property Department, Immigration, Tax Authority, SEFOPE, and TradeInvest. It is crucial to initiate a consistent monthly meeting, facilitating discussions to streamline government facilitation procedures for investors. The proposed committee should focus on several key subjects:

6.1. Actionable Steps Based on Findings:

1. Ministry Engagement: Engage key ministries for successful field monitoring and regulatory clarity.
2. Benefit Access Education: Provide technical training and compensation alternatives for missed benefits.
3. SERVE Regulation Awareness: Ensure participation in annual monitoring to eradicate misinformation.
4. Accounting Systems Collaboration: Establish cooperation for better tracking of investment-related information.
5. Soft Sanctions Implementation: Implement sanctions on uncooperative beneficiary companies.
6. Customs Collaboration: Collaborate to ensure compliance regarding tax-exempted goods.
7. Data Improvement Guidelines: Provide guidance for expired certificates and establish sanctions for non-cooperation.

6.2. Strategies for Improvement:

1. Coordination Committee Establishment: Form a committee for monthly meetings to streamline facilitation procedures.
2. Visa Simplification: Simplify visa processes tailored for investors.
3. Skill Development Programs: Offer training aligned with investor demand to younger populations.
4. Monitoring Duration Guidelines: Establish clear guidelines for companies' post-certificate expiration.

6.3. Potential Changes to Enhance Performance:

1. Data Collection Mechanisms: Develop incentives for data sharing and foster technical cooperation.
2. Law Socialization: Disseminate private investment laws at municipal levels for increased awareness and attraction of private investment.

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