

## About ADB

### *Ordinary Capital Resources*

Most of the lending of the Asian Development Bank (ADB) comes from its ordinary capital resources (OCR), a pool of funds offered to lower- to middle-income developing member countries (DMCs).

Over the years, OCR have modernized urban and rural transportation systems, brought electricity to poor households, provided poor people access to clean water and improved sanitation facilities, installed transmission and distribution lines, helped mitigate environmental degradation, and improved the quality of national and local public administration that impacts citizens every day.

In 2011, projects funded from OCR amounted to \$11.3 billion, or 81% of total ADB approvals for the year of \$14.0 billion. As of 31 December 2011, the total amount of active OCR loans was \$70.5 billion.

To finance its OCR lending operations, ADB raises funds through bond issues on the world's capital markets. ADB carries an AAA credit rating, the highest investment rating possible from major international credit rating agencies. The benefits of this high credit rating are passed onto DMCs by providing them OCR loans at near-market terms. Most lending from OCR is for what are termed London interbank offered rate (LIBOR)-based loans.

Timor-Leste became eligible to access OCR in January 2012, and its first OCR loan was approved in March 2012. The loan of \$30.85 million is helping fund the upgrade of the roads from Dili to Liquica and Tibar to Gleno.

Timor-Leste's first OCR loan will have a 25-year term, including a grace period of 5 years in which no principal repayments are required; an annual interest rate based on the 6-month LIBOR, plus a commitment charge.

More information on OCR is available at [www.adb.org/site/funds/ocr](http://www.adb.org/site/funds/ocr) and [www.adb.org/site/public-sector-financing/financial-products](http://www.adb.org/site/public-sector-financing/financial-products).

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## Project Milestones

- ADB President Haruhiko Kuroda and Timor-Leste Finance Minister Emilia Pires signed the country's first loans with a multilateral lender on 2 May 2012. Loans from ADB's OCR and the Asian Development Fund will fund the Road Network Upgrading Project, which will rehabilitate road sections from Dili to Liquica and Tibar to Gleno.
- At the loan signing, which took place during the ADB Annual Meeting in Manila, the Philippines, Mr. Kuroda said that "This signing of Timor-Leste's first loans demonstrates the significant progress the country has made since its independence ten years ago. I would like to congratulate Timor-Leste for its achievements, and look forward to our continuing collaboration in the future."
- Invitations to bid for the upgrade of the 61-kilometer (km) road from Dili to Liquica and Tibar to Gleno were issued by the Ministry of Finance in late June 2012. Bids are required by 30 July 2012 (see [www.mof.gov.tl/category/current-tenders/?lang](http://www.mof.gov.tl/category/current-tenders/?lang)). Contracts are to be in place before the end of 2012.
- The Ministry of Infrastructure has issued contracts for the upgrade of the national road from Motain on the border with Indonesia to Lois River, and 10 kilometers (km) from Lois River to Carimbala. The upgrading of these road sections are funded by the government and a \$46 million grant from ADB.

## ADB-Supported Events

Timor-Leste recently participated in the

- 7th Asia Clean Energy Forum, 4–8 June 2012, ADB headquarters, Manila, the Philippines;
- Regional Meeting on Public Sector Management in Support of the Millennium Development Goals, 13–15 June 2012, Bangkok, Thailand; and
- Final Regional Workshop on Updating and Improving the Social Protection Index, 27–29 June 2012, ADB headquarters, Manila, the Philippines.

Timor-Leste will soon participate in the Third Workshop on Enhancing Distribution of Clean Development Mechanism Projects in Asia and the Pacific, to be held in July at ADB headquarters, Manila

# The Infrastructure Agenda

## *The Development Setting*

Timor-Leste is now one of the fastest growing economies in Asia and the Pacific; petroleum revenue is being saved in a world class Petroleum Fund; large gains have been made in health and education; and peace and stability have been achieved.

More importantly, the fast economic growth has been inclusive. Inclusive economic growth is a concept that has been adopted by much of the region. It recognizes the importance of both (i) achieving a high rate of sustainable economic growth; and (ii) ensuring that opportunities, such as access to basic public services, are shared equitably across the community. Analysis by ADB shows that Timor-Leste has been broadly successful in sharing opportunities among the Timorese. These are remarkable achievements by Southeast Asia's youngest nation.

## *The State of Infrastructure*

Over the last 10 years, good progress has been made in expanding the coverage of basic health and education services, including to the poorest Timorese. But infrastructure has fallen behind. The overall rate of improvement in infrastructure has been slow, and equity in access is yet to be achieved. If this continues, the poor state of infrastructure will not be able to support economic growth and social development.

In 2009–2010, less than 10% of the poorest Timorese families had access to electricity, compared to around 90% among the better-off households (see the figure on the opposite page). And less than half of the poorest households had access to improved water supply. There were gains over the last decade in expanding the coverage of electricity and water, but the gains were small. Almost all of the gains were made prior to 2007, with little progress made after that.

There was little overall improvement in sanitation over the last decade, and the better-off households continue to benefit from a much higher standard of service than the poorer households. Only 19% of the poorest households had access to improved sanitation in 2009–2010.

And the roads have deteriorated. Access to vehicle-passable roads has declined, and travel time has risen. The poorest households have been especially exposed to the problems with roads. ADB projects that if road expenditure were to remain at past low levels, most national roads would only be passable by 4WDs within around 5 years only (see the August 2011 edition of this bulletin). Poor roads would become even more of a barrier to access to schools, health facilities, and markets. Such a situation would undermine progress across all sectors. And the cost of upgrading and maintaining the roads will keep rising the longer repairs are delayed.

It was understandable that security, health, and education received priority over the first decade of restoration of independence of Timor-Leste. Today, however, the gains in these sectors need to be complemented by improvements in basic infrastructure if the success of the last decade were to continue.

## *The Outlook for Infrastructure*

Timor-Leste's Strategic Development Plan 2011–2030 lays down the initiatives needed to address the state of the country's infrastructure. The plan presents an ambitious list of projects covering all sectors. Implementation is to be front-loaded, resulting in a surge of public investment over the first five years of the plan.

Project preparations started under the plan now provide a platform upon which the new government can achieve large gains in infrastructure.

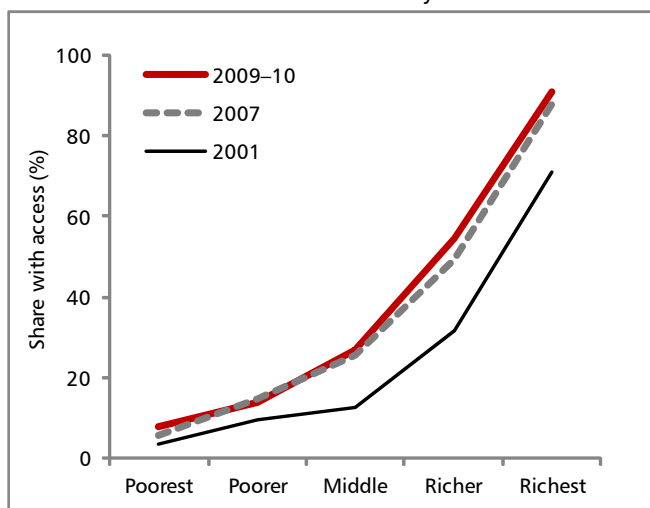
A transformation in telecommunications and electricity is already in place, with big gains in coverage and service quality expected. Over the next 5 years, much of the national and district road network could be upgraded, and most rural roads could be returned to good condition. A much needed new sea port could be in place in 5 years, and an upgrade of Dili airport is achievable even sooner. The water and sanitation sector would pose the greatest challenge, but there is a potential to scale-up existing programs and to make large improvements in the sector over the next 5 years.

**Telecommunications:** The monopoly rights held by Timor Telekom were lifted in early 2012 and the operators to receive two additional telecommunication licenses were recently announced. Viettel Global Investment JSC from Viet Nam has committed to provide GSM mobile telephone and high speed 3G Internet access initially reaching 93% of the Timor-Leste population and 95% within 3 years. PT Telekomunikasi Indonesia International (Telin) will commence services within 6 months, and it has committed to reach 94% of the population with GSM mobile telephone and high speed 3G Internet access. An independent regulator has been established to oversee the new three telecom operators.

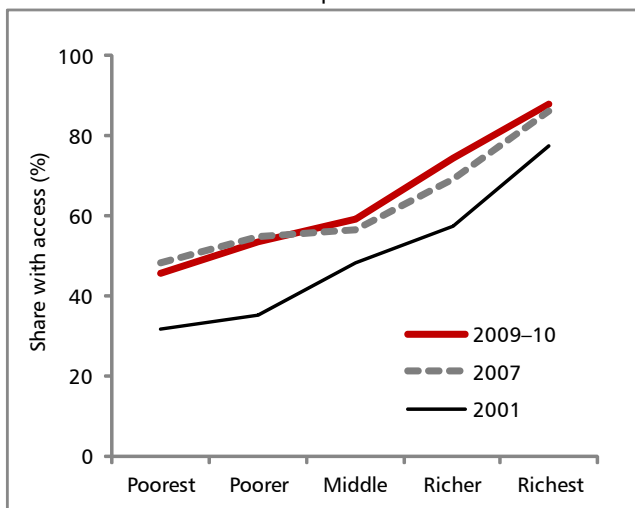
**Electricity:** The \$900 million national electrification program is already providing 24-hour electricity to Dili and 7 of 12 districts. Construction of the second new power station, at Betano on the south coast, is on target for completion at the end of 2012. The transmission network is largely completed on the north coast and is well advanced in southern areas. As the distribution system expands to deliver electricity to more public facilities and households, the program will quickly alleviate the inequity and constraint to development posed by a shortage of electricity. Unit operating costs of generation will soon be cut by a switch from diesel to heavy fuel oil.

### The distribution of access to infrastructure by living standards

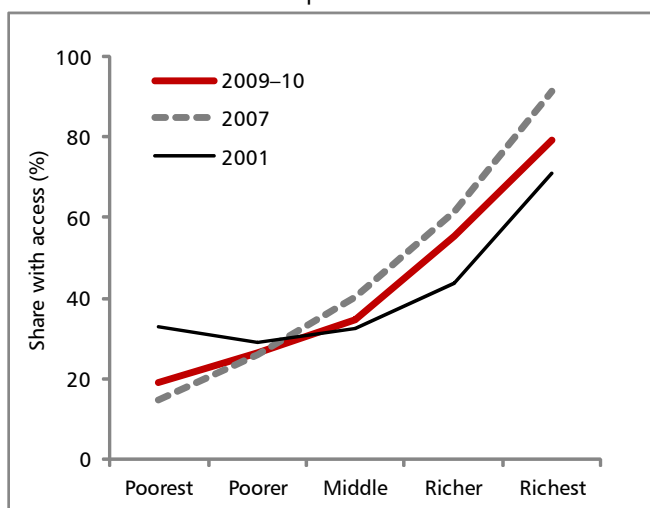
Access to electricity



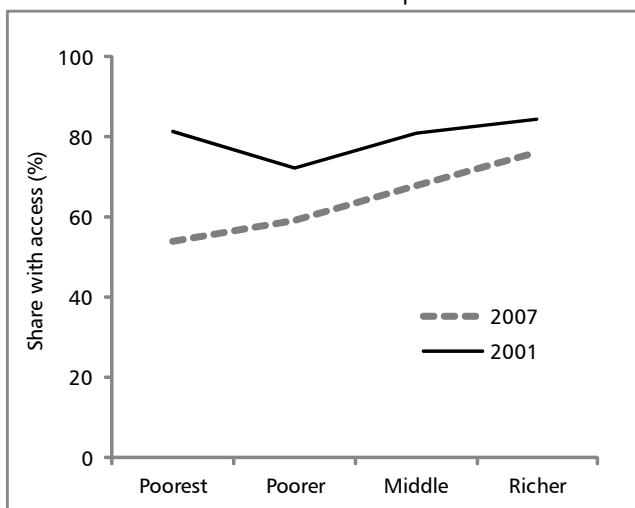
Access to improved water



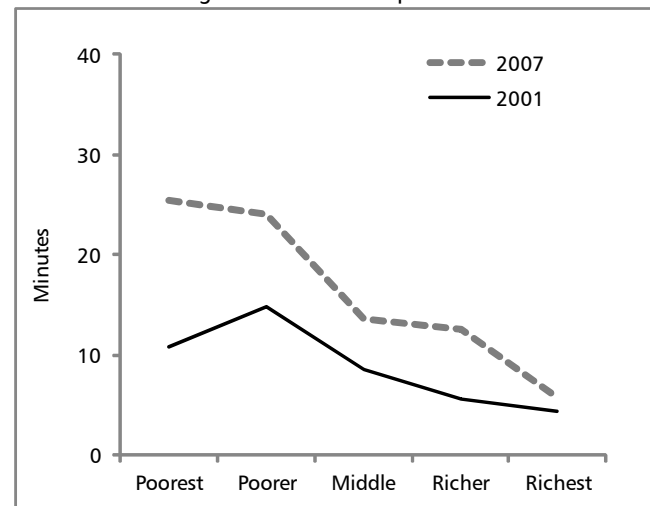
Access to improved sanitation



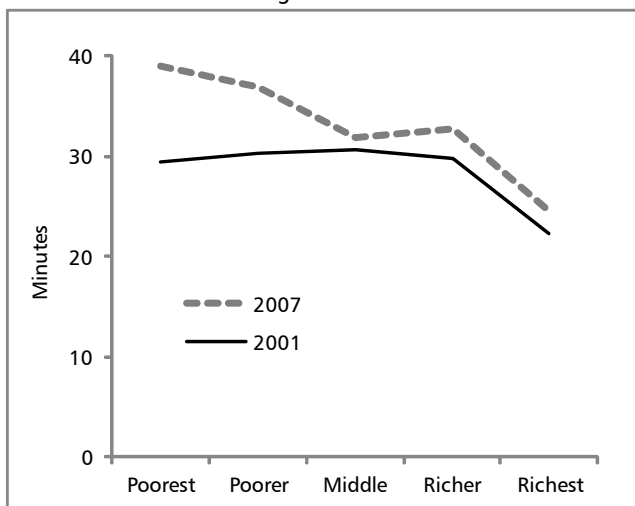
Nearest road is vehicle passable



Walking time to a vehicle passable road



Walking time to school



Note: The charts show the average value of the variable for each living standard group. The latest data on transport are for 2007.

Sources: ADB staff estimates based on the microdata of the 2001 and 2007 Living Standard Measurement Surveys and the 2009-10 Demographic and Health Survey. A complete review of progress across sectors is provided in C. Sugden. (forthcoming). Inclusive Economic Growth in Timor-Leste. Asian Development Bank. Manila.

**Major roads:** The busiest major roads are now being upgraded with the support of development partners. With the help of ADB, contracts are in place to upgrade 66 km of road from Liquica to Motain, and for heavy maintenance of 42 km from Batugarde to Mailiana. Tenders have been released to upgrade 29 km from Dili to Liquica and 31 km from Tibar to Gleno, and the detailed design of the upgrade of 81 km from Manatuto to Natarobora will soon start. The World Bank has helped to start the detailed design of the upgrade of 60 km from Dili to Aileu, and the Japan International Cooperation Agency (JICA) is helping prepare the upgrade of 118 km from Dili to Baucau. In total, 427 km of roads, almost 20% of the 2,300 km of national and district roads in the country, will be improved with support from these development partners.

Other government projects are rehabilitating priority road sections and undertaking emergency repair works. Preparations to upgrade the major roads on the south coast as part of the Tasi Mani program are also well advanced.

**Rural roads:** There are more than 2,000 km of rural roads. Ongoing initiatives to rehabilitate and maintain these rural roads include the Decentralized Development Programmes I and II, which are small-scale projects implemented by the government; programs with the support of the European Union and the Australian Agency for International Development (AusAID); and the smaller Our Roads Our Future Project funded by the Government of Japan. Through the Programs that have already been approved, at least a third of the rural road network will be maintained or rehabilitated over the coming 5 years.

**Air transport:** Dili airport has progressively upgraded its safety standards and it resurfaced the main runway in 2011. However, an upgrade of the airport is much needed. This is now being prepared, for completion within 3 years.

**Sea transport:** Dili port, the only international sea port, is close to capacity; and there are ongoing efforts to extend the life of the port. A new port near Dili at Tibar is being planned, with the government having completed a feasibility study, and development partners are helping to continue with the preparations. Completion of this new port is an imperative for the economy, with Dili port looming as a potential bottleneck to development. The new port could be operational within 5 years with good preparation.

With the support of JICA, reconstruction has started of the wharf in Oecussi, which provides the enclave's main transport link with the rest of the country.

**Rural water and sanitation:** The government's small-scale infrastructure programs, and programs supported by the AusAID and the United States Agency for International Development, are being scaled up to help more than 100,000 people annually. The Korea International Cooperation Agency is also helping trial desalination plants suitable for coastal areas.

**Urban water and sanitation:** The outlook for urban water and sanitation is less clear, with sector plans still at an

early stage. A waste water treatment plant was recently opened in Dili, along with a water treatment plant and river intake system rehabilitated by JICA. With ADB support, the upgrade of three of Dili's 50 subzones is almost completed, and work in eight more subzones will start soon. A sanitation and drainage plan for Dili is nearing completion. The detailed design of upgrades of the water and sanitation systems in Manatuto town and Pante Makasar is scheduled to set to commence soon, with the works offering a model for upgrading of facilities in the remaining 10 district capitals.

### **Suggestions for Next Steps**

What are needed to keep building the momentum on infrastructure? How can costs be kept to a minimum—unit costs of major road works are up to 3 times that seen elsewhere in the region—and how can value-for-money be maximized?

- **Make early decisions on the infrastructure program and key projects.** The big gains achievable within five years are only possible with early action.
- **Commit funding.** The cost to the government of works for implementation in the next 5 years could be as much as \$3 billion.
- **Put in place a solid pipeline of projects.** This will help establish good quality contractors, and give them the confidence to buy the equipment and employ the people needed to deliver high standard projects.
- **Prepare good feasibility studies, and follow these with good detailed designs.** These are essential underpinnings of a sound project.
- **Tender civil works on a competitive basis.** This will help ensure the best contractors win works and bid the lowest possible price.
- **Ensure good supervision.** The National Development Agency has prepared for this role. In line with best international practice, independent consultant teams could also be engaged to supervise major projects.
- **Prepare for maintenance.** Without maintenance, the funds spent over the next 5 years will be lost. Initial maintenance works are now being included in some construction contracts. This provides a quick solution, but to achieve sustainability, permanent maintenance systems will need to be put in place.
- **Build capacity in government.** Government agencies need to manage the infrastructure works, and may take over the assets over the long term. Additional managerial and technical capacity is essential to sustaining infrastructure.
- **Involve stakeholders.** This is especially important in water and sanitation, where community and user involvement is critical to system sustainability, and
- **Bring the private sector in, to provide additional human and financial capacity.** The port, airport, and urban water projects are particularly well suited to delivery via