



THINK GLOBAL, ACT LOCAL

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# INFRASTRUCTURE DEVELOPMENT IN EAST TIMOR

## A WIDE RANGE OF BUSINESS OPPORTUNITIES

It is known that the effects of better infrastructures on a country's economy are enormous and this fact has been widely recognised in the ambitious Strategic Development Plan laid down by the Government of East Timor, which highlights that the "policy framework to 2020 will ensure that Timor has quality national infrastructures in place by the end of this decade."

More, the Development Plan refers that infrastructure investments constitute the second pillar of public leadership and that successful economic development must be based on strong national infrastructure including roads, power, telecommunications, air and sea ports, and urban infrastructure.

The development of essential infrastructures is, therefore, a crucial pillar of the Government's Plan in light of the country's needs of fundamental infrastructures to support its rapidly growing economy. The Government revenues, including petroleum revenues, will support public spending of around US\$1 billion per year, with the remainder accumulating in the Petroleum Fund.

As in many other sectors of the country's economy, the civil and public

construction sector is still to be developed as there are rather few competitive domestic companies and those that exist require both technical and technological backing and know-how.

The opportunities for international civil and public construction companies, with experience on major infrastructures works, are therefore considerable. Also opportunities for partnerships that bring together technical and technological know-how and market experience are on the spotlight.

In this context, we highlight the following opportunities for private investment in the infrastructures sector:

### 1 - Roads and Bridges

East Timor has a system of national, regional and rural roads that offer access to the rural areas where most of the population live. The network was built following the Indonesian standard for carriageways and its width of 4.5 metre is clearly very narrow for international standards.

Furthermore, the alignment of the roads does not meet safety standards and

the construction of the shoulders and drainage is poor. There are around 456 bridges in East Timor's road system, which is made up of two coast roads along the north and south coasts and five roads that cross the country and connect with the two coast roads. Approximately 90% of the road network is in bad condition and requires urgent repair or reconstruction.

The Government's main priority is to rehabilitate and repair the existing roads in order to meet the minimum safety, quality and maintenance standards considering that the road network is the starting point for a country's development, since transport of people and goods is a condition for a productive economy.

Along with the rehabilitation of the existing roads, the implementation of a wide-ranging programme of construction of new roads and bridges is also a key element of the Government's Plan to provide better access throughout the country.

The Government's objective is to conclude the rehabilitation of all national and district roads by 2020 (the Government program will pave at least

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3,000 km of highway and district roads by 2015). The roads programme also includes the rehabilitation of all rural roads by 2015.

Improved or new roads will certainly open East Timor to large-scale agribusiness and other opportunities, will enable processing or other light manufacturing activities and will create opportunities for tourism.

## 2 - Electricity

The electricity sector in East Timor is currently inadequate and in a rather insufficient condition and therefore has been identified by the Government also as a national priority.

According to the Development Plan, the national power grid will be completed by 2015, linking all cities and district capitals. The power system will rely mainly on petroleum, initially heavy liquids but the transitioning to natural gas when the gas pipeline reaches Timor. Alternative energy sources including solar, wind, geothermal, and hydro will be incorporated into the national grid.

This electrification plan is now part of the overall development plans, the object of which is to meet long term demand for energy, to build basic infrastructure and to develop industries in every sector.

## 3 – Sea Ports

The construction of a new port in Tibar Bay, located a few kilometres to the west of Dili, has been identified as a national priority and is expected to be implemented within the term of the current Government (2012-2016). This new port is intended to operate as a multifunctional port with the capacity to handle a million tons of commercial cargo.

The IFC - the private sector arm of the World Bank Group - was retained by the Government as Transaction Advisor to implement this Project.

The Government's strategy is to select a private developer, under a PPP framework, to finance, build and operate the new port under a long-term concession (currently expected to be 25 years).

The project will be the object of a tender procedure under East Timor applicable law, although best international practices and transparency standards will apply, under the supervision of the IFC. The tender process will be based on pre-determined and objective criteria, as well as final concession terms and conditions.

This project – which has already been launched - will involve the construction of a breakwater, quay and on-land facilities, drainage and access roads, including a road connecting the port with Dili.

The IFC is currently working on the Transaction Structuring Report, which will address the economic and commercial feasibility of the project, and immediately afterwards the Government will invite potential investors to make a pre-bid.

In the Project Brief prepared by the IFC, the following items are marked as Highlights of the Transaction:

- Strong container growth in line with economic growth;
- Detailed technological, commercial and legal analysis to confirm structure, revenue model and necessary legal framework;
- “Bankable” transaction

The Tibar Bay Port Project presents therefore a strong and extremely interesting business opportunity for foreign investors.

In addition to the Tibar Bay Port, it is also foreseen the construction of the port of Suai in the south of East Timor. This port is intended to be operational in 2015 and will include a container yard, logistics facilities, fuel storage and possibly a naval construction and repair

sector. Its main objective will be to serve as a point of entrance for materials and equipment for the development of the oil and gas industry on the south coast.

## 4 – Airport

Another noteworthy business opportunity is the planned extension of the runway at the Presidente Nicolau Lobato International Airport – from the current 1850 metres to 2500 metres - and the construction of a new terminal by 2020. It is intended that the Presidente Nicolau Lobato International Airport will become an international airport of modern standards with capacity for one million passengers a year.

The Government has already made public its intention to select a private developer, under a PPP framework, to assist in the financing, construction and operation of the International Airport under a long-term concession (currently expected to be 25 years).

Again, the IFC has been retained by the Government to act as Transaction Advisor and the project is to be funded through the resources of the Petroleum Fund.

The first phase of the project has already been launched and the IFC is currently working on the Transaction Structuring Report.

In the Project Brief prepared by the IFC, the following items are marked as Highlights of the Transaction:

- Strong passenger demand growth in line with economic growth;
- Detailed technological, commercial and legal analysis to confirm structure, revenue model and necessary legal framework;
- “Bankable” transaction

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## 5 – Other Investment Opportunities

Apart from the above major infrastructure projects, there are also significant and interesting investment opportunities in the following areas:

- Hydropower Project – East Timor has major power generation and distribution problems, power cuts occurring regularly and many rural areas still depend on generators. A major hydropower project could be an option for the supply, allowing for substantial commercial growth as well as exports.
- Communications Infrastructure – East Timor needs to increase quality and reduce costs in the telecommunications sector to avoid dropping further behind competitors and placing untenable burdens on economic activity and businesses. Internet-related infrastructure is a strong aspirant for public investment. Although all landline and mobile phone services in Timor are provided by Timor Telecom, the Government will certainly need to bring competition not only to reduce prices but also to improve the conditions and reach.

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- Oil and Gas Infrastructures – Petroleum is the second sector, with profound transformative potential for the country. The oil and gas industry is expected to generate considerable upstream and downstream business, focusing on exploration and development, a pipeline to the mainland, and the development of a downstream industry, including LNG, petrochemicals, fertilizer, refineries and other energy-intensive operations.

Plants and refineries will need to be established. On the other hand, offshore activities require considerable logistics support and therefore new logistics platforms will be required (services are currently being supplied from abroad).

- Water and sewerage Infrastructures – The water and sewerage in the country, and specifically in Dili, is a enormous problem, not only because the population is beyond the system's capacity, but also due to public health concerns. Obviously, major infrastructure investments such as sewerage lines and plants, as well as power transmission lines, will certainly be on the spotlight.
- Industrial and Export Zones and Business Park – Timor needs real estate infrastructures to support industrial and export activities. Also, a business park in Dili could spur business activity not only in the city but also in the remainder of the country.

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