I. Introduction and Context

Country Context

Timor-Leste, comprising the eastern half of the island of Timor, is located in the Timor Sea north of Australia. The total land area is 15,410 square kilometers. It is a very mountainous country, with a spine dominated by Mount Ramelau, bisecting the island from east to west. The coastal zones in many parts of the country consist of narrow steep hillside.

Estimates from 2014 reported the population to be approximately 1.2 million, with 30 percent of the population residing in urban areas (75 percent of which live in the capital Dili). With a current growth rate of around 2.4 percent, the Government forecasts the population to reach 1.9 million in 2030.

Timor-Leste's only international airport is located in Dili, which is served by daily direct flights to/from Australia, Singapore, and Indonesia. The main port is also in Dili with direct shipping links with Australia, Papua New Guinea, Singapore, and Indonesia. Petroleum is Timor-Leste's primary export, accounting for around 57 percent of exports, followed by coffee exports at around 22 percent.

As one of the poorest countries in the world, Timor-Leste has basic income, health, and literacy levels similar to those of countries in sub-Saharan Africa. The 2010 national census reported that 35 percent of the total population, and around 40 percent of rural households, did not have access to safe drinking water. Only 19 percent of rural households have access to electricity, compared to around 88 percent of urban households. The percentage of people below the poverty line is estimated to be 49.9% and the country ranks 134th on the Human Development Index.

In 2002, Timor-Leste gained independence from Indonesia. The United Nations, supported by
Australia, New Zealand, the US, France, Portugal as well as others, provided Australian-led peacekeeping services in the lead up to Timor-Leste's independence from 1999 to 2002. Following the Indonesian withdrawal, widespread civil upheaval and conflict led to the destruction of some 90 percent of the country's infrastructure. The Government of Timor-Leste (GoTL) is proceeding with an ambitious infrastructure program.

Oil and gas revenues are critical to the country's economy and its socioeconomic development. In 2005, The GoTL established a Petroleum Fund (PF) to facilitate the sustainable use of oil revenues. By 2015, the PF assets had reached US$16 billion. Withdrawals from the PF can only be used to finance expenditures of the state budget. However, since 2008, government spending has exceeded the level of the Estimated Sustainable Income (ESI) which, at 3 % of the value of the PF and future production, guides the sustainability of the PF. A collapse in the price of oil has also contributed by reducing the value of future oil production and thus lowering the ESI from approximately $730m a year in 2012 to US$545m in 2016. While the value of the PF will peak at a lower level than previously anticipated, a cessation of oil production was always envisaged and the ESI and governance framework around the PF continue to provide a clear framework for sustainably managing the accrued petroleum wealth. With fewer resources, the need to maintain government spending within the available envelope of revenue and ESI is becoming more acute. A recently completed infrastructure Public Expenditure Review also highlights the relatively low effectiveness of much of Timor-Leste's infrastructure spending in boosting growth and productivity, and the need for reducing the quantity and enhancing the quality of infrastructure spending.

Economic development in Timor-Leste is dependent on government spending (partially funded by the PF) and assistance from international donors. The private sector has substantial growth potential but faces significant constraints due to human capital shortages, a weak business environment, and infrastructure bottlenecks.

**Sectoral and Institutional Context**

As part of its Strategic Development Plan 2011-2030 (the SDP) which sets out strategies and actions to transition the country from a low income to upper middle income country by 2030, the Government of Timor-Leste has received support from the World Bank (WB) in better planning of its infrastructure development, implementing a successful Public-Private Partnership (PPP) program and building up the capacity of the PPP and Loan Unit (PPLU), operating under the Ministry of Finance (MoF), and line Ministries. This Infrastructure Development and PPP Technical Assistance (TA) Program was provided with funding support from Public-Private Advisory Facility (PPIAF) and Australian Aid.

The Government of Timor-Leste (GoTL) is implementing a PPP for the construction, co-financing and operation of a new port, Tibar Bay Port, which will replace the existing port of Dili and will handle most of the container terminal operations in the country. The Tibar Bay Port concession, the first PPP in the country, was awarded by GoTL, with support from the International Finance Corporation (IFC), to private operator Bolloré Logistics. The firm was selected through a competitive bidding process and the Concession Agreement (CA) was signed on June 3, 2016 with the GoTL (the Grantor), for a period of 30 years with a possibility of extension by 10 years. The Minister of Public Works, Transports and Communications (MPWTC) and the Minister of Finance (MOF), acting as representatives of the Grantor, have decided that the contract management function for the oversight of the Tibar Bay Port concession would be held through a dedicated
Project Management Unit (PMU) to be established and staffed for that purpose, by following a PPIAF recommendation to establish such a Unit provided under the previous PPIAF assistance.

The PMU will ensure that both parties comply with the terms of the CA, and will also represent the Grantor vis a vis the other government authorities in Timor-Leste in all areas involving decisions or actions from other governmental parties, such as ensuring availability and disbursements of the Viability Gap Funding (VGF) as provided in the CA, assistance in obtaining permits and authorizations, ensuring access to utilities and road, obtaining approval from the National Directorate for the Environment, funding any variations, as well as any unforeseen event that could trigger a Government action. The PMU will report jointly to MOF and MPWTC through an Operations Steering Committee and a Ministerial Steering Committee. The Ministerial Steering Committee would be composed of the two Ministers. To fulfill this role, the PMU will require a thorough understanding of the CA and strong capacity at the legal, technical, health and safety, environmental (HSE), social safeguards as well as economic and financial levels. In order to build up that capacity the various areas of expertise will have to be brought in-house by hiring a team of international and local individuals with the relevant experience. It is critical to the success of the public-private partnership to set up a strong PMU team.

**Relationship to CAS/CPS/CPF**

The Strategic Development Plan (2011-2030), prepared by the GoTL, has four objectives: (i) to continue investing in human capital through improved access and quality of health, education and skills development while protecting the vulnerable; (ii) to use natural resource wealth to fund catalytic infrastructure; (iii) to encourage private sector investment, and diversify the economy to sustain growth and employment and; (iv) to expand the foundations of good governance and institutional effectiveness. Building on this, the current Country Partnership Strategy (2013-2017) focuses on four strategic areas: (i) improving the management and delivery of services in education, health and nutrition, and social protection; (ii) building core infrastructure to connect communities to markets; (iii) supporting economic development for a non-oil economy; and, (iv) strengthening institutions for quality of spending.

This project will be crucial to the success of Tibar Bay Port Project (henceforth Port PPP), through which the GoTL aims to improve trade logistics and reduce import costs by 2017. This project would support the GoTL in financing the public investment component of the PPP, encouraging private sector engagement and economic development, while improving export opportunities for the country.

**II. Project Development Objective(s)**

**Proposed Development Objective(s)**

Set up and operationalize the PMU and build its capacity for the management of the first PPP concession contract in Timor-Leste. This support is envisaged to encompass capacity building and transfer knowledge from international experts to local staff for long-term contract management.

**Key Results**

Key results include meeting the conditions precedent to financial close, reaching financial close according to the CA timeline, and timely disbursements of the counterpart funds.

**III. Preliminary Description**
**Concept Description**

The Government of Timor-Leste has identified Tibar Bay, 14 km west of Dili, for the site of a greenfield port handling only cargo operations. The new port will take all of Dili port's cargo operations and have a 350,000 TEU capacity. This will relieve congestion currently experienced at the Dili port.

The Port PPP consists of the construction and operation of a new port at Tibar Bay, under a PPP scheme, whereby public participation in the investment is expected to be partially funded by the WB and ADB, and partially by the PF. The Tibar Bay Port is expected to be operational by end 2019 and replace Dili Port as Timor Leste's principal port for cargo and container operations. As Tibar Bay becomes operational, Dili Port will only provide ferry and passenger vessels and space currently occupied by cargo and container will be redeveloped as a public marina.

The Port PPP financial bid consisted of a single variable, the Viability Gap Financing (VGF) to be contributed by the GoTL through a combination of their own resources, and credits/loans from the WB and the ADB. The Bolloré offer established the VGF amount at US$129.45 million, significantly lower than IFC's base case scenario. The VGF is to be paid to the concessionaire in tranches, the first of which will be disbursed upon engineering design and mobilization. During negotiations, it was agreed that the GoTL would escrow the full VGF amount, using resources from the Petroleum Fund in order to cover the risk that the WB and ADB loans for the Port PPP are not yet approved. As a result, the installments due to the concessionaire will be paid out of this escrow account, and the proposed WB Port PPP operation will disburse as these installments are being paid, for a total amount of up to USD 70 million (USD 10 million from the International Development Association (IDA), USD 60 million from the International Bank for Reconstruction and Development (IBRD), to be confirmed), along with the ADB (whose expected contribution amounts to USD 59 million).

The WB's proposed involvement on the Port PPP would have one component:

Infrastructure Development. Estimated funding of about US$350 million, of which US$170 million would be funded by the WB. The proposed funds would form part of the GoTL's Viability Gap Financing for PPP for the Tibar Bay port. Money will be disbursed based on attainment of specific construction milestones, certified by the Independent Engineer.

In order to support the Port PPP, under the proposed grant, GoTL is planning to hire both local and international individuals with the relevant expertise for PMU establishment and operationalization throughout the project cycle (including environmental and social safeguards). This is to ensure transfer of knowledge from international to local individuals. This approach is appropriate based on the previous PPIAF intervention in the country, which mobilized an international PPP Specialist to build capacity of the PPP Unit staffed with five Timorese staff. This activity successfully facilitated the PPP Unit to perform PPP pipeline identification and development and to implement tendering of the country's first PPP Concession for Tibar Bay Port.

The assistance is expected to be provided for the first two years of the Concession (from the signing of the CA until the end of the first year of construction) to ensure the proposed PMU to be operational. More specifically, this proposed assistance includes contract management of the CA, staffing, review of design documents and construction supervision at the initial stage of
construction. The contract management support aims to ensure that the GoTL fulfills its contractual obligations including the provision and timely disbursement of the VGF to be funded PF.

This assistance will in particular focus on the critical financial close phase. The As the CA was signed on June 3rd 2016, the financial close is required to be reached no later than 11 months after contract effectiveness, allowing construction start by the third quarter of 2017. In order to reach the financial close, GoTL needs to fulfill some Conditions Precedent (including approval of concession by the Auditors' Chamber of the Supreme Administrative, Tax and Auditing Court, granting access to the Concession Area, execution of the Direct Agreements with the key subcontractors and the lenders, appointment of the Independent Engineer jointly with the concessionaire).

IV. Safeguard Policies that Might Apply

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
<th>No</th>
<th>TBD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment OP/BP 4.01</td>
<td></td>
<td>×</td>
<td></td>
</tr>
<tr>
<td>Natural Habitats OP/BP 4.04</td>
<td></td>
<td>×</td>
<td></td>
</tr>
<tr>
<td>Forests OP/BP 4.36</td>
<td></td>
<td>×</td>
<td></td>
</tr>
<tr>
<td>Pest Management OP 4.09</td>
<td></td>
<td>×</td>
<td></td>
</tr>
<tr>
<td>Physical Cultural Resources OP/BP 4.11</td>
<td></td>
<td>×</td>
<td></td>
</tr>
<tr>
<td>Indigenous Peoples OP/BP 4.10</td>
<td></td>
<td>×</td>
<td></td>
</tr>
<tr>
<td>Involuntary Resettlement OP/BP 4.12</td>
<td></td>
<td>×</td>
<td></td>
</tr>
<tr>
<td>Safety of Dams OP/BP 4.37</td>
<td></td>
<td>×</td>
<td></td>
</tr>
<tr>
<td>Projects on International Waterways OP/BP 7.50</td>
<td></td>
<td>×</td>
<td></td>
</tr>
<tr>
<td>Projects in Disputed Areas OP/BP 7.60</td>
<td></td>
<td>×</td>
<td></td>
</tr>
</tbody>
</table>

V. Financing (in USD Million)

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Project Cost:</td>
<td>1.219025</td>
</tr>
<tr>
<td>Total Bank Financing:</td>
<td>0</td>
</tr>
<tr>
<td>Financing Gap:</td>
<td>0</td>
</tr>
<tr>
<td>Borrower</td>
<td>0.842</td>
</tr>
<tr>
<td>Public-Private Infrastructure Advisory Facility</td>
<td>0.377025</td>
</tr>
</tbody>
</table>

VI. Contact point

World Bank
Contact: Pierre Graftieaux
Title: Program Leader
Tel: 5740+6485 /
Email: pgraftieaux@worldbank.org

Borrower/Client/Recipient
Name: Republic of Timor-Leste
Contact:
Title:
Tel:
Email:

Implementing Agencies
Name: Loan and PPP Unit
Contact: 
Title: 
Tel: 
Email: 

**VII. For more information contact:**
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects