

PPIAF Assistance in the Democratic Republic of Timor-Leste

In May 2002, the Democratic Republic of Timor-Leste (Timor-Leste), commonly known as East Timor, gained its independence following 24 years of Indonesian control and a three-year transitional period of United Nations Administration. After voting for independence from Indonesia in 1999, an estimated 75% of the population was displaced, and nearly 70% of all buildings, homes, schools, etc. were destroyed by a campaign of violence carried out by militia groups.

Against this backdrop of a post-conflict environment, rehabilitating the country's infrastructure—in particular its energy sector—was a key component of the government's strategy towards enhancing economic progress and fostering social stability. At that time, a mere 21% of all households and 5% of rural households had access to electricity.

In 2004 the government of Timor-Leste requested PPIAF support to review the structure of the power sector, with the aim of facilitating a partnership between the public sector, the private sector, and community participants. The activity involved two phases. The first consisted of reviewing the structure of the power sector, which led to detailed recommendations as to the best combination of options for achieving the efficient development and operation of the power sector through a partnership of public, private, and community participants. This phase also included reviewing the existing approach to rural electrification, and examined the possibility of establishing a rural electrification fund as a vehicle for attracting government and donor social development funding to provide loans and grants for rural electrification.

In particular, the final report: i) reviewed the sector policy and existing institutional framework, including the efficiency of the proposed 20-year build-operate-transfer concession on the state-owned utility Electricidade de Timor-Leste (EdTL)'s operations; ii) explored other options for attracting the private sector for both the grid (EdTL) system and off-grid systems; iii) defined essential policy-making, regulatory, and tariff setting roles and responsibilities for each of the defined options; iv) examined the feasibility of innovative market-based subsidy systems for extending access to currently underserved areas; and v) recommended an institutional solution for power supply in both grid and off-grid areas, and identified transitional arrangements towards this goal. Extensive briefings were given to the Council of Ministers on the content of the report and its implications.

The second phase was to be completed in a follow-on activity to carry out the detailed design of the planned institutional arrangements and to revise and further develop the power sector's institutional framework.

One of the key recommendations of the first PPIAF activity was to corporatize EdTL early on in the course of its next management contract, with a view to entering into a long-term concession (or perhaps divestiture) at the end of the contract. The follow-on activity had been planned to help the government implement the recommendation, specifically providing advice on the reform of governance and commercialization of EdTL to facilitate private involvement and improved performance. However, due to political unrest in the country at that time (2007) and subsequent changes in the government's policy directions, the second phase has yet to occur.

More recently the government has shown renewed interest in public-private partnerships as one way to help it develop key infrastructure. PPIAF supported an activity that worked with the government to build the business case for three potential public-private partnership projects that were identified under an initial International Finance Corporation pipeline screening exercise: Dili Airport, Tibar Bay Port, and a government building. Dili Airport and Tibar Bay Port in particular were identified as major priorities by the government. The International Finance Corporation has now been engaged by the government as its transaction adviser and will build on the PPIAF-funded business cases to develop these public-private partnership transactions. PPIAF is also currently working with the International Finance Corporation and providing follow-up support to two of these transactions.

Results of PPIAF's Activities in Timor-Leste

Category	Outputs
Enabling environment reform	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> • Timor-Leste: Strengthening the institutional framework and capacities in the power sector, October 2006
Project-cycle related assistance	
<i>Transaction support</i>	<ul style="list-style-type: none"> • Dili Airport PPP Business Case, September 2011 • Tibar Bay Port PPP Preliminary Business Case, October 2011 • Government Administration Building PPP Preliminary Business Case, February 2012
Capacity and awareness building	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> • Seminar with parliamentarians and private sector representatives to discuss a draft PPP policy and scoping of candidate projects, April 4, 2011 • Meeting with private sector representatives to discuss the preliminary work on the Tibar Bay Port project and opportunities for private sector participation, October 28, 2011
Outcomes	
Enabling environment reform	
<i>Institutions created or strengthened</i>	<ul style="list-style-type: none"> • The Ministry of Finance able to screen and appraise PPP projects, June 2012
Project-cycle related assistance	
<i>Transactions facilitated or supported</i>	<ul style="list-style-type: none"> • Dili Airport and Tibar Bay Port PPP transactions being developed