

## PUBLIC-PRIVATE PARTNERSHIP STORIES

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### Timor-Leste: Tibar Bay Port



Timor-Leste, a small island nation located between Australia and Indonesia, is emerging from decades of occupation and conflict and is now in its longest period of stability since achieving independence in 2002. But the nation's history of conflict and its struggle for independence has left a legacy of poor infrastructure, limited economic development and critically low capacity as the country creates the institutions on which its future will be built. It is the second most oil-dependent country in the world, behind South Sudan, and a cornerstone of government's development strategy is to engage the private sector to help diversify and grow the economy and create new opportunities for all Timorese.

Central to the Government's strategy is investing in new infrastructure that will help connect Timor-Leste to the world. In this environment IFC delivered a landmark investment: Tibar Bay Port. This is Timor's first public-private partnership (PPP), with private financing five times larger than any previous private investment outside the oil and gas sector. Tibar Bay Port will solve the growing congestion at Dili Port, a serious economic bottleneck, and ensure that Timor-Leste has modern port infrastructure upon which its trading future can be built. A competitive international tender to award the port Concession was awarded in 2016 to the Bolloré Group. The project achieved financial close in 2018 and is expected to be operational by the end of 2021.

*This project was supported by DevCo and PPIAF. Devco is a multi-donor facility that provides critical financial support for important infrastructure transactions in the poorest countries, helping boost economic growth and combat poverty. The Public - Private Infrastructure Advisory Facility (PPIAF) is a multi-donor technical assistance facility that is financed by 11 multilateral and bilateral donors whose mission is to help eliminate poverty and increase shared prosperity in developing countries by facilitating private sector involvement in infrastructure.*

## BACKGROUND

With development of the oil and gas sector driving strong economic growth and imports, cargo volumes handled at Timor-Leste's existing Dili port have grown rapidly. The infrastructure is often overloaded and the port's operations are inefficient and unsafe, with several worker fatalities in recent years. Ships calling at Dili Port can incur up to 10 days demurrage – fees paid to ship contractors for delays in unloading – contributing to high corresponding costs on imports coming through the port.

Tibar Bay Port is located 10km west of Dili and will replace Dili Port with a state-of-the-art port facility developed as Timor-Leste's first PPP. The port will cost an estimated US\$490m to construct over the life of the 30-year Concession, comprising initial investment of US\$280m and a further US\$210m in expansion costs as the port grows over time. In 2016 a competitive international tender facilitated by IFC was won by the Bolloré Group, which will contribute US\$360m of this cost, with remainder (US\$130m) to be financed by the Government.

The project leverages other World Bank Group work to create an adjacent investment zone and deliver complementary investment policy and customs reforms.

## IFC'S ROLE

With increased pressure to address the capacity and congestion issues, the Government of Timor-Leste enlisted IFC's assistance. IFC worked with Timor-Leste's new PPP Unit to deliver a transparent tender process that attracted world-class investors to Timor-Leste for the first time; a big challenge given the lack of any PPP or large investment track record and Timor's reputation for conflict and instability.

As part of IFC's role as Transaction Advisor, IFC helped to build capacity in key institutions – from line ministries through to the Cabinet – to develop and implement PPPs. Awareness and understanding of the project were created by engaging with local communities, civil society, and Parliament to ensure all levels of society were engaged and informed about the project. IFC also delivered intensive environmental and social scoping in-line with IFC Performance Standards. Innovative project structuring dealt with project-specific needs. Regimes around exclusivity, termination, handover and other issues were crafted to balance the interests of the Government and the market. IFC also provided support to the Government of Timor-Leste in preparing the necessary enabling legislation. Following award of the tender, the IFC team stayed engaged to support the Government in achieving financial close – this intensive and end-to-end support was vital to the eventual success of the transaction.

## TRANSACTION STRUCTURE

IFC proposed a transaction structure based on a 30-year Concession under which Bolloré is responsible for the design, financing, construction and operation of the facility, which must be consistent with the Government's masterplan. Strong operational performance requirements are built into the contract, alongside rigorous Environmental and Social standards.

The new modern international cargo terminal will include a 630-metre two-berth facility, a large container terminal with the capacity to handle up to 750,000 containers pa, as well as cargo, customs and administration buildings. The Concessionaire is responsible for all investment apart from the initial government subsidy and assumes the traffic risk. Charges for services are based on a tariff schedule defined in the Concession Agreement. The Government receives a TEU royalty fee and other revenue.

## BIDDING

Four globally reputable port operators were prequalified for the tender. The key variable for the bid was the amount of government Viability Gap Financing (VGF) subsidy each bidder required, with the lowest VGF subsidy to be the winner. All other variables were fixed in the Concession Agreement with the Concessionaire able to phase components of infrastructure and equipment investment in line with demand growth. After a transparent and competitive bidding process, a consortium led by the Bolloré Group won the tender and the Concession Agreement was signed on 6 June 2016. Financial close and launch of the construction phase occurred on 30 August 2018.

In launching construction, Timor-Leste's Prime Minister, Taur Matan Ruak, said "with the implementation of the Port Project, through a public private partnership (PPP), which represents the largest private investment to date in public infrastructure in the country, the Government gives a signal to other investors that Timor-Leste is an attractive place to do business."

## EXPECTED RESULTS

- Private investment of \$360m over the 30-year life of the Concession, with \$150m in the construction phase.
- Construction of a state of the art port facility completed and the port operational by September 2021
- Improved cargo handling times and reduced delays at the port, contributing to lower costs to do business in Timor-Leste
- Enhanced safety at the port
- Creation of 500 local jobs