

La'o Hamutuk

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Timor-Leste is going into debt.

Information and analysis from La'o Hamutuk

7 March 2012. Revised 1o July 2016

[Pajina ida ne'e iha lingua Tetum.](#)

During 2012, Timor-Leste signed its first contracts to borrow money from foreign governments and institutions, and this page discusses events from 2012 on. [For information about events during 2009-2011 which opened the door to borrowing from overseas, click here.](#)

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For further reading

<i>Diário Nacional</i> 28-29 September 2011	Guteriano Neves: Deve no Problema sira ba Timor-Leste
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Timor-Leste is about to take out loans for the first time in its history. This important event will set a precedent and establish obligations for decades into the future, long after Bayu-Undan and [Kitan](#) have run out of oil and gas. Although Parliament authorized only \$160 million in borrowing during 2012, the Government has already said that it plans to borrow more than \$400 million during the next four years. We have also heard that \$6,000 million (\$6 billion) may be borrowed to finance implementation of the [Strategic Development Plan](#). This web page discussed events in 2012 relating to borrowing, [click here for earlier information](#).

Legal Framework for Borrowing

On 21 October 2009, Timor-Leste promulgated the [Budget and Financial Management Law](#), (also [Port.](#)), Law No. 13/2009. Article 20 describes how the State can borrow, and Article 21 creates a process for the State to offer loans to people or businesses.

On 28 September 2011, [Law No. 13/2011 \(Port.\)](#) on the Public Debt Regime was promulgated. It implements a debt policy which had been approved by the [Council of Ministers](#) (also [Tetum](#) or [Portuguese](#)) in early June. The approved law is only slightly different from the [proposed law and explanatory memorandum](#) which the Government sent to Parliament in June.

In late November, Parliament approved [Law No. 16/2011](#) (also [Port.](#)), the [General State Budget for 2012](#). For the first time, it authorizes borrowing of up to \$160 million, of which \$43.1 million can be spent during 2012.

Repaying loans from Petroleum Revenues

Article 20 of the original 2005 [Petroleum Fund Law](#) (also [Portuguese](#)) prohibited using the Petroleum Fund as collateral for borrowing. In July 2011, the Ministry of Finance, Parliament and the President [revised the Petroleum Fund law](#). In addition to allowing a riskier investment strategy, the new law allows up to 10% of the fund (about one billion dollars) to be used as collateral for borrowing.

Once money has been transferred from the [Petroleum Fund](#) to the Treasury, it can be used for any purpose in the State Budget. As more than 90% of state income comes from petroleum revenues and debt repayments have first claim on the Budget, it is clear that money from the Petroleum Fund will be used to repay debts. To put it another way, could

Law No. 13/2009 on Budget and Financial Management

Article 20: Guarantees and borrowing by the State

- 1 – In the annual public revenue and expenditure estimates submitted to the Parliament, the Government shall specify the amount it expects to receive from borrowings and grants during the financial year, in order to fund State expenses.
- 2 – The Government shall only issue debt certificates when it has effectively received the amount or goods covered by the loan.
- 3 – The Minister of Finance is the only authority for lending or borrowing on behalf of the State, and:
 - a) Represents the Government in all lending or borrowing agreements;
 - b) Maintains the original documents and records regarding all lending or borrowing agreements, including guarantees and contingency obligations.
- 4 – All revenues obtained under the present article shall be transferred to the Consolidated Fund of Timor-Leste, being available to fund State expenses according to the State Budget Law.
- 5 – The Minister of Finance may issue a guarantee binding the Government, without a second authorization, provided that the amount in question does not exceed the unspent budget appropriations allocated to the Ministry of Finance and in the cases of specified amounts when duly authorized by law.
- 6 – The Government shall only be bound in relation to guarantees, insurances or financial instruments similar to the ones listed in paragraph 8 of the present article.
- 7 – Government expenses resulting from the compliance with guarantees and insurances are considered debt service expenses.
- 8 – In the annual public revenue and expenditure estimates submitted to the Parliament, the Government shall specify the necessary amount for meeting the cost of the operation of all borrowings under the present law, whether through the settlement of the capital or through the payment of interests or other fees in relation to the borrowings during the financial year to which these estimates relate.
- 9 – The settlement of borrowings and interests, as well as any other amounts to be paid provided that they do not concern guarantees or indemnities, is to be paid from the Public Fund, without any other appropriation.

Law No. 9/2005 on the Petroleum Fund (now repealed)

Article 20: No Encumbrances on the Assets of the Petroleum Fund

- 20.1 Any amount that is invested [in the Petroleum Fund] shall, at all times, remain the property of Timor-Leste.
- 20.2 Any contract, agreement or arrangement, to the extent that it purports to encumber the assets of the Petroleum Fund, whether by way of guarantee, security, mortgage or any other form of encumbrance, is null and void.

Timor-Leste repay billions of dollars if we didn't have oil and gas wealth?

Debt Sustainability Assessments

In February 2012, the IMF and World Bank published a [Debt Sustainability Assessment](#) (DSA) as part of the IMF's annual [Article IV report](#). The DSA considers \$486 million in loans over five years, based on the [2012 State Budget](#) and the [Strategic Development Plan](#). The agencies called for "a cautious approach to [non-concessional] borrowing and emphasized the importance of prudent debt management." Their [2010 DSA](#) a year earlier discussed only about half as much borrowing.

JICA (Japan) prepared "An Assessment of Macroeconomic Prospects, Future Borrowing Capacity and Debt Sustainability" in October 2010, which underestimates future Government spending. (JICA did not give La'o Hamutuk permission to post the report.) After discussing and forecasting the country's economic situation in depth, JICA concluded that Timor-Leste could be eligible to borrow, but suggested that limits of \$40-\$45 million per year "may be considered appropriate from the viewpoint of safeguarding debt sustainability." The report also identified key challenges for Timor-Leste, including "improve absorptive capacity, strengthen public expenditure management, establish public debt management policies and institutions, introduce policies to expand the non-oil revenue and export bases, and expeditiously implement the structural reforms required for a vibrant private sector."

2012 Budget will start borrowing with \$160 million, including \$43.1 million to spend in 2012

In early September, [more than 100 Timorese and international organizations issued a statement urging debt-free Timor-Leste not to borrow](#). More than 800 people have signed a follow-up [petition on the internet](#).

A few weeks later, Government [proposed the General State Budget for 2012](#) to Parliament, asking to borrow \$33.1 million for Dili sanitation and national roads during 2012, with \$444 million more in future years, as described in the table at right. The [memorandum explaining the Budget Law](#) says that for "the first time in the history of Timor-Leste, the Government is proposing a ceiling to the National Parliament to authorize the Government to contract loans, which by legal obligation must be intended only for the construction of strategic infrastructure development the country." On 14 September, Parliament rejected an amendment to remove the authorization to borrow \$33.1 million, and then added \$10 million to the amount to be borrowed in 2012 by financing the Maubisse-Ainaro/Same road in 2012 instead of 2013. On 25 November, Parliament had a heated debate on the Government's amendment of the law to authorize borrowing \$160 million. Although the opposition walked out for the vote on the debt amendment, it passed and the budget was promulgated in late December.

Roads	2012	2013	2014	2015	2016	Total
Dili-Liquica, Tibar-Ermera	5.26	10.70	10.70			26.66
Manatuto-Natarbora	2.84	2.88	2.28	5.34	30.00	43.34
Dili-Manatuto-Baucau	0.27	1.35	10.85	18.99	19.77	66.70**
Maubisse-Ainaro/Same	5.00	10.00	20.00	5.00		40.00
South Coast Highway		30.00	40.00	50.00	100.00	220.00
Dili sanitation/drainage		20.00				20.00***

** The total amount to be provided in Loan is 68.7 million. This total is made based on the information provided by JICA. Government will be finding 25% to complete 95 million of the total project cost.

*** The Exim Bank still need to do design in 2012 therefore there will be no expenses in 2012.

	2012	2013	2014	2015	2016	
Loans	43.10	80.2	81.1	102.8	107.0	414.2
Government Co-Financing	9.93	24.05	24.32	30.85	54.00	143.15
	53.03	104.25	105.42	133.65	161.00	557.35

Source: Major Projects Secretariat, Ministry of Finance, 2011

Law No. 9/2005 on the Petroleum Fund (as amended by Law No. 12/2011 of 28 September)

Article 20: Encumbrances on the Assets of the Petroleum Fund

1. Any amount that is invested in accordance with Articles 14 and 15 is, independently of the form which is invested, the property of the State of Timor-Leste.
2. By contract or agreement it is possible to encumber the assets of the Petroleum Fund, up to 10% of the total value of the Petroleum Fund as of the date of the creation of the encumbrance or charge, provided that the principles in the general system of creation, issuance and management of public debt are respected.

Public Debt Regime Law No 13/2011 of 28 September

Preamble: This law approves the general regime for public debt establishment, issuance and management ,... (follow [link](#) for complete text)

2012 General State Budget Law No 16/2011 of 21 December

Article 5: Maximum Amount of Authorised Borrowing

1. In order to meet the financing needs related to the construction of strategic infrastructure for the development of the Country , the Government is authorised under Article 20 of [Law no. 13/2009 of 21 October](#) and Article 3 of [Law no. 13/2011 of 28 September](#), to resort to concessional external borrowing to the maximum amount of \$160 million, with a maximum term of 40 years.
2. Without prejudice to the above provision, in 2012 the financing derived from borrowing shall not exceed \$43.1 million.

Roads	2012	2013	2014	2015	2016	Total
Dili-Liquica, Tibar-Ermera	5,260	10,700	10,700			26,660
Manatuto-Natarbora	2,840	2,880	2,280	5,340	30,000	43,340
Dili-Manatuto-Baucau	5,000	6,600	8,100	27,500	50,000	97,200
Maubisse-Ainaro/Same		10,000	20,000	20,000		50,000
South Coast Highway		30,000	40,000	50,000	100,000	220,000
Dili Sanitation/drainage	20,000	20,000				40,000
Loans	33,100	80,180	81,080	102,840	180,000	477,200
Government Co-Financing	9,930	24,054	24,324	30,852	54,000	143,160
	43,030	104,234	105,404	133,692	234,000	620,360

Source: Major Project Secretariat, Ministry of Finance, 2011

The [Budget as enacted](#) has less information about borrowing than the [proposed version](#), and removed project financing by loans during 2013-2016 from the information about the [Infrastructure Fund](#). However, it does include the revised tables at left about expected loans. These are much less than will be required to implement the [Strategic Development Plan](#). For example, a consultant recently submitted a design for the [Suai-Beacu highway](#) which could cost more than double the \$220 million in loans and \$547 million in Timor-Leste's money listed in the budget documents. (The tables at left come from the final version of [Budget Book 1](#), and have some inconsistencies.)

The Asian Development Bank (ADB) and the Ministry of Infrastructure are moving rapidly to lend and spend the borrowed money. In late November 2011, the Ministry invited submissions of [Expression of Interest for the Consulting Services for the Feasibility Study, Design and Supervision of the Proposed Loan for Road Network Upgrading \(Sector\) Project](#) for the loan-financed Dili-Liquica, Tibar-Ermera and Manatuto-Natarbora roads. The ADB had approved "advance action for procurement" in late September, and bids from international engineering companies were due by 5 January 2012, with work expected to begin in the second quarter of the year.

At the end of 2011, the ADB circulated a draft [Initial Environmental Examination](#) (2 MB) and [Resettlement Plan](#) (2 MB) for the Dili-Tibar-Liquica road. In early 2012, the Ministry of Infrastructure released an [Initial Environmental Examination](#) and [Revised Resettlement Plan](#) for the Tibar-Gleno road.

In February, the Ministry of Infrastructure circulated a [Resettlement Framework for the entire Road Network Upgrading](#)

Project.

[See [below](#) for information on signing the ADB loan contract.]

Let the Loans Begin!

In January 2012, President Jose Ramos-Horta visited Japan, agreeing in principle that the Japan International Cooperation Agency (JICA) will lend Timor-Leste up to \$68.7 million for the Dili-Baucau road over the next two years. The contract for a 30-year loan with a ten-year grace period, at 0.7% interest, was signed when the Prime Minister visited Japan in March (see [below](#)).

The World Bank will wait until the new Government is in place after the June election to sign the contract for its \$40 million loans for the road from Dili to Maubisse and onward to Same, Ainaro and Ermera. These loans will supplement an existing \$20 million World Bank grant. The World Bank is unlikely to have money for more loans to Timor-Leste for at least three years, and future loans will be at commercial rates.

Click on any image below to see it larger.

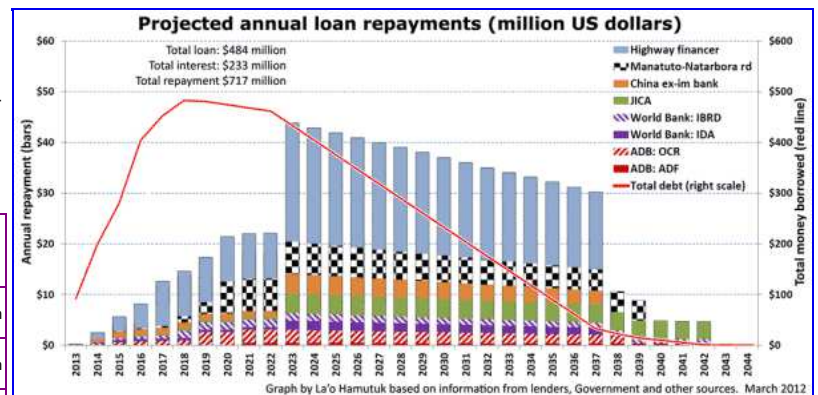
The map at right shows projects mentioned in the 2012 budget, as well as the road from Liquica to the border which is being financed with a grant from the Asian Development Bank. None of the loan agreements have been signed yet, although the JICA one for the Dili-Baucau road (blue) and the ADB loans for the Dili-Liquica and Tibar-Gleno (red) roads are likely to be signed soon. The World Bank loans for the roads south from Dili (green) won't be signed until November 2012, and others are further in the future.

The World Bank, ADB and JICA have shared information with La'o Hamutuk about the terms of their loans, but we have been unable to communicate with the Chinese government Export-Import Bank which will finance the Dili sanitation and drainage project. This project is still in the planning phase, and construction will probably not begin until 2013 or 2014.

This map and the graph below do not include information about additional roads, airports, ports, dams, [Tasi Mane](#) or other projects which are not itemized in the 2012 budget, even though they are discussed in the [Strategic Development Plan](#). Timor-Leste is likely to borrow much more money than is shown here, but no information is available about additional projects to complete the national ring road, support offshore petroleum operations, or provide more infrastructure.

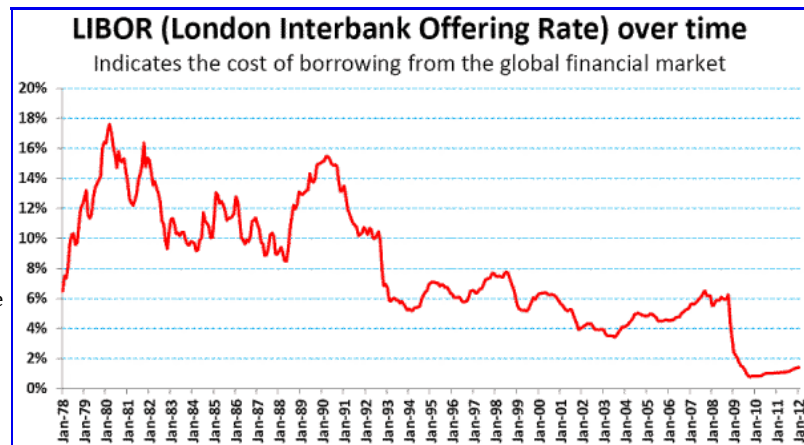
The graph at right shows La'o Hamutuk's projection of the annual repayments which will be needed to finance the projects shown on the map. The JICA, ADB and World Bank loan figures are based on information from the lenders, but those from China and the not-yet-determined financier for the South Coast Highway are estimates from La'o Hamutuk (yellow cells in the table below). The graph includes the following loans (the first three in **red** have been signed already):

Project	Financed by	Loan	Grace period (yrs)	Term (yrs)	Interest rate	Total repaid
Dili-Liquica- Gleno roads	ADB ADF concess.	\$9.1m	8	32	1.0% / 1.5%	\$12m
Dili-Liquica- Gleno roads	ADB OCR commercial	\$30.9m	5	25	LIBOR + 0.19%	\$46m
Dili-Baucau road	JICA concess.	\$68.7m	10	30	0.7%	\$77m
Dili-Ainaro, Same, Ermera roads	WB IDA concess.	\$20m	10	25	2.5%	\$28m
Dili-Ainaro, Same, Ermera roads	WB IBRD commercial	\$20m	5	30	LIBOR + 0.46%	\$32m
Dili drainage	China Ex-Im bank	\$40m	10	25	3.0%	\$60m
Manatuto-Natarbora road	ADB OCR commercial (?)	\$75m	5	25	LIBOR + 0.19%	\$110m
Tasi Mane highway	unknown commercial	\$220m	10	20	4.0%	\$352m
Total		\$484m				\$717m



Because the ADB and World Bank borrow from the financial market to obtain money to lend, they have only limited amounts for concessional (below market interest rates) lending, and offer additional loans at commercial rates. Commercial loans from these institutions have a variable interest rate which is a fixed increment higher than a global interest rate reference called LIBOR. As shown on the graph at right, LIBOR is currently around 1%, which is far below its historic average of about 12% in the 1980s, 7% in the 1990s and 5% until the 2008 global financial crisis.

Nobody knows what LIBOR will be in the future, although most agree that it will be higher than today's record lows. To calculate the tables and graph above, we assumed that LIBOR will increase gradually, leveling off at 3.8% after 2021. For every 1% increase in LIBOR from this assumption, Timor-Leste will pay about \$11 million more in interest.



ADB and Japan loan contracts signed in 2012

As described [above](#), consultations and draft resettlement plans and environmental assessments continued for the ADB-loan-financed roads between Dili, Tibar, Liquica and Gleno. Loan agreements with Japan and the ADB were being negotiated, and the [Council of Ministers approved these two loans](#) on 7 March 2012.

The ADB prepared a detailed document package for their road upgrading project in Timor-Leste, including a [Poverty Reduction and Social Strategy](#), [Gender Action Plan](#), [Project Administration Manual](#), and [Recommendation](#) from their President, and the ADB Board approved the loans at the end of March [[link to ADB web page on this project](#)]. Although the [Government press release](#) lists Gleno-Ermera and Manatuto-Natarbora road segments as part of the ADB loans they approved, in reality the Gleno-Ermera segment will only be financed if there is money left after Dili-Liquica and Tibar-Gleno are built. On 2 May 2012, [RDTL Finance Minister Emilia Pires and ADB President Haruhiko Kuroda signed](#) Timor-Leste's first multilateral loan agreement in Manila, for \$40 million dollars (the Government is also contributing \$13 million), which will pay for most of the costs of upgrading the 29-km Dili-Liquica and 32-km Tibar-Gleno roads, to be completed by the end of 2015. The ADB loan will also purchase a detailed design for the Manatuto-Natarbora road, but financing of construction will be discussed in the future. ADB later published Loan Agreements [2857 \(\\$31 million from ADB's Ordinary Capital Resources\)](#) and [2858 \(from ADB Special Funds\)](#).



Following a visit to [Japan](#) by Timor-Leste's Foreign Minister in early March, the [Prime Minister and Minister of Finance visited Tokyo](#) on March 18-19 2012 to meet with Prime Minister Yoshihiko Noda (left) and sign a loan agreement for up to 5.27 billion yen (right), which is US \$63 million at current exchange rates [[press release on end of visit](#)]. As discussed in the Japanese [media](#), the loan will be for the 118km road between Baucau and Dili, to be completed by June 2017. Upon returning Finance Minister Emilia Pires said the loan won't have to be repaid for 40 years, while the [Prime Minister said](#) that he is not passing on a burden to the next government or next generation, as interest from Petroleum Fund investments will repay



the loan many years from now. ([La'o Hamutuk's analysis](#) shows that the Petroleum Fund could be emptied in a decade.) The following month, the Government's new [Results Portal](#) included a little [information on this project](#). As this loan is in 2012 yen but will be repaid in dollars over two decades, the actual amount of debt service will depend on exchange rates; if the dollar falls in relation to the yen, Timor-Leste could end up repaying much more than it borrowed, even with concessional interest rates.

2013

Even though loan contracts were signed, no actual borrowing took place during 2012 and 2013. The [2013 state budget](#) authorized agreements for up to \$223.5 million in concessional loans, with up to \$43.6 million to be received during 2013, although However, when the [2014 state budget](#) was proposed in October 2013, it anticipated loan receipts during 2014 to \$51 million, and \$452 million more in 2015-2018 (the law authorizes up to \$270 million in new loan agreements), for the projects listed at right (click on the table or graph at right to see it larger).

The proposed 2014 budget law also authorizes \$500 million in [Public-Private Partnerships](#), which could create further debt obligations for Timor-Leste.

Even though no loan money has yet been transferred, the [Minister of Finance signed](#) more loan contracts on 18 November 2013. Two new ADB loans, ([text of loan agreements 3020 and 3021](#)) totaling \$50 million, will be combined with \$73 million of Timor-Leste's money to [rebuild the 117km road between Manatuto and Natarbora and design 169km of roads from Baucau to Viqueque, Com and Los Palos](#).

Draft 2014 State Budget Book 6 - Special Funds

No.	Cod. Igo	Nome do Projeto	Orçamento 2013 após Rectificação e Saldo Translado	Saldo Final Translado	Projetos de Continuação	Novos Projetos	Orçamento 2014	Orçamento 2015	Orçamento 2016	Orçamento 2017	Orçamento 2018
			\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
		Programa de Empreendimentos	43.589.00	18.198.00	30.940.50	2.000.00	11.048.50	117.270.00	158.150.00	138.501.50	37.000.00
1	809	MOP	Construção e supervisão de estradas Dili-Liquica (L) e Alinhamento de Estradas desde Cruzamento Tibar a Rotunda Latic, Quatro Vias	5.000.00	540.00	5.314.50	-	5.854.50	5.000.00	1.500.00	-
2	809	MOP	Construção e supervisão de estradas Tibar-Gleno (L)	5.000.00	540.00	8.686.00	-	9.226.00	5.000.00	3.500.00	999.50
3	809	MOP	Construção e supervisão de estradas Dili-Manatuto-Sorais (L)	3.088.00	1.778.00	8.940.00	-	10.718.00	20.000.00	27.000.00	9.872.00
4	809	MOP	Construção e supervisão de estradas Manatuto-Natarbora (L)	250.00	250.00	8.000.00	-	8.250.00	24.270.00	18.150.00	9.330.00
5	809	MOP	Construção e supervisão de estradas Aileu-Madense e Amaro (L)	10.000.00	5.000.00	-	-	5.000.00	10.000.00	17.000.00	8.000.00
6	809	MOP	Drenagem de Dili (Egagto)	20.000.00	10.000.00	-	-	10.000.00	10.000.00	20.000.00	10.000.00
7	809	MOP	Construção e supervisão de estradas Ainaro-Cassia (L)	250.00	-	-	-	-	5.000.00	10.000.00	3.500.00
8	809	MOP	Construção e supervisão de estradas Aileu-Hatubulo-Letefoho-Ermera-Gleno (L)	0	-	-	-	-	3.000.00	12.000.00	30.000.00
9	809	MOP	Construção e supervisão de estradas Kuncung-Sotemeta (L)	0	-	-	-	-	5.000.00	12.000.00	3000
10	809	MOP	Construção e supervisão do Aeroporto Internacional Nicolau Lobato (Rumay + Terminal phase II)	0	-	-	2.000.00	2.000.00	15.000.00	25.000.00	40.000.00
11	809	MOP	Construção e supervisão de estradas Baucau-Lautem	0	-	-	-	-	15.000.00	12.000.00	25.000.00

On the same evening, Timor-Leste signed agreements with [IBRD](#) and [IDA](#) to borrow \$40 million from the [World Bank](#), which will be added to \$47m of RDTL funds to [rebuild the 115km road from Dili to Ainaro](#).

2015

By mid-2015, Timor-Leste had signed \$210 million in loan agreements with JICA, ADB and the World Bank, all for road projects.

On 24 June, [Timor-Leste and the ADB signed another Loan Agreement, No. 3181](#), to borrow \$11.78 million more for unanticipated additional costs of the Dili-Liquica road, especially the upgrading of the Tasitolu-Tibar portion to four lanes, in anticipation of the proposed [container port at Tibar](#).

This table is from Book 6 of the proposed 2016 State Budget, showing loan-financed projects. Many projects after 2018 are not included.

	Orçamento 2015 Final Aprovado	Despesas Estimadas Dezembro 2015	Orçamento a 2016	Orçamento a 2017	Orçamento a 2018	Orçamento a 2019	Orçamento a 2020
Programa de Emprego	70,000	26,650	107,002	340,385	366,213	160,451	50,178
Construção e Suprimento de Estradas Dili-Liquica (L)	8,500	2,650	6,711	-	-	-	-
Construção e Suprimento de Alinhamento de Estradas desde Chazamento Tibar a Rolando Lalic, Quatro Vias (L)	-	-	2,800	5,800	-	-	-
Construção e Suprimento Estradas Tibar-Gleno (L)	8,000	4,372	3,722	-	-	-	-
Construção e Suprimento de Estradas Dili-Manubulo-Ranau (L)	11,550	3,966	10,502	12,000	10,800	-	-
Construção e Suprimento de Estradas Manubulo-Aitarona (L)	14,250	8,729	9,792	-	-	-	-
Construção e Suprimento de Estradas Ainaro-Matucena e Ainaro (L)	11,700	8,837	11,493	14,219	-	-	-
Construção e Suprimento de drenagem do Dili (Estrada) (L)	3,000	-	5,000	31,830	14,880	3,720	-
Construção e Suprimento de Estradas Ainaro-Hatubulico-Lalelito-Emasa-Gleno (L)	-	-	14,500	16,100	8,520	2,130	-
Construção e Suprimento do Aeroporto Internacional Nicolau Lobato (Pista + Terminais)	-	-	15,000	98,840	117,790	58,740	14,880
Construção e Suprimento de Estradas Baucau-Lautem	-	-	7,000	14,900	18,000	9,500	2,810
Construção e Suprimento de Estradas Maubara - Moten e Aibae - Moten	-	-	2,500	4,960	3,130	1,770	-
Construção e Suprimento de Estradas Baucau-Viqueque	-	-	7,500	14,880	18,580	9,840	2,290
Construção e Suprimento de estradas melhoramento a Estradas e Pontes - Auto Estrada Suai-Batamo-Baucau (L)	10,000	-	15,000	84,000	100,200	37,440	9,380
Construção de construção e Suprimento para o Desenvolvimento de Infra-estruturas na Costa Sul em Suai - Base de Fornecimento (L)	-	-	10,000	33,550	59,670	31,820	7,960

In October 2015, Government proposed a [budget for 2016](#) with greatly increased borrowing plans, \$821 million in the next three years and more than one billion dollars between 2016 and 2020, in addition to \$29 million in 2015. This is a huge increase over the loans anticipated in the 2015 state budget, which projected only \$610 million in loan spending between 2015 and 2019.

In addition to fixing roads with borrowed money, the Government plans to take loans for the Tasi Mane Project (\$163 million for the Suai Supply Base and \$255 million for the South-Coast Highway) and upgrading Dili Airport (\$305 million).

For the first time, the 2016 budget includes a line in "Whole of Government" for repaying loans -- \$250,000, increasing to \$292,000 by 2020. Although we do not know the exact amounts, La'o Hamutuk estimates that repayments for the \$210 million in loans which have already been contracted will be around \$10,000,000 in 2020 alone.

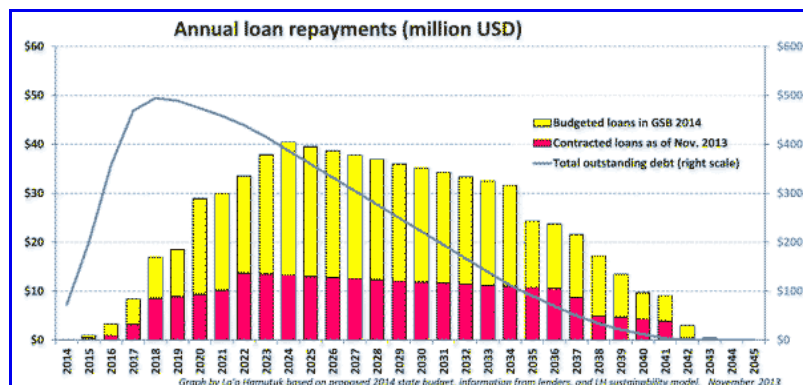
In December, [ADB and the government agreed on further borrowing](#) to build the national road network.

2016

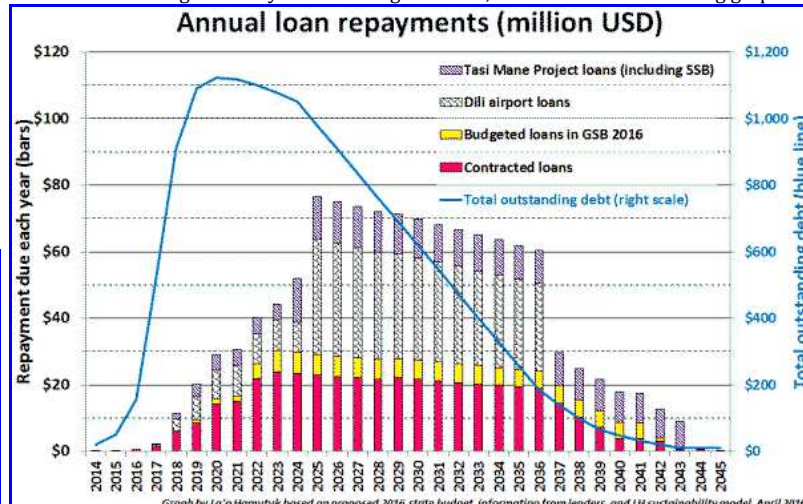
This page will be updated more completely when we have time, but these are some of the most important events:

Although [La'o Hamutuk](#) and others questioned excessive borrowing and understatement of repayment obligations, the [final 2016 Budget](#) approved in January did not change the borrowing plans from the budget proposed in October 2015.

In March, Timor-Leste and the ADB [signed](#) an agreement for \$76.2 million in additional loans for the Baucau-Lautem road, which had been put [out for tender](#) the previous month.



In the 2-1/2 years after the graph above was made, borrowing plans more than doubled, and Timor-Leste signed many more loan agreements, as shown in the following graph:



Also in March, the Audit Chamber of Timor-Leste's Court of Appeals published a [Verification Report \(Portuguese\)](#) on borrowing during 2014 as part of its review of the General State Accounts.

In April, the [Ministry of Finance requested proposals](#) for a "Mid-Term Review of Loans and Loan-Funded Projects."

The [Tibar Port](#) Concession Agreement, signed in June with Bolloré, is not an explicit loan but could have similar consequences if the project is not as profitable as expected.

In June, the IMF released its [2016 Article IV Report](#) on Timor-Leste, which includes a new 15-page Debt Sustainability Analysis prepared by the staffs of the IMF and the World Bank (IDA). They conclude that the country's risk of debt distress has deteriorated from "low" (in 2014) to "moderate" because of plans for increased borrowing, explaining that "[C]urrent fiscal spending plans are unsustainable as the Petroleum Fund will be depleted in the long term given the current rate of withdrawals under existing expenditure plans. Achieving fiscal sustainability requires scaling back large front-loaded public investment plans in line with implementation capacity, rationalizing recurrent spending, and strengthening non-oil revenues. Bold fiscal consolidation measures are needed to safeguard long-term fiscal and debt sustainability. High fiscal spending and inadequate mobilization of domestic revenues are the main sources of risk. Feasibility studies to ensure that public investment is efficient and yields adequate returns would help to ensure fiscal sustainability."

La'o Hamutuk believes that borrowing is one of the most critical and dangerous decisions a government can take, burdening future generations with paying for perceived short-term political or financial gain. It should be undertaken only with extreme caution, careful and realistic planning, full public discussion, and total transparency about the conditions, terms and repayment of the loan. Before a project is built with borrowed money, its full life cycle costs and economic and social benefits should be analyzed to determine if the return justifies the investment.

We will continue to research borrowing and publish more information as it becomes available.

**The Timor-Leste Institute for Development Monitoring and Analysis (La'o Hamutuk)
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