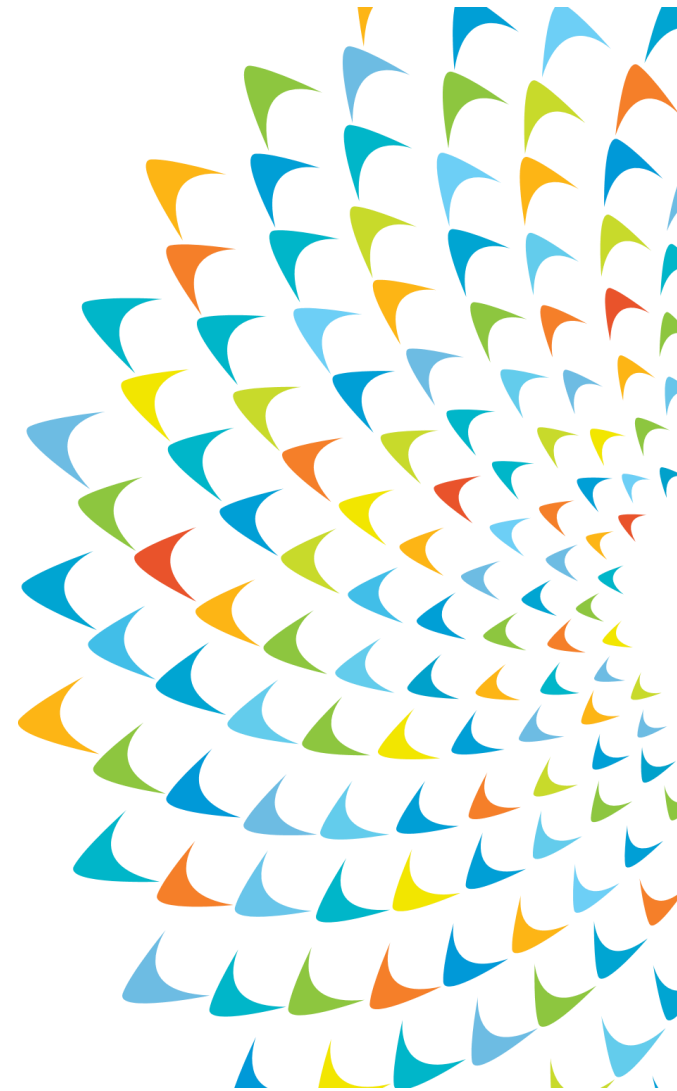




ASIAN DEVELOPMENT BANK

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



República Democrática de Timor-Leste

State Budget 2019

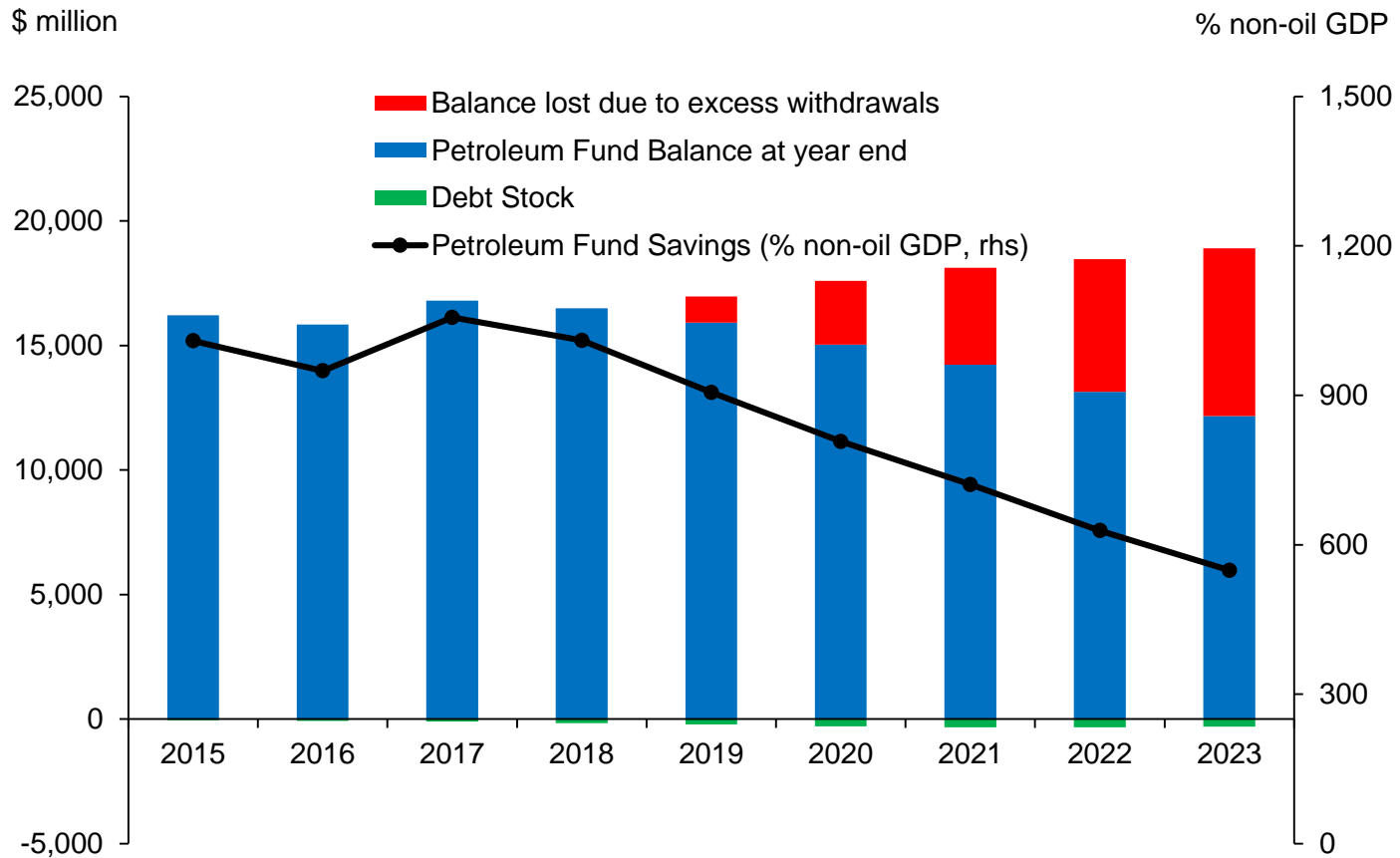
Budget Overview

Book

Budget Overview

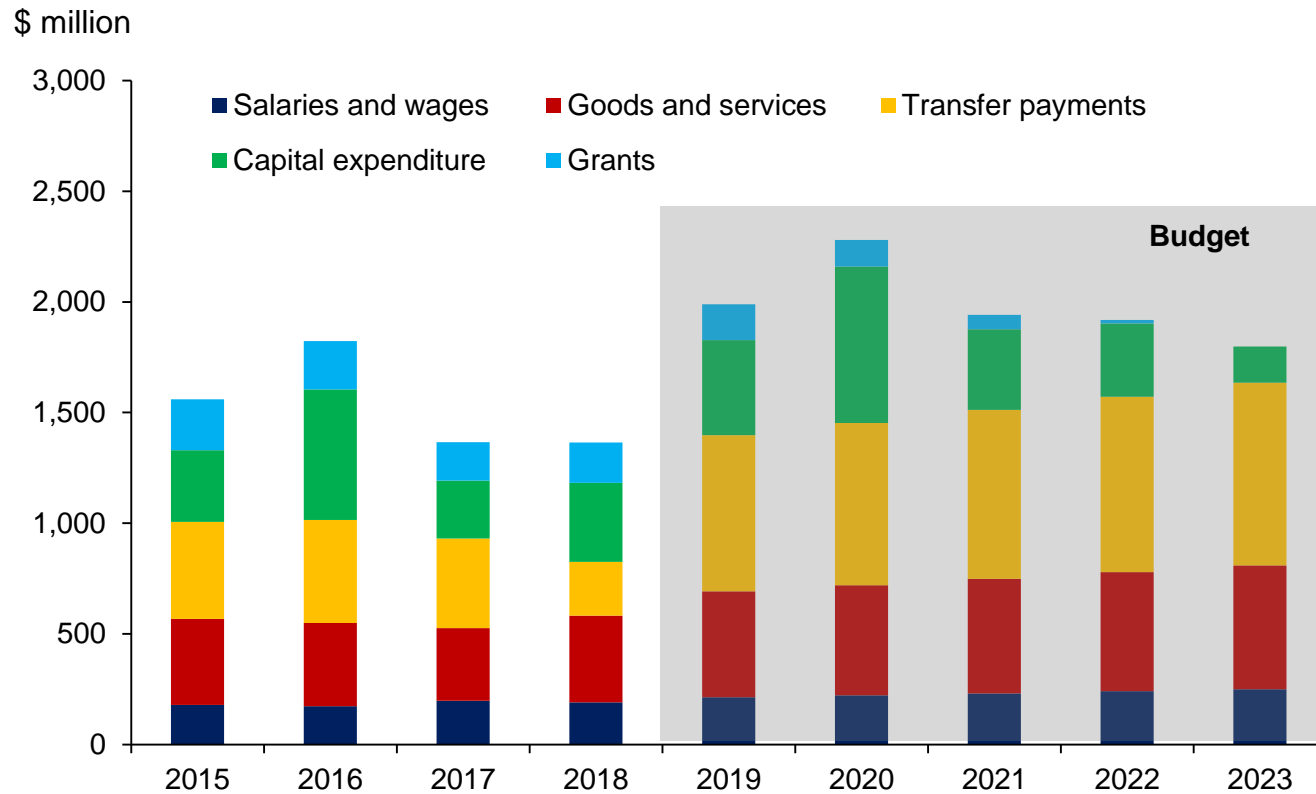


The 2019 Budget Proposal Highlights Timor-Leste's Fiscal Sustainability Challenge



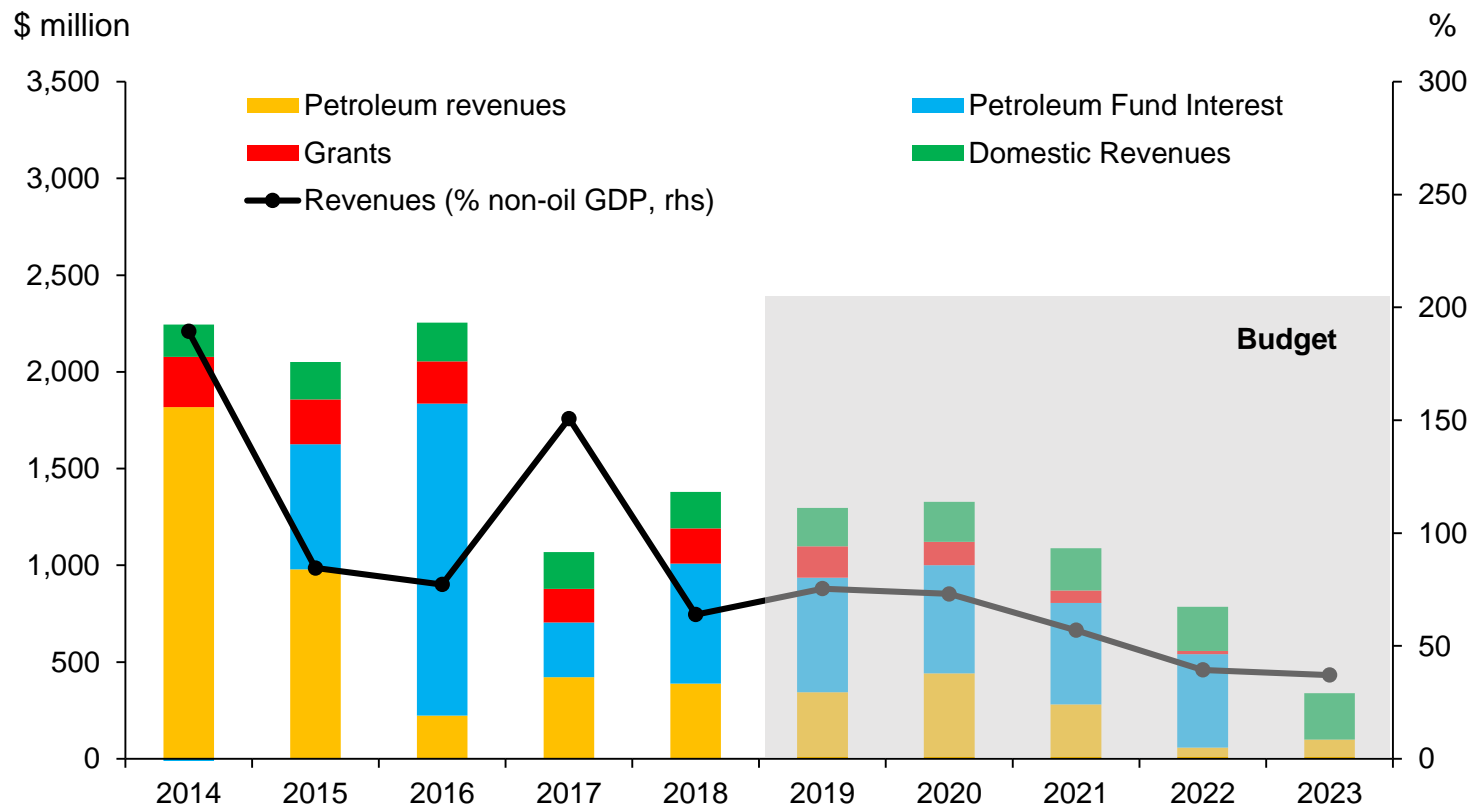


The projected decline in Petroleum Fund savings is mainly driven by planned expenditures..





↓ 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

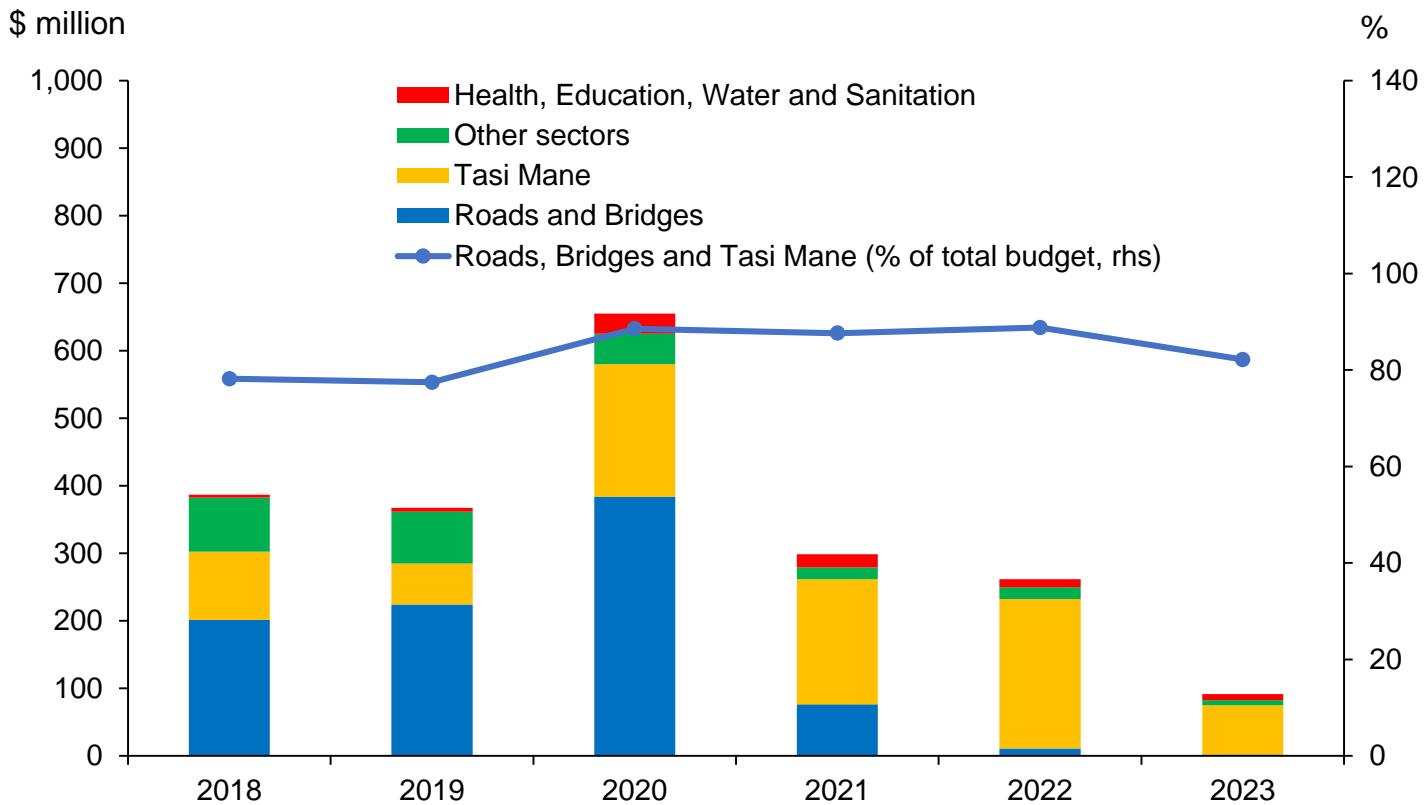
- Allocations for key sectors such as health, education, and agriculture.



Capital Spending



Proposed investment in infrastructure to support human capital development is limited during 2019-2023..

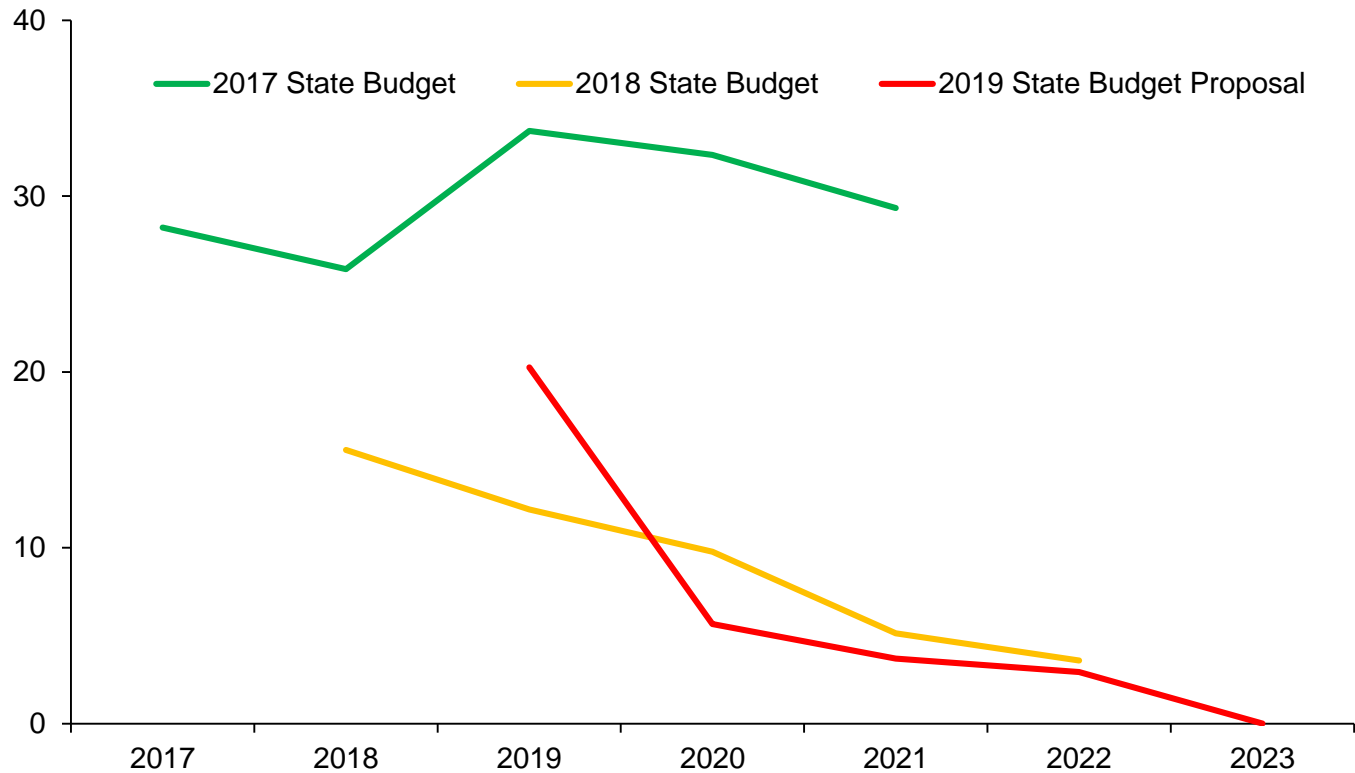




..and the proportion of capital investment to be funded through concessional loans has been reduced.

Proportion of capital budget to be financed with loans

%





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.

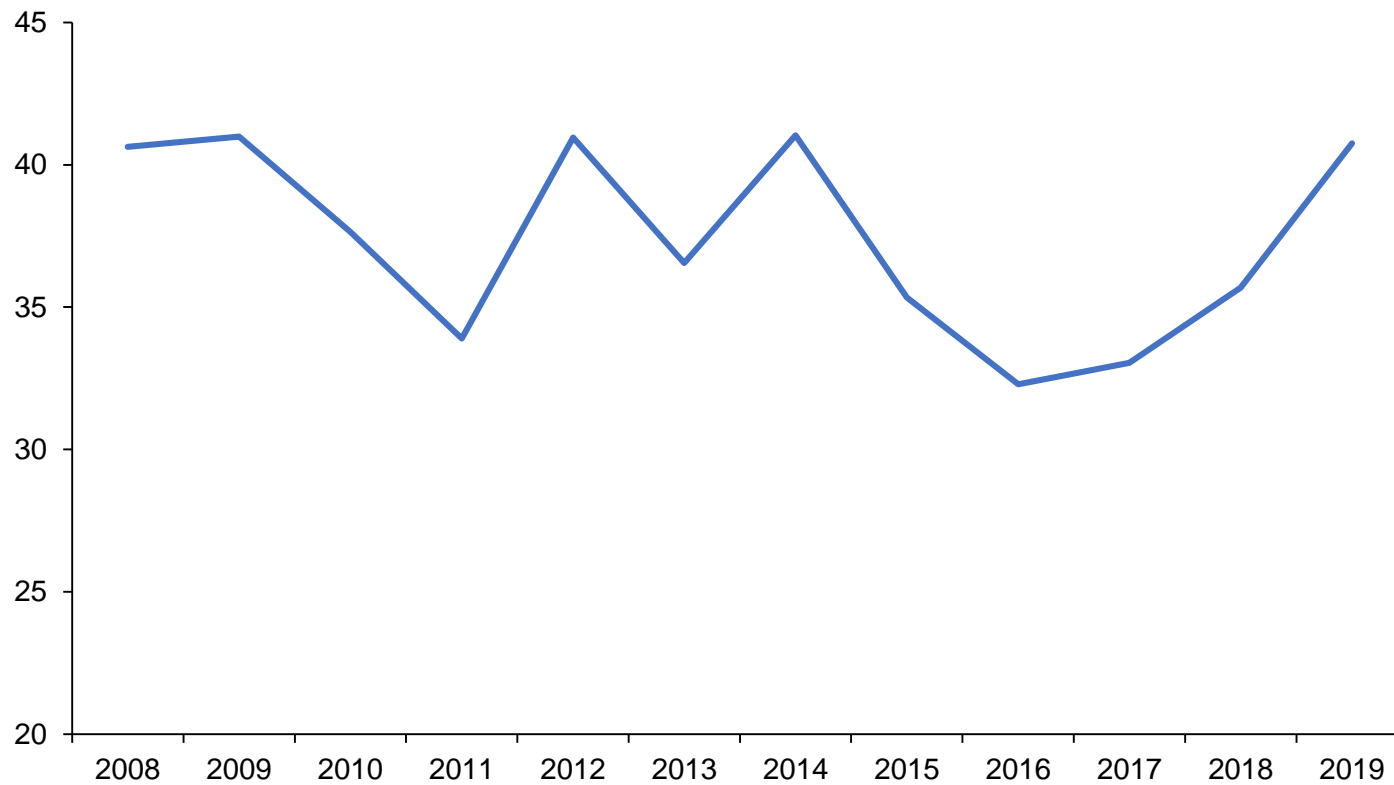


Recurrent Spending



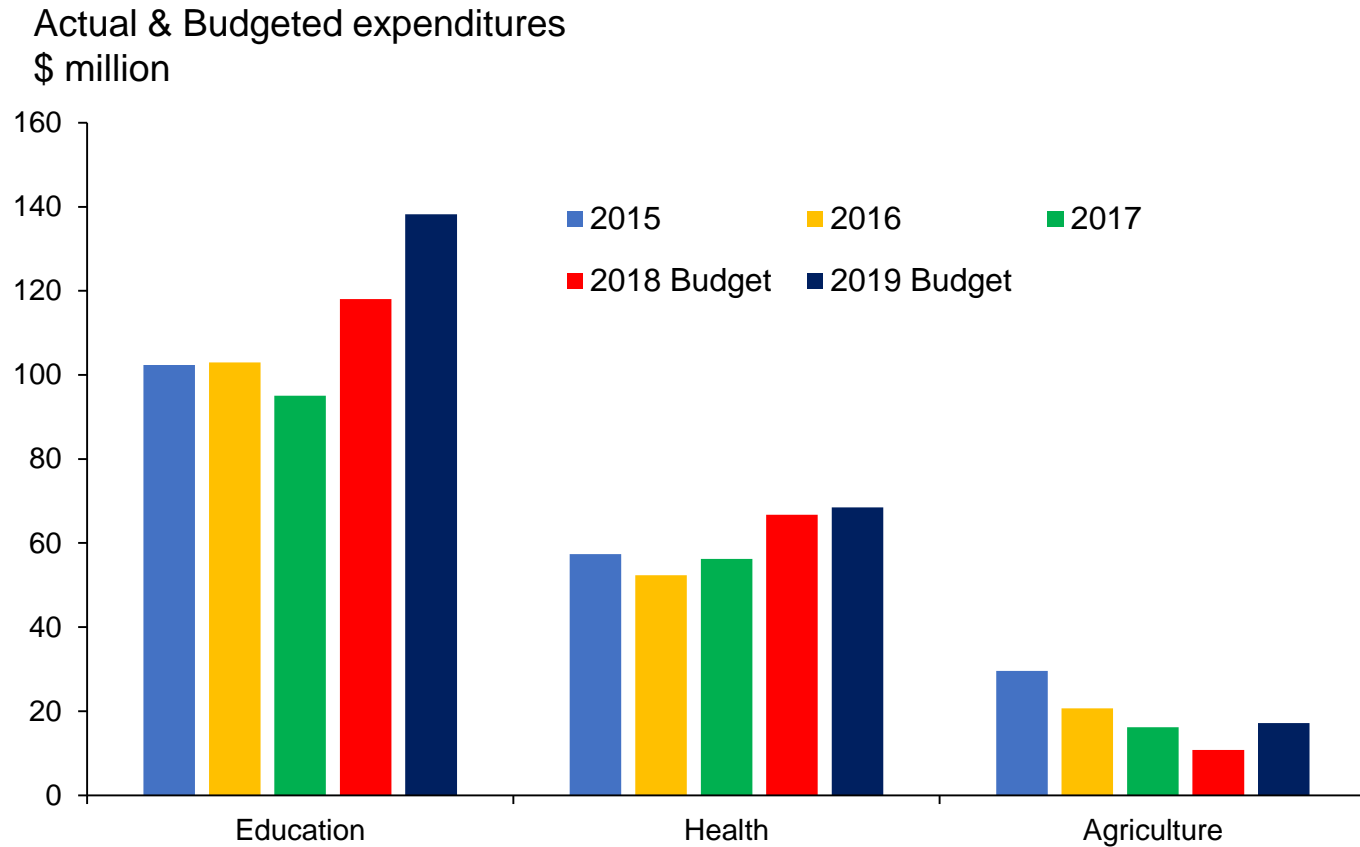
The budget includes a boost for recurrent spending

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





High level summary of budget issues

Capital Investment	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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.



STRATEGY 2030

PROSPEROUS
INCLUSIVE
RESILIENT
SUSTAINABLE

ASIA AND THE PACIFIC



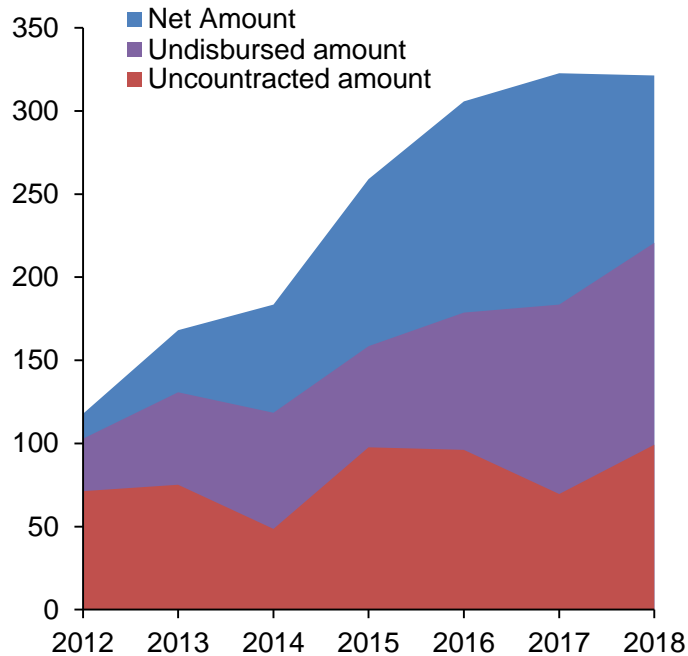
ADB Resources



ADB Investment Portfolio

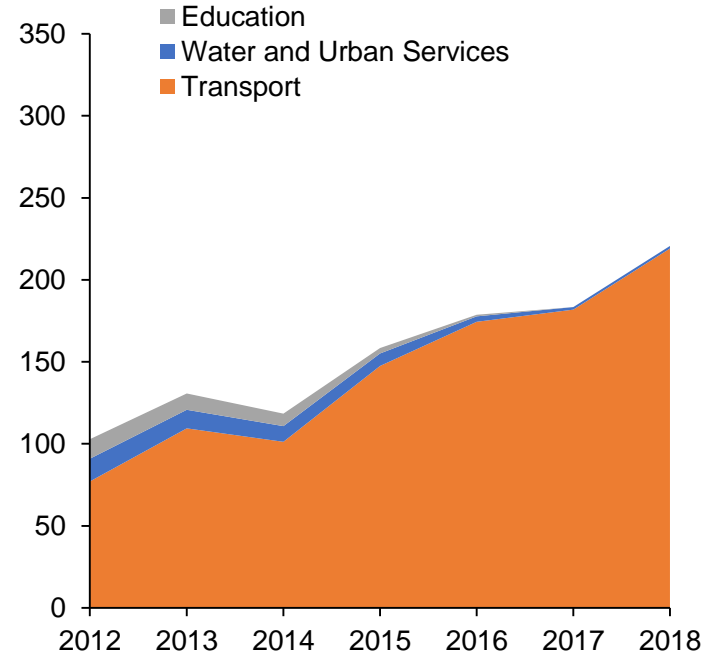
Sovereign portfolio

\$million



Undisbursed portfolio

\$million





Availability of ADB Resources during 2019-2021

Product / Modality	Indicative availability
Sovereign Lending	Approximately \$321 million during 2019-2021 <ul style="list-style-type: none">• Concessional loans - \$37 million per annum• Market based loans - \$70 million per annum
Non-sovereign lending	No fixed country allocations – all depends on loan/investment opportunities
Technical assistance grants	No fixed country allocation, indicative allocation of \$1-2 million per annum.
Co-financing	No fixed allocations

ADB plans to hold formal consultations with the Government in Q1 2019 for programing of the available resources



Sectors for ADB Support




124°30'E

126°30'E

TIMOR-LESTE PROJECT GUIDE MAP

- Road Network Development Sector Project  Completed: 65.65 km
- Road Network Upgrading Project  Completed: 65.15 km
- Road Network Upgrading Project (additional financing)  Ongoing: 97.435 km
- Road Network Upgrading Sector Project  Ongoing: 55 km
- Road Network Upgrading Sector Project (additional financing)  Ongoing: 80.125 km
- Dili to Baucau Highway Project  Ongoing: 56 km
- Baucau to Viqueque Highway Project  Approved: 58 km
- Project by development partners  [Completed: 39 km] [Ongoing: 47 km] [Pending: 24 km]



Completed Road RNUP  Tibar-Gleno
Location: km 16+700

124°30'E



TRANSPORT – ADB EXPERIENCE

	Past	Ongoing
Roads	<ul style="list-style-type: none">• 126 km of national roads upgraded since 2011• Total of \$337 million loan and grant approvals	<ul style="list-style-type: none">• A further 296 km of district and national roads will be upgraded by 2021• Development of operations and maintenance systems
Other Transport	<ul style="list-style-type: none">• Preparation of transport sector masterplan	<ul style="list-style-type: none">• Finalization an approval of transport sector masterplan

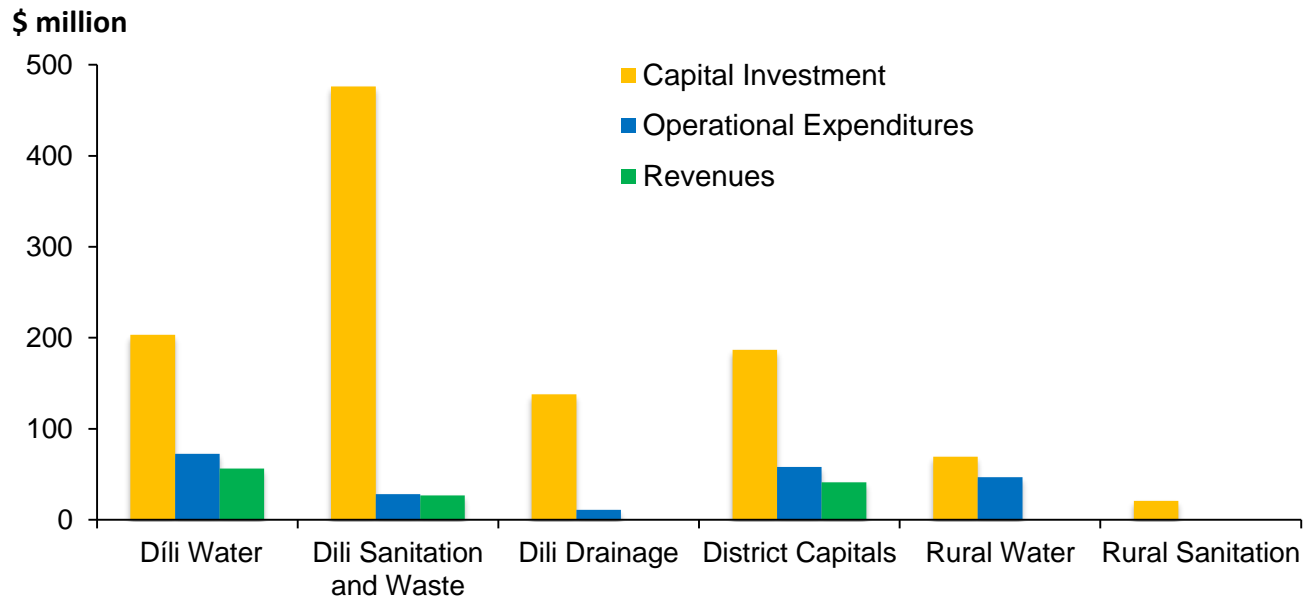
Ongoing Road Projects - Budget Commitments

Loan/Grant No.	Project Name	Loan/Grant Agreement Period	Total Loan/Grant Amount \$	Disbursed \$	2019 Projection \$
L3181	Road Networks Upgrading Sector Project: Tacitolu – Tibar	Oct 2015 - Jun 2020	11.78m	5.85m	2.38m
L3456	Dili to Baucau Highway Project	May 2017 – April 2019	49.65m	12.55m	18.87m
L3020/L3021/ G404	Road Networks Upgrading Sector Project: Manatuto-Laclubar-Natarbora	Mar 2014 - Jun 2020	50m	27.50m	12.87m
L3341/L3342	Road Network Upgrading Sector Project: Maubara-Mota'ain & Baucau-Lautem	May 2016 - Jun 2021	76.22m	8.96m	13.62m
L3644/L3645	Baucau-Viqueque Highway Project <ul style="list-style-type: none"> • Loan Agreement signed on 22/11/18 • Civil works and supervision contracts have not yet awarded (procurement ongoing). 	Mar 2019 – Mar 2022	44m	0	10m
Grant- RRP TIM 51115	Comprehensive National Road Network Strategy and Plan	Mar 2019 – Mar 2022	1m	.05m	0.5m
G504	District road rehabilitation projects: Aipelo-Bazartete-Tokoluli Ermera-Fatubesi	Feb 2017 – Dec 2020	22.62m	1.72m	10m
	Total		255.27	56.63	68.24m



WATER AND SANITATION – SECTOR CONTEXT

- **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:





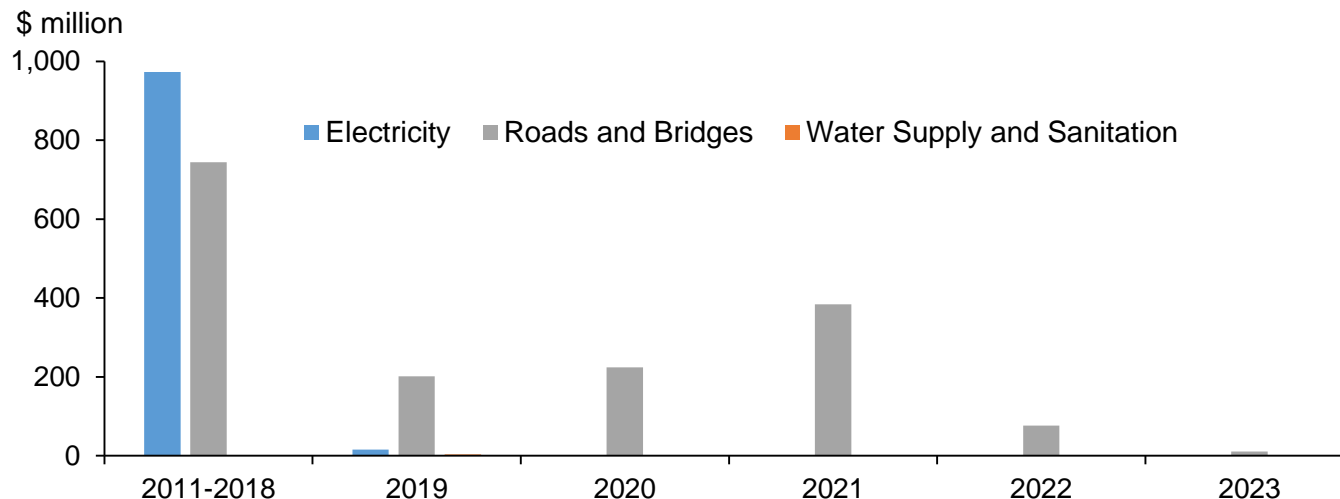
WATER AND SANITATION – ADB EXPERIENCE

	Past	Ongoing
Investment	<ul style="list-style-type: none">• Upgrading of water supply for selected sub-zones in Dili• Upgrading of Manatuto and Pante Makassar water supply systems	<ul style="list-style-type: none">• Supporting operations and maintenance of the Manatuto and Pante Makassar systems
Sector planning and project preparation	<ul style="list-style-type: none">• Preparation of masterplans for 4 district capitals: Baucau, Viqueque, Los Palos, Same• Supported preparation of GoTL '<i>Water Supply and Sanitation Investment Plan, Policies and Institutional Reform 2018-2030</i>'	<ul style="list-style-type: none">• Supporting initial activities to implement the plan, including project preparation.



WATER AND SANITATION – BUDGET OUTLOOK

- **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.





SOLID WASTE MANAGEMENT - STATUS

- **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.



SOLID WASTE MANAGEMENT– BUDGET OUTLOOK

- 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.



ELECTRICITY– SECTOR CONTEXT

- **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.



ELECTRICITY– ADB SUPPORT

- 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



EDUCATION AND SKILLS – SECTOR CONTEXT

- **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

	Support	Ongoing
Capital Investment	<ul style="list-style-type: none">• \$12 million grant for facilities upgrades for 5 existing TVET training centers (Dili, Baucau, Suai), and 2 new centers (Oecusse, and Viqueque).	
Policy, planning, and capacity development	<ul style="list-style-type: none">• Curriculum development for construction and automotive trades.	<ul style="list-style-type: none">• Support to Ministry of Education on policy and planning for technical secondary education.



AGRICULTURE – SECTOR CONTEXT

- **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

	Policy, Planning, and Institutions	Investments
Coffee	<ul style="list-style-type: none">• Support for establishment and initial activities of Timor Coffee Association (ACT)• Support to MAP and ACT for development of National Coffee Sector Development Plan	<ul style="list-style-type: none">• \$4 million loan and \$1.2 million technical assistance grant for farmer training and coffee value chain development.• Currently finalizing \$3 million grant project.
Forestry	<ul style="list-style-type: none">• Support to MAP for development of National Forestry Investment Plan.	
Fisheries	<ul style="list-style-type: none">• Support to MAP on fisheries and aquaculture policy, community management of coastal resources.	
Livestock	<ul style="list-style-type: none">• Initial assessment of potential to develop cross-border livestock trade with Indonesia.	



INSTITUTIONAL DEVELOPMENT

	Ongoing and Planned Support
Public financial management	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• Preparation for ASEAN membership• Integration with Indonesia through collaboration on livestock, tourism, and border management
Finance and private sector development	<ul style="list-style-type: none">• Commercialization of BNCTL• Strengthening of legal frameworks for business and finance

Obrigado wain!