ASIAN DEVELOPMENT BANK

Presentation to Committee C of the National Parliament

29 November 2018
Today’s Presentation

- Budget overview
- ADB resource availability
- Current ADB support
  - Roads
  - Water and Sanitation
  - Solid Waste Management
  - Electricity
  - Education
  - Agriculture & Natural Resources
  - Institutional Development
The 2019 Budget Proposal Highlights Timor-Leste’s Fiscal Sustainability Challenge

[Graph showing data points for different years, labeled as follows:
- Petroleum Fund Balance at year end
- Debt Stock
- Petroleum Fund Savings (% non-oil GDP, rhs)
- Balance lost due to excess withdrawals

The graph indicates the changes in the Petroleum Fund Balance, Debt Stock, and Petroleum Fund Savings as a percentage of non-oil GDP from 2015 to 2023. The data shows a decline in the Petroleum Fund Savings as a percentage of non-oil GDP over the years, indicating a challenge in fiscal sustainability.]
The projected decline in Petroleum Fund savings is mainly driven by planned expenditures.
Petroleum Fund returns, slower domestic revenue growth and use of loan financing also contribute.
But, many government commitments are not fully reflected in the spending plans

1. Capital budget
   - Infrastructure to support human capital development, e.g. water and sanitation.
   - Tasi Mane project to develop the oil and gas sector

2. Recurrent budget
   - Allocations for key sectors such as health, education, and agriculture.
Proposed investment in infrastructure to support human capital development is limited during 2019-2023.
..and the proportion of capital investment to be funded through concessional loans has been reduced.
The Tasi Mane Project will be the largest investment Timor-Leste has ever made

- Complex mega-project with commercial and non-commercial elements.
  - **Commercial**: equity participation in upstream, downstream, supply base, etc.
  - **Non-commercial**: supporting infrastructure, roads, ports/airports, urban development, etc.

- Development of Tasi Mane is likely to require total investments that exceed Timor-Leste’s current Petroleum Wealth.
3 principles to ensure a successful outcome for Tasi Mane

1. **Viability.** Confirm the technical and economic viability of the project and optimize project planning before proceeding with major investments.

2. **Financing and implementation.** Develop a financing and implementation structure for the project that minimizes risks.

3. **Governance.** Implement the project in a way that reinforces existing state building processes for institutional development, transparency, and good governance.
Recurrent Spending
The budget includes a boost for recurrent spending

Salaries and wages and goods and services as a % of non-oil GDP
And this is partly driven by increased allocations for health and education.

![Graph showing actual and budgeted expenditures for 2015, 2016, 2017, 2018 Budget, and 2019 Budget for Education, Health, and Agriculture.](image)

- **Education**
  - 2015: $100 million
  - 2016: $110 million
  - 2017: $120 million
  - 2018 Budget: $130 million
  - 2019 Budget: $140 million

- **Health**
  - 2015: $50 million
  - 2016: $60 million
  - 2017: $70 million
  - 2018 Budget: $80 million
  - 2019 Budget: $90 million

- **Agriculture**
  - 2015: $30 million
  - 2016: $40 million
  - 2017: $50 million
  - 2018 Budget: $60 million
  - 2019 Budget: $70 million
# High level summary of budget issues

| Capital Investment | • Budget does not reflect investment needs in key sectors such as water and sanitation;  
|                    | • Full cost of major projects such as Tasi Mane is unclear;  
|                    | • Quality of current projects is uneven; |

| Recurrent Expenditure | • Expenditure growth is putting pressure on the Petroleum Fund & inclusion of transfers  
|                       | • Given recent growth in spending, some efficiencies / savings should be possible;  
|                       | • But, also need to sustain increases in spending on key sectors (e.g. health, education, rural development) in the medium term. |

| Revenue Mobilization and Financing | • Current outlook for fiscal sustainability is poor;  
|                                   | • Projections for domestic revenues do not fully reflect fiscal reform commitments in the government program (e.g. implement VAT and raise domestic revenues to 18% of non-oil GDP by 2023);  
|                                   | • Reduced use of concessional loan financing will put further pressure on the Petroleum Fund. |
ADB Investment Portfolio

**Sovereign portfolio**

$\text{million}$

- Net Amount
- Undisbursed amount
- Uncountacted amount

**Undisbursed portfolio**

$\text{million}$

- Education
- Water and Urban Services
- Transport
## Availability of ADB Resources during 2019-2021

<table>
<thead>
<tr>
<th>Product / Modality</th>
<th>Indicative availability</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sovereign Lending</strong></td>
<td>Approximately $321 million during 2019-2021</td>
</tr>
<tr>
<td></td>
<td>• Concessional loans - $37 million per annum</td>
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<tr>
<td></td>
<td>• Market based loans - $70 million per annum</td>
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<tr>
<td><strong>Non-sovereign lending</strong></td>
<td>No fixed country allocations – all depends on loan/investment opportunities</td>
</tr>
<tr>
<td><strong>Technical assistance grants</strong></td>
<td>No fixed country allocation, indicative allocation of $1-2 million per annum.</td>
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<tr>
<td><strong>Co-financing</strong></td>
<td>No fixed allocations</td>
</tr>
</tbody>
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*ADB plans to hold formal consultations with the Government in Q1 2019 for programing of the available resources*
Sectors for ADB Support
TIMOR-LESTE
PROJECT GUIDE MAP

Road Network Development Sector Project
Completed: 65.66 km

Road Network Upgrading Project
Completed: 65.15 km

Road Network Upgrading Sector Project
Completed: 55 km

Road Network Upgrading Sector Project (additional financing)
Completed: 80.125 km

Dili to Baucau Highway Project
Completed: 58 km

Baucau to Viqueque Highway Project
Completed: 47 km

Project by development partners
[Completed: 39 km] [Ongoing: 47 km] [Pending: 24 km]

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Completed Road RNUP 2
Dili-Glano
Location: km 16-700
<table>
<thead>
<tr>
<th></th>
<th>Past</th>
<th>Ongoing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roads</td>
<td>• 126 km of national roads upgraded since 2011</td>
<td>• A further 296 km of district and national roads will be upgraded by 2021</td>
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<tr>
<td></td>
<td>• Total of $337 million loan and grant approvals</td>
<td>• Development of operations and maintenance systems</td>
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<tr>
<td>Other Transport</td>
<td>• Preparation of transport sector masterplan</td>
<td>• Finalization an approval of transport sector masterplan</td>
</tr>
<tr>
<td>Loan/Grant No.</td>
<td>Project Name</td>
<td>Loan/Grant Agreement Period</td>
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<tr>
<td>---------------</td>
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<tr>
<td>L3181</td>
<td>Road Networks Upgrading Sector Project: Tacitolu – Tiber</td>
<td>Oct 2015 - Jun 2020</td>
</tr>
<tr>
<td>L3456</td>
<td>Dili to Baucau Highway Project</td>
<td>May 2017 – April 2019</td>
</tr>
<tr>
<td>L3020/L3021/G404</td>
<td>Road Networks Upgrading Sector Project: Manatuto-Laclubar-Natarbora</td>
<td>Mar 2014 - Jun 2020</td>
</tr>
<tr>
<td>L3341/L3342</td>
<td>Road Network Upgrading Sector Project: Maubara-Mota’ain &amp; Baucau-Lautem</td>
<td>May 2016 - Jun 2021</td>
</tr>
<tr>
<td>L3644/L3645</td>
<td>Baucau-Viqueque Highway Project</td>
<td>Mar 2019 – Mar 2022</td>
</tr>
<tr>
<td>Grant- RRP TIM 51115</td>
<td>Comprehensive National Road Network Strategy and Plan</td>
<td>Mar 2019 – Mar 2022</td>
</tr>
<tr>
<td>G504</td>
<td>District road rehabilitation projects: Aipelo-Bazartete-Tokoluli Ermera-Fatubesi</td>
<td>Feb 2017 – Dec 2020</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
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</table>
• **Current situation.** Access to clean water and sanitation is far below levels in rest of South East Asia – impacts on nutrition, health, and the economy. Challenges with both assets and institutions.

• **Investment need.** It is estimated that $1.3 billion of capital investment will be needed to achieve government goals for water and sanitation:
<table>
<thead>
<tr>
<th>Past</th>
<th>Ongoing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment</strong></td>
<td>• Upgrading of water supply for selected sub-zones in Dili</td>
</tr>
<tr>
<td></td>
<td>• Upgrading of Manatuto and Pante Makassar water supply systems</td>
</tr>
<tr>
<td><strong>Sector planning and project preparation</strong></td>
<td>• Preparation of masterplans for 4 district capitals: Baucau, Viqueque, Los Palos, Same</td>
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<td></td>
<td>• Supported preparation of GoTL ‘Water Supply and Sanitation Investment Plan, Policies and Institutional Reform 2018-2030’</td>
</tr>
<tr>
<td></td>
<td>• Supporting initial activities to implement the plan, including project preparation.</td>
</tr>
</tbody>
</table>
• **Project preparation.** $10 million allocated for project supervision and detailed design of new investment projects.

• **Capital investment.** Historical investment in Water and Sanitation is low. Current Infrastructure Fund Budget for 2019-2023 doesn’t reflect investment needs.
• **Status:** The solid waste management services in Dili are poor, with a lot of waste spread around the city and thrown to the drainage channels.

• **Challenge:** The challenge is how to implement an integrated solid waste management strategy that covers all aspects, from collection, transport, treatment and disposal.

• **Outlook:** If the Government successfully improves the solid waste management in Dili, similar projects can be rolled out to the other Municipalities.
SOLID WASTE MANAGEMENT—ADB SUPPORT

In the past:

• ADB supported the Ministry of State Administration and the Dili Municipality Authority to prepare the Dili Solid Waste Management Strategy that was approved by the Council of Ministers in October 2016.

On going:

• ADB is working together with Ministry of State Administration and the Dili Municipality Authority to prepare the full procurement processes for three service contracts: two for SWM Collection and Transportation; and one for SWM Landfill remediation and operation in Tibar.

Planned:

• The implementation of the Dili Solid Waste Management Strategy will be funded directly by the Government, namely to purchase the specialized equipment (e.g. solid waste collection trucks) and the construction of the controlled landfill in Tibar. ADB is available to support the project implementation unit if needed.
• The 2019 Infrastructure Fund budget submitted to the National Parliament allocates approx. $2.0 million for the implementation of the Dili Solid Waste Management Strategy.

• However, actual funding requirements are higher. Full implementation of the approved Dili Solid Waste Management Strategy would require funding of approx. $14 million.

• The recommended funding level covers project management, project supervision, a community engagement program and social measures for the households involved in scavenging.
• **Progress:** Government invested nearly $1 billion in electricity sector, has improved electricity coverage from 21% in 2003 to 83% in 2018. Available capacity is now 5 times more than current demand.

• **Challenges:** Various factors threaten the sustainability of the system:
  • Reliance on high cost energy source (diesel)
  • High Technical losses - (about 12% of gross electricity generated)
  • Tariffs set below cost of the operation and maintenance and 60% of electricity generated not billed.
  • Institutional structure - sector has been organized to function as department of government, with civil service employees.
  • Some issues with asset management, operations and maintenance.
Since 2016, ADB has provided $1 million in technical assistance to work with EdTL and MOP on the following:

- Technical and Financial Due Diligence
- Management Audit of the Sector
- Confirmation of Assets & Condition
- Determination of Investment Needs

The Final report of this Assessments and the Electricity Sector Strategy & Investment Roadmap will be presented to the Government in 1st quarter of 2019.
• **Sector goals.** Clear long-term goals and sector plans – SDP and Education Sector Plan.

• **Progress.** Good progress in improving enrolment, literacy etc., especially at primary level. Progress on qualifications framework, TVET capacity.

• **Challenges.** But, problems with quality and repetition – e.g. 25% students repeat in grade 1 and 5% students drop out in grade-4. Poor learning outcomes at early stages create challenges at later stages, including TVET.
# EDUCATION – ADB EXPERIENCE

<table>
<thead>
<tr>
<th></th>
<th>Support</th>
<th>Ongoing</th>
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<tbody>
<tr>
<td><strong>Capital Investment</strong></td>
<td>• $12 million grant for facilities upgrades for 5 existing TVET training centers (Dili, Baucau, Suai), and 2 news centers (Oecusse, and Viqueque).</td>
<td></td>
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<tr>
<td><strong>Policy, planning, and capacity development</strong></td>
<td>• Curriculum development for construction and automotive trades.</td>
<td>• Support to Ministry of Education on policy and planning for technical secondary education.</td>
</tr>
</tbody>
</table>
• **Progress:** Sector progress has been below government targets. Resources (financial and institutional) are a constraint but successful examples in key sub-sectors (horticulture, aquaculture, agroforestry, livestock) show the potential.

• **Challenges:** Need to find improved mechanisms for channeling support to small-holder farmers by strengthening existing extension system & building partnerships with other providers. Also important to stimulate commercial / market-oriented production

• **Solutions:** Work to close gaps in policy, planning, and institutional development needs to be matched by a commitment to ↑ public investment in the sector in the medium term while working with the private sector to implement.
# AGRICULTURE – ADB SUPPORT

<table>
<thead>
<tr>
<th>Policy, Planning, and Institutions</th>
<th>Investments</th>
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<tbody>
<tr>
<td><strong>Coffee</strong></td>
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<tr>
<td>• Support for establishment and initial activities of Timor Coffee Association (ACT)</td>
<td>• $4 million loan and $1.2 million technical assistance grant for farmer training and coffee value chain development.</td>
</tr>
<tr>
<td>• Support to MAP and ACT for development of National Coffee Sector Development Plan</td>
<td>• Currently finalizing $3 million grant project.</td>
</tr>
<tr>
<td><strong>Forestry</strong></td>
<td></td>
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<tr>
<td>• Support to MAP for development of National Forestry Investment Plan.</td>
<td></td>
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<tr>
<td><strong>Fisheries</strong></td>
<td></td>
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<tr>
<td>• Support to MAP on fisheries and aquaculture policy, community management of coastal resources.</td>
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<tr>
<td><strong>Livestock</strong></td>
<td></td>
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<tr>
<td>• Initial assessment of potential to develop cross-border livestock trade with Indonesia.</td>
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</table>
## Ongoing and Planned Support

### Public financial management
- Domestic revenue mobilization through fees and charges, and improved governance/oversight of APAs and SOEs.
- Public investment management, including project preparation and appraisal and environmental regulation.
- Strengthening integration of planning and budgeting through medium term planning.

### Regional cooperation and integration
- Preparation for ASEAN membership
- Integration with Indonesia through collaboration on livestock, tourism, and border management

### Finance and private sector development
- Commercialization of BNCTL
- Strengthening of legal frameworks for business and finance
Obrigado wain!