



PPIAF

Enabling Infrastructure Investment



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PPIAF SUPPORTS TIMOR-LESTE'S FIRST PPP PROJECT

Since 2011, PPIAF has assisted the Government of Timor-Leste (GoTL) to attract private-sector investment in the country's greenfield container-port terminal in Tibar Bay, outside the capital city, Dili. With this assistance, the government identified this as a priority public-private partnership (PPP) project in 2011, then spent the next five years developing it, while also building its own institutional capacity. In June 2016, the government signed a 30-year, \$490-million concession contract the first PPP in the country, with a private operator selected through a competitive bidding process.

Timor-Leste is a post-conflict, low-income country, comprising the eastern half of the island of Timor, north of Australia. Following its independence from Indonesia in 2002, widespread civil upheaval led to the destruction of about 90 percent of the country's infrastructure. GoTL wants to develop key infrastructure and is keen on PPPs as one way to do so.

The country is very dependent on logistical and transport gateways by air and sea for economic recovery and growth. Petroleum is Timor-Leste's primary export, accounting for around 57 percent of exports, making oil and gas revenues critical to the country's economy and its socioeconomic development.

Dili port, the country's only international seaport for dry cargo, has reached capacity— cargo volumes grew by 19 percent per annum from 2006 to 2011, so that it was handling about 41,000 containers (TEU) in 2011. Its urban location makes further extension of its berths and storage areas difficult, and port-related vehicular traffic congestion in the city is a growing problem. To handle future container traffic, the GoTL identified Tibar Bay, about 10 kilometers west of Dili, as a possible site for constructing a new greenfield port and asked PPIAF to review the options, determine the investment requirements, and assess whether a PPP could be designed to meet the GoTL's objectives.

PPIAF SUPPORT

- In 2011, PPIAF supported the GoTL to define and launch its PPP program; this included the identification and development of an initial PPP transaction. PPIAF examined 22 potential PPP projects and developed the business cases of the three highest-priority projects, including the Tibar Bay Port project. The business case proposed tendering out financing, design, construction and operation of a new port at Tibar Bay. The GoTL then assigned the International Finance Corporation (IFC) as a transaction adviser on this project.
- In 2012, PPIAF provided follow-up support to the GoTL, working with the IFC on structuring and implementing a viable transaction scheme for private-sector participation in the Tibar Bay Port project in two phases. The first phase supported the GoTL to undertake a detailed analysis of available structuring options, and the viability and market acceptance of the project. It also addressed the government capacity to implement PPP transactions, given the lack of experience with PPPs and the lack of a track record handling large investments. The second phase helped the GoTL to successfully implement a transparent and competitive tender for the Tibar Bay PPP concession that attracted world-class investors, for the first time in the country's history. However, due to its status as a first-time PPP project, the original Tibar Bay timeline slipped because of changes made to the request-for-proposal (RFP) documents and the draft concession agreement. A change in government during the tendering phase also led to a need for additional time in order for the new government decision makers to familiarize themselves with the project.
- In 2013, PPIAF also assisted the GoTL to build additional institutional capacity in order to become a viable counterparty to a range of potential PPP projects. The PPIAF assistance consisted of i) setting up and capacitating a PPP Unit within the Ministry of Finance and developing its workflow and process, and ii) building capacity within the GoTL to support the establishment of a successful PPP program and bringing projects to the market. This PPIAF support also provided ad-hoc assistance to relevant GoTL entities to implement the tender of the Tibar Bay Port project and to facilitate the decision-making process by providing guidance and additional information gleaned from similar projects/situations in other parts of the world.
- These two forms of PPIAF assistance helped the GoTL to address the concerns and questions being raised about the project and built PPP capacity in key institutions, ranging from line ministries up to the cabinet. Awareness and understanding were enhanced by engaging with local communities, civil society and parliament.

OUTCOMES

- PPIAF's assistance has helped the country to realize its first and largest investment with a private partner and to develop an institutional capacity to enable more PPP projects to be delivered. In June 2016, the GoTL signed a 30-year, \$490-million concession contract with Bolloré Logistics, which had been selected through a competitive bidding process. The contract included one variable—viability gap financing (VGF) to be contributed by the GoTL in the financial bid. The Bolloré offer established the competitive VGF amount at \$129.45 million.
- The new port is expected to take all of Dili port's cargo operations, have a 350,000 TEU capacity, and be operational by the end of 2019.
- Per PPIAF's recommendation, the GoTL also decided to create a dedicated project-management unit (PMU) to oversee the Tibar Bay Port concession. The GoTL has asked for additional PPIAF assistance to build the institutional capacity to carry out the project management. PPIAF will remain engaged with the GoTL to develop a contract-management manual and provide training on contract management.

DONOR COORDINATION

- The 2011 assistance, focusing on the PPP project screening and business-case development, was implemented in close cooperation with the Asian Development Bank (ADB) and the Department of Foreign Affairs and Trade of the Government of Australia (DFAT; previously AusAid). The second and third phases of assistance, begun in 2012 and 2013, focusing on the Tibar Bay Port project and capacity building for GoTL, were implemented in partnership with AusAid.

RELATED ACTIVITIES

- **2011:** Implementation of PPP program—**\$74,750**
- **2012:** Tibar Bay Port PPP support—**\$500,000**
- **2013:** PPP Program support to the GoTL—**\$250,000**