



Australian Government  
Department of Foreign Affairs and Trade



Australian  
Infrastructure  
Financing Facility  
for the Pacific



*Project Status: This paper provides a detailed overview and business case of the financing proposal as at the time it was received and endorsed by the AIFFP Board. Some aspects of the proposal may have changed following subsequent negotiations or during implementation.*

*Note: Sensitive and confidential information has been removed to enable publication*

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Australian Government  
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Australian  
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for the Pacific

# Timor-Leste Airport Facilities Project

Business Case

Considered by the AIFFP Board on 13 September 2022

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## Key Issues and Recommendations

The Government of Timor-Leste (GoTL) has approved a phased airport redevelopment initiative for the Presidente Nicolau Lobato International Airport (PNLIA, Dili Airport). The AIFFP Project is part of a multi-donor Phase 1 initiative which involves approx. USD270m of financing, including (i) a loan of USD135m from the Asian Development Bank (ADB) to extend the runway from 1,850 to 2,200 meters and a new air traffic control tower; (ii) approximately USD44m in grant funds from Japan (JICA) for a new passenger terminal building; (iii) AIFFP financing of up to **USD60.95 million** and DFAT bilateral funding of up to **USD5.5 million** for ancillary facilities (the "Project", collectively with other donors the "broader project"), and (iv) GoTL funding of approx. USD7 million for ancillary facilities across three AIFFP scope components. Upon completion of Phase 1, GoTL, with the support of WB IFC, intends to develop PNLIA through a Public Private Partnership (PPP).

### Key Issues

- 1) **This is AIFFP's first bilateral loan to Timor-Leste and will position Australia to support future financing requests.** AIFFP's concessional financing package responds directly to the needs of GoTL, who have a hard borrowing ceiling of USD40m this financial year. The substantive grant component of the financing package (USD26.5m) has been offered in response to the direct request of GoTL to maximise concessionalism of the lending facility. The Project is a national priority with high visibility.
- 2) **Timor-Leste's public debt is low compared to other small island countries in the Pacific, however it faces profound – albeit distant – fiscal sustainability issues.** While Timor-Leste's level of debt is expected to grow over the next few years with concessional loans from the ADB, the World Bank and JICA to finance infrastructure projects, it will remain a relatively small share of Gross Domestic Product (GDP). The International Monetary Fund's (IMF's) most recent Article IV report (July 2021) rates Timor-Leste's risk of debt distress as moderate – a downgrade from the 2019 assessment. Given this rating, the absence of any formal limits on sovereign borrowing imposed by the IMF or World Bank, and the fact that Timor-Leste is currently eligible to borrow on IBRD terms, an AIFFP loan to Timor-Leste raises no concerns from a debt sustainability perspective. The planned airport PPP concession will also provide future revenue streams to support debt servicing.
- 3) **GoTL has requested financing agreements to be signed with the AIFFP / DFAT in early November 2022.** Provision for lending of USD40 million is already included within the GoTL national budget for the current financial year (Jan-Dec 2022). Additionally, Timor-Leste is expected to undergo a national election on or around March 2023. Once called, a two-month caretaker period is expected. Accordingly, GoTL has requested project signing as soon as possible in November 2022 in line with current Timor-Leste lending approvals and to avoid early electioneering and formal caretaker period.

### Key Risks

- 4) AIFFP Management has reviewed the Project risks and proposed control measures and notes that the residual risk ratings do not exceed the AIFFP Risk Policy and Appetite Statement. The Project's overall residual risk rating is **Moderate**.

| Risk  | Mitigation   |
|---|--|
| Global supply chain issues and cost escalations cause cost overruns | Cost estimates are recent (August 2022) and reflect a P80 basis (i.e., 80% confidence estimates will not be exceeded). |

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|   |  |
|---|--|
| <b>Delays to critical path for AIFFP-funded components</b>                | <p>The Project investments are being delivered as part of a broader GoTL airport redevelopment initiative involving ADB and JICA to deliver airport infrastructure upgrades (the “broader project”), with the overarching objective to develop PNLIA into a PPP concession. WB IFC is working with GoTL as the PPP transaction advisor.</p> <p>Australia is the last financier to be invited to partner with GoTL on the broader project and GoTL has requested AIFFP financing to focus on auxiliary facilities to support compliance and operational requirements. Investments also include two off-site components in the immediate surrounding community, the Beto Tasi bridge and school, which are required as the broader project will impact existing facilities and community access. These investments will involve community consultations as part of the GoTL-led land acquisition and resettlement process delivered in accordance with DFAT safeguards requirements. Close coordination with the ADB-financed runway works will be essential to ensure that these AIFFP-financed investments can be procured, contracted, and constructed to maintain community access.</p> <p>The Project procurement strategy has been developed in consideration of administrative GoTL procurement processes. On that basis, the Project will procure one large Design and Build (D&amp;B) contract to expedite delivery timeframes. Additionally, coordination will be addressed at operational and governance levels of the Project through the Construction Supervision Consultants (CSC), Joint Implementation Committee and Donor Coordination Forum.</p> |
| <b>Lack of interest from the AIFFP Panel leads to failed procurements</b> | <p>While GoTL has agreed to use the AIFFP Capital Infrastructure Services Panel (AIFFP Panel), the cost of doing business in Timor-Leste, an abundance of domestic (Australian) infrastructure projects and relatively small contract size may mean few international firms will bid.</p> <p>AIFFP has begun the process of targeting eligible firms on the Panel via a series of briefings to ensure awareness of the Project and address risks to project procurements.</p>  |

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We recommend that the Board endorses:

- 5) The provision of the AIFFP financing package of up to **USD60.6 million** to the Government of Timor-Leste to finance the Project, which includes:
  - i. A loan of up to **USD40 million**; and
  - ii. A grant of up to **USD20.6 million** (exclusive of GST).
- 6) Grant funds of up to **USD350,000** (exclusive of GST) for AIFFP to fund costs associated with monitoring and evaluation (M&E) for the Project.

We recommend that the Board notes:

- 7) The provision of the DFAT bilateral program financing package of up to **USD5.5 million** (exclusive of GST) to the Government of Timor-Leste to finance the Project.

## List of Abbreviations

|        |   |  |
|--------|---|--|
| AACTL  | - | Civil Aviation Authority of Timor-Leste                        |
| ADB    | - | Asian Development Bank   |
| AIFFP  | - | Australian Infrastructure Financing Facility for the Pacific   |
| ANATL  | - | Air Navigation Administration of Timor-Leste                   |
| ATCT   | - | Air Traffic Control Tower                                      |
| CAFI   | - | Council of Administration of Infrastructure Fund (Timor-Leste) |
| CP     | - | Child Protection   |
| CSC    | - | Construction Supervision Consultants                           |
| D&B    | - | Design and Build   |
| DCF    | - | Donor Coordination Forum                                       |
| DFAT   | - | Department of Foreign Affairs and Trade                        |
| EHS    | - | Environment, Health and Safety                                 |
| E(S)IA | - | Environmental (and Social) Impact Assessment                   |
| GoTL   | - | Government of Timor-Leste                                      |
| IATA   | - | International Air Transport Association                        |
| IBRD   | - | International Bank for Reconstruction and Development          |
| ICAO   | - | International Civil Aviation Organization                      |
| IESC   | - | Independent Environmental and Social Consultant                |
| IFC    | - | International Finance Corporation                              |
| IMC    | - | Inter-Ministerial Commission                                   |
| IMF    | - | International Monetary Fund                                    |
| IMWG   | - | Inter-Ministerial Working Group                                |
| IPMU   | - | Integrated Project Management Unit                             |
| JIC    | - | Joint Implementation Committee                                 |
| JICA   | - | Japan International Cooperation Agency                         |
| LA     | - | Loan Agreement   |
| LARP   | - | Land Acquisition and Resettlement Plan                         |
| M&E    | - | Monitoring and Evaluation                                      |
| MoF    | - | Ministry of Finance  |
| MPS    | - | Major Projects Secretariat                                     |
| MTC    | - | Ministry of Transport and Communications                       |
| NPC    | - | National Procurement Commission (Timor-Leste)                  |
| PAM    | - | Project Administration Manual                                  |
| PMC    | - | Project Management Consultants                                 |
| PNLIA  | - | Presidente Nicolau Lobato International Airport                |
| PPP    | - | Public Private Partnership                                     |
| SEAH   | - | Sexual Exploitation, Abuse and Harassment                      |
| SDP    | - | Strategic Development Plan                                     |
| WB     | - | The World Bank Group   |

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# 1 Project Overview

| INVESTMENT DETAILS  |  |  |                  |                   |                       |
|---|--|--|------------------|-------------------|-----------------------|
| <b>Investment Objective</b>   | To support the GoTL Phase 1 Airport Redevelopment initiative through the delivery of auxiliary investments which will improve the airport's operational capability.  |  |                  |                   |                       |
| <b>Investment Benefits</b>  | The Project will: <ol style="list-style-type: none"> <li>i. Support the Government of Timor-Leste (GoTL) to redevelop PNLIA through the construction of ancillary airport infrastructure, expanding international connectivity to facilitate increased international operations;</li> <li>ii. Support improved airport safety and security compliance;</li> <li>iii. Support Timor-Leste's post-COVID recovery by ensuring local content and local contractor participation as part of Australian-funded works;</li> <li>iv. Support Timor-Leste's objectives for economic growth through provision of cargo handling and quarantine facilities;</li> <li>v. Position the Australian Government as a reliable, responsive partner of choice and demonstrate our ability to deliver quality infrastructure outcomes.</li> </ol> |  |                  |                   |                       |
| <b>Geographic Location</b>  | Dili, Timor-Leste  |  |                  |                   |                       |
| <b>Proponent</b>  | Government of Timor-Leste (GoTL). Project to be implemented on behalf of the GoTL by the Ministry of Transport and Communications.   |  |                  |                   |                       |
| <b>Debt Sustainability</b>  | Moderate risk of debt distress.  |  |                  |                   |                       |
| FINANCIAL OVERVIEW  |  |  |                  |                   |                       |
| <b>Finance arrangement /eligibility</b>   | Concessional loan and grant package.   |  |                  |                   |                       |
| <b>Total Project Value</b>  | USD73.4 million (AUD104.8 million) (AUD = 0.7 USD, used throughout)  |  |                  |                   |                       |
| <b>Proposed AIFFP Investment</b>  | <b>Total Amount</b>  | USD60.95 million (AUD87.1 million)   |                  |                   |                       |
|   | <b>Loan</b>  | USD40 million (AUD57.1 million)  |                  |                   |                       |
|   | <b>Grant</b>   | USD20.95 million (AUD29.9 million), comprising: <ul style="list-style-type: none"> <li>- USD20 million (AUD28.6 million): Project scope components</li> <li>- USD350,000 (AUD500,000): M&amp;E costs</li> <li>- USD600,000 (AUD860,000): Loan administration expenses</li> </ul> |                  |                   |                       |
| <b>Other Financiers</b>   | <b>DFAT (bilateral)</b>  | USD5.5 million (AUD7.8 million): Project scope components, procurement support to NPC.   |                  |                   |                       |
|   | <b>GoTL</b>  | Approx. USD6.9 million (AUD9.9 million): GoTL scope components.  |                  |                   |                       |
| <b>Proposed Execution Date</b>  | Loan signing by early November 2022.   |  |                  |                   |                       |
| RISK ASSESSMENT (Residual risk ratings (post mitigation) provided below. Detailed Project risk register attached) |  |  |                  |                   |                       |
| <b>Risk Category:</b>   | <b>Reputational</b>  | <b>Country</b>   | <b>Financial</b> | <b>Compliance</b> | <b>Implementation</b> |
| <b>DFAT Category Risks</b>  | Moderate   | High   | Moderate         | Moderate          | Moderate              |
| <b>DFAT Risk Weighting</b>  | 20%  | 15%  | 15%              | 30%               | 20%                   |
| <b>Overall DFAT Risk Rating</b>   | Moderate   |  |                  |                   |                       |



## 1.1 Project Description and Background

8) Timor-Leste is the world's youngest nation in the Indo-Pacific, recently celebrating 20 years of independence. It is comprised of a half-island of approximately 14,870km<sup>2</sup>, and with a coastline stretching 730km. Timor-Leste's population is approximately 1.3 million, of which about 220,000 are based in the capital city, Dili. Timor-Leste is one of Australia's nearest neighbours, located 700km northwest of Darwin and at the eastern end of the Indonesian archipelago.

9) Timor-Leste's international aviation connections are provided through its main international airport, Presidente Nicolau Lobato International Airport (PNLIA, Dili Airport). Currently, daily services operate between Australia and Timor-Leste and there are flights to Denpasar, Kuala Lumpur, Lisbon and Singapore. Development of PNLIA has been identified by the Government of Timor-Leste (GoTL) in its Strategic Development Plan 2011-2030 (SDP) as a key development priority.

10) GoTL has endorsed an Airport Master Plan (2019) developed with the support of the World Bank (WB) International Finance Corporation (IFC). The Master Plan includes recommendations for staged infrastructure development and ongoing airport operations. The overall objective is to meet International Civil Aviation Organization (ICAO) and International Air Transport Association (IATA) minimum standards and expand the operational capacity of the airport from 150,000 passengers per year (2012) to a highly ambitious target of one million passenger per year (2020 target, developed prior to COVID-19). The design of AIFFP-financed components has been based on an adjusted assessment of passenger numbers, with consideration of an appropriate design year for each scope element.

11) Timor-Leste has requested Australian financing through the AIFFP to finance a number of investments critical to supporting airport operational compliance and improving airport facilitation. The investments form a critical part of the broader project upgrades. The Project includes a variety of mostly small value ancillary scope including access roads and car-parking, quarantine, health and rescue fire buildings, bridge, fuel depot and school.

12) The broader project is being developed with the overarching objective to construct/upgrade international airport infrastructure ahead of a planned PPP concession. The PPP concession will be delivered with WB IFC as transaction advisors, and it is anticipated the PPP (once awarded) will support GoTL in meeting financing obligations associated with the airport redevelopment as well as ongoing operations and maintenance.

## 1.2 Key Considerations

13) **Outstanding safeguards assessments.** Environmental and socio-economic impacts of the new Beto Tasi bridge (and approaches) and school have not been fully assessed as GoTL has not yet formally confirmed specific locations. However, AIFFP's finance for the bridge and school is dependent on the GoTL addressing the specific requirements regarding community consultation, land acquisition and resettlement with respect to these components, and finalisation of mitigation plans which comply with national standards, IFC Performance Standards (IFC PS) and DFAT Safeguards.

14) **GoTL-financed activities.** In response to budgetary pressures on the Project, its design has been adjusted to identify appropriate activities suitable for separate parallel financing by GoTL. These activities (approx. USD7 million) include the cargo terminal building, airport perimeter fence, and airport maintenance building and have been selected based on lower complexity, and timing (not critical path). Additionally, in response to requests from GoTL, the Project design reflects the provision of detailed design and supervision services through the AIFFP-financed contracts. This approach ensures consistency of quality design and delivery across all investments, strengthens the possibility of local contractor involvement, and lessens the financial requirements to GoTL.

15) **Procurement packaging.** Resourcing of Timor-Leste's National Procurement Commission (NPC), responsible for administering all GoTL procurements is significantly constrained. To manage implementation risk, the Project will be delivered through two major contracts: a design and build (D&B) for the physical infrastructure works, and a CSC to undertake supervision and technical oversight. In response to GoTL request, the Project will provide additional procurement resourcing to NPC to support

timely procurement. The Project Administration Manual (PAM) will identify efficiencies in the GoTL process to further mitigate these issues.

16) **Construction of new elementary school.** The DFAT bilateral program intends to finance construction of the new Beto Tasi school, which will commence earlier than the D&B contract (subject to GoTL addressing safeguards requirements). This is particularly important given the ADB-financed runway works and resultant community impacts.

## 2 Strategic Assessment and Rationale for AIFFP Involvement

### **The proposed project is located in one or more countries in the Pacific region or in Timor-Leste**

17) Australia has provided international support for Timor-Leste since the beginning of diplomatic relations which formally commenced on 20 May 2002. Australia is currently Timor-Leste's largest partner in development and security and has bilateral agreements in place to allow seasonal worker mobility, and vocational training for Timorese workers.

### **The proposed project demonstrates a broad public benefit and/or transformative effect to the economic development of host countries**

18) PNLIA is Timor-Leste's international gateway and does not currently meet current or forecast passenger or cargo growth. Project investments will improve operational compliance, as well as providing enabling infrastructure to support Timor-Leste's economic development objectives in sectors such as agriculture (imports/exports) and tourism, and health management at border entry points.

19) Timor-Leste's economy is highly dependent on its petroleum sector (approximately 70% of total GDP<sup>1</sup>). Economic diversification over the medium term will become increasingly important to support national socio-economic development. Developing the non-oil economy is a priority for Timor-Leste, and the Project is closely aligned with GoTL's SDP. Upgrading PNLIA is Timor-Leste's highest priority for new borrowing in 2022.

### **The proposed project reinforces Australia's relationships with host countries and supports a stable and prosperous region**

20) If approved, the Project would be AIFFP's first loan to Timor-Leste and an important opportunity for Australia to partner with Timor-Leste through the AIFFP. The Project also complements bilateral program activities to strengthen the capacity of the Civil Aviation Authority of Timor-Leste (AACTL) as Timor-Leste's aviation regulator.

## 2.1 Debt Sustainability Assessment

21) The DFAT OTP Economics team provided a Debt Sustainability Assessment. In summary, it recommends that, given Timor-Leste's eligibility to borrow on IBRD terms and the absence of any formal limits on sovereign borrowing, there are no concerns about AIFFP lending to GoTL for the Project, and given the significant economic benefits of the Project, AIFFP lending improves Timor-Leste's debt sustainability prospects.

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<sup>1</sup> Country Partnership Framework for the Democratic Republic of Timor-Leste for the period FY2020-FY2024, The World Bank Group.

## 3 Financial Overview

### 3.1 Investment Capital Structure

22) GoTL has requested an overall financing package from the AIFFP and DFAT bilateral program of up to **USD66.45 million** (approx. AUD94.9 million equivalent), comprising loans of up to USD40 million and grants of up to USD26.45 million (excluding M&E costs and financing charges). Financing will be provided to GoTL, through the Ministry of Transport and Communications (MTC) (Implementing Agency).

**Table 1 – SOFR vs LIBOR comparison**

| Reference rate (Sept 2022) | Credit Adjustment Spread | Margin | Indicative all-in rate (Sept 2022) |
|----------------------------|--------------------------|--------|------------------------------------|
| SOFR (3.41%)               | 0.43                     | 0.8    | 4.64                               |
| LIBOR (3.73%)              | -                        | 0.8    | 4.53                               |

**Table 2 – Sources of Funds**

| SOURCES      | USD (m)     | AUD (m)      | %           |
|--------------|-------------|--------------|-------------|
| AIFFP Loan   | 40          | 57.1         | 55%         |
| AIFFP Grant* | 20          | 28.6         | 28%         |
| DFAT Grant*  | 5.5         | 7.9          | 8%          |
| GoTL         | 6.9         | 9.9          | 10%         |
| <b>TOTAL</b> | <b>72.4</b> | <b>103.5</b> | <b>100%</b> |

\* Excl. financing charges and AIFFP M&E costs.

**Table 3 – Breakdown of Project Estimated Costs**

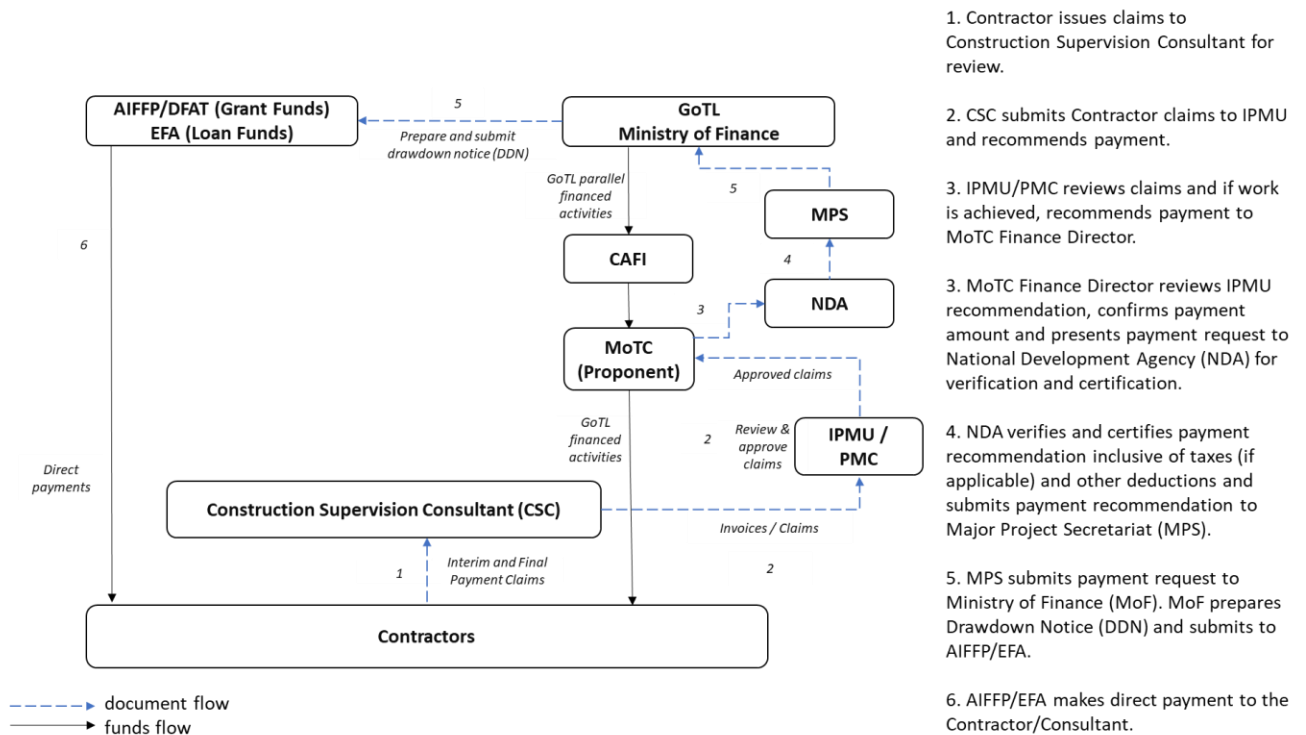
| PROJECT COMPONENT   | AIFFP Loan |  | AIFFP Grant |  | DFAT Grant |  | GoTL   |  | TOTAL  |  |
|---|------------|--|-------------|--|------------|--|--------|--|--------|--|
|   | USD, m     |  | USD, m      |  | USD, m     |  | USD, m |  | USD, m |  |
| <b>Design and Build Contractor*</b>                         |            |  |             |  |            |  |        |  |        |  |
| Detailed design and related services                        | 2.99       |  | 1.50        |  |            |  |        |  | 4.5    |  |
| Access roads to terminal                                    | 7.13       |  | 3.56        |  |            |  |        |  | 10.7   |  |
| Airport Rescue and Fire Fighting (ARFF) package             | 1.67       |  | 0.84        |  |            |  |        |  | 2.5    |  |
| Animal and plant quarantine building                        | 1.51       |  | 0.76        |  |            |  |        |  | 2.3    |  |
| Primary healthcare building with support facilities         | 0.91       |  | 0.45        |  |            |  |        |  | 1.4    |  |
| Fuel depot relocation                                       | 4.49       |  | 2.25        |  |            |  |        |  | 6.7    |  |
| Street lighting, water, sewer and electricity services      | 5.16       |  | 2.58        |  |            |  |        |  | 7.7    |  |
| Car parking and drop off zones at terminal                  | 0.52       |  | 0.26        |  |            |  |        |  | 0.8    |  |
| New bridge at Comoro and access road to Beto Tasi community | 6.64       |  | 2.34        |  | 3.5        |  |        |  | 12.5   |  |
| Footpath (connecting terminal to access road)               | 0.70       |  | 0.35        |  |            |  |        |  | 1.1    |  |
| Cargo terminal building                                     |            |  |             |  |            |  | 3.4    |  | 3.4    |  |
| Airport maintenance building                                |            |  |             |  |            |  | 1.8    |  | 1.8    |  |

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|---|-----|--|------|------|--|-----|--|------------|--|
| Airport perimeter security fencing  |     |  |      |      |  | 1.7 |  | <b>1.7</b> |  |
| New elementary school building at Beto Tasi   |     |  |      | 1.50 |  |     |  | <b>1.5</b> |  |
| <b>Consulting Services</b>  |     |  |      |      |  |     |  |            |  |
| Construction Supervision Consultants (supervision of all components incl. GoTL funded and school) |     |  | 5.12 |      |  |     |  | <b>5.1</b> |  |
| Additional capacity support to NPC  |     |  |      | 0.5  |  |     |  | <b>0.5</b> |  |
| <b>Taxes &amp; duties</b>   | 4.0 |  |      |      |  |     |  | <b>4.0</b> |  |
| <b>Financing charges</b>  |     |  | 0.6  |      |  |     |  | <b>0.6</b> |  |

23) **Disbursements.** Payments to the D&B contractor will be disbursed using the Direct Payment method on the basis of GoTL approvals and verification from the CSC and GoTL agencies. The CSC will be contracted to DFAT/AIFFP and designated by GoTL as the supervision engineer to the D&B Contract. Invoices will be certified by the CSC and verified by GoTL's International Project Management Unit (IPMU) and Project Management Consultants (PMC) for the broader project. The GoTL IPMU and PMC will be responsible for managing the broader project and will coordinate all GoTL stakeholder approvals. AIFFP's CSC will provide AIFFP with independent advice on Project implementation, technical deliverables and acceptability of drawdown notices. This process is consistent with the review and payment process for the separate ADB-financed investments and accordingly aligns with an established GoTL broader project process. This is expected to support timely technical and financial review and payment processing. Refer to **Figure 1** below.

**Figure 1. Payment Funds Flow**



## 4 Investment Quality and Impact

### 4.1 Improved Economic Activity

24) Project investments will contribute to improved economic activity through improved safety and security compliance which will contribute to international air transport connectivity; improved passenger facilitation, experience and efficiency (important as more Australians travel by air to Timor-Leste than any other nationality); and most significantly, enabling infrastructure to support growth in the agricultural and tourism sectors.

25) Increased tourist flows will have a number of related economic benefits arising from increased air services and associated aeronautical and non-aeronautical revenue to the airport, as well as across the Timor-Leste economy. Project investments will support improved operational efficiencies and new capability for cargo and quarantine management, critical enabling infrastructure to support GoTL objectives for expansion of the agricultural sector, especially in live fisheries exports.

### 4.2 Local Labour and Employment

26) **Local Content in Project Delivery.** Opportunities to incorporate semi-skilled and unskilled labour through sub-contracting of national contractors and/or labour-hire was confirmed as part of the Project's market assessment. The D&B contractor will be required to develop a local content plan, including measures to achieve employment opportunities for women and people living with disability, and identify capacity building initiatives. The CSC and additional procurement resourcing will include national team members and capacity-building of national counterparts.

27) **Ongoing Employment Opportunities.** Beyond implementation, the Project will support GoTL objectives to increase local employment which will be needed to manage new and upgraded airport facilities and increased employment and economic activity in tourism and agricultural sectors enabled through the Project investments (in particular, the cargo and quarantine buildings).

### 4.3 Climate change and disaster resilience

28) The Project has undertaken a climate change and disaster risk assessment which identified potential for sea level rises to impact infrastructure. An adaptation strategy considering various climate change scenarios including flooding, sea level changes, intensification of hazardous weather events, will be formalised for vulnerable communities and infrastructure within the Project area of influence. As part of detailed design, opportunities to mitigate climate change effects will be considered, including energy efficiency measures in lighting and power (e.g., LED lights or a solar power array).

### 4.4 Gender equality, disability and social inclusion

29) A gender analysis has been undertaken as part of the Project feasibility study. AIFFP's financing for on-airport components will adopt the gender and disability-related actions and measures agreed as part of the ADB project, and promote gender equality and social inclusion by: (i) providing access to employment through requirements for contractors to hire local labour, with targets for women's participation; (ii) delivering specific training on gender-based violence and Sexual Exploitation, Abuse and Harassment (SEAH) to all contracted employees, (iii) provision of a gender sensitive grievance redress mechanism; (iv) strengthening gender capacity of the ANATL, the AACTL, and the Ministry of Transport and Communications by supporting creation of an inclusive human resources development plan; and (v) supporting development of airport facilities that are access-friendly with gender-sensitive design features.

30) For off-airport components, contractors will be required to develop a Contractor Gender Action Plan (C-GAP) which includes additional measures on disability inclusive and gender-smart design, as well as women's safety, prevention of sexual exploitation, abuse and harassment, and child protection.

31) **Other Impacts.** As part of the broader airport project and ADB-financed runway works, the Beto Tasi school will need to be demolished and rebuilt. The new school will provide additional student



capacity and significantly improved facilities. The investment also aligns with GoTL SDP goals to improve literacy, knowledge and skill across the Timorese population.

## 5 Environmental, Social and Governance

32) AIFFP has commissioned Independent Environmental and Social Consultant (IESC) review of Project assessments and plans for compliance with DFAT and EFA's Safeguards Policies. All auxiliary facilities within the airport fence line are covered under ADB's EIA (2021), which assesses environmental and social impacts as Category B. This means that impacts from construction of the Project components are considered temporary, reversible, and able to be managed and mitigated in accordance with measures specific to the nature of the impact i.e., through the Project's Environmental and Social Management Plan (ESMP). The IESC report will confirm the categorisation and provide detailed guidance for outstanding E&S assessments (such as for Comoro Bridge) in the form of an Equator Principles Action Plan, which will form part of the legal agreement.

33) ADB's EIA did not cover the off-airport investments (new Beto Tasi school or bridge). During Project preparation, AIFFP undertook assurance of the existing EIA and commissioned a new environmental and social assessment to identify and assess at high level any additional risks and impacts for the bridge and school, including land acquisition and resettlement impacts which will require further assessment and mitigation, to be led by GoTL.

34) Delays completing consultation and assessment for the bridge and school could lead to land acquisition and resettlement processes misaligning with development of other activities, e.g., runway expansion and relocation of the security perimeter fencing, leaving community north of the PNLIA without road and school access. To mitigate this, AIFFP will continue to:

- i. Engage with GoTL to confirm locations of new bridge and school land acquisition areas with GoTL being responsible for implementing community consultation, land acquisition and resettlement plan (LARP) for these components;
- ii. Commission site-specific environmental and socio-economic impact studies required for the bridge and school;
- iii. Provide updated schedule to IPMU to ensure coordination with implementation of work packages to avoid periods where school children are without access to education, and access for the Beto Tasi community north of the PNLIA is not cut off;
- iv. Update the Community Consultation Plan, Gender Action Plan and include in documentation for contractors bidding for PNLIA Project work, including clauses to address SEAH, child protection (CP), child and forced labour risks; and
- v. Engage a consultant to undertake six-monthly reviews of the Project to ensure compliance with the Project's safeguards. Initially, quarterly safeguard reviews will be undertaken during the first year, reducing to six-monthly depending on need for oversight.

35) The D&B contractor will be required to engage suitably qualified environmental and social safeguard specialists to oversee the implementation of the safeguards suite of plans.

### 5.1 Environmental Safeguards

36) Project risks to the biophysical environment have been categorised as 'low to moderate' when compared against the IFC PS, Environment, Health and Safety Guidelines (EHS Guidelines) and DFAT's safeguard policies. This is primarily due to the receiving environment in the Project areas being highly modified through urban and industrial (airport) development, with no unique or vulnerable biophysical features present.

37) **Biophysical impacts:** The majority of the auxiliary facilities are to be constructed within the PNLIA airport boundary. Specific construction activities, including gravel crushing and screening, concrete batching plants, machinery maintenance, laydown areas for materials and soil stockpiles will also be contained within the PNLIA boundary, and are not in proximity to any community infrastructure. The main environmental risks include drainage and runoff from construction sites (particularly during flood events), waste generation and management (hazardous and non-hazardous), soil and water contamination (e.g.

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fuel spillage). Site-specific assessments of the environmental impacts of the Beto Tasi Bridge, demolition of the existing Beto Tasi Elementary School and construction of the new school will be conducted prior to construction.

38) **Hazardous waste:** Either as pre-existing soil contamination and/or exposed during demolition of buildings (e.g., such as asbestos) has been assessed as a 'low risk' under the IFC EHS owing to the limited scope of building demolition works, the limited volumes of earthworks required for the construction of the new auxiliary facilities, and no pre-existing history of the use of hazardous materials, in PNLIA operations.

## 5.2 Social Safeguards

39) **Displacement and Resettlement:** Land acquisition and resettlement will be required to construct the new school and bridge (including the road approaches to the bridge). The Project ESIA estimates that between 5 to 20 households may need to be relocated. Risk of significant negative impacts associated with this level of acquisition and resettlement is considered to be 'low to moderate' under IFC Performance Standard 5, Land Acquisition and Involuntary Resettlement, and further supports 'Category B' Project classification under the Equator Principles.

40) **Public consultation process:** Consultation with the affected households and further assessment of socio-economic and cultural impacts will be undertaken when the locations of the new school and bridge are formally confirmed by GoTL, in accordance with a Community Consultation Plan and alongside ANATL. This work will aim to assess socio-economic impacts of the Project components and inform the LARP, and will ensure effective community buy-in to the Project.

41) **Community health and safety:** During construction, the Project will increase heavy vehicle traffic through residential areas, increase noise/dust and vibration impacts on the community, including the school, homes and businesses. In response, the Contractor will be required to develop an Operational Health and Safety Plan (OHS Plan) applicable to all workers on the Project to be reviewed and approved by the CSC. The Contractor will also develop a traffic management plan that limits potential traverse through urban areas, particularly around the school.

42) **Child Protection (CP), Sexual Exploitation, Abuse and Harassment (SEAH), Modern slavery:** The inherent CP risks for the Project are considered high, and stem from a number of factors: potential gap between commissioning of new school and demolition of old school; construction vehicle traffic on narrow roads used as playgrounds by children; sexual predation on children by workers associated with construction of facilities; child health related to protection of water quality (open wells vulnerable to pollution), dust and noise from vehicle traffic; and potential of child labour in the Project by contractors or subcontractors.

43) Following mitigation, CP and SEAH risks are assessed as moderate. The D&B contractor will be required to meet GoTL laws and DFAT's minimum standards for CP and SEAH and put in place the following: (i) CP and PSEAH policies and procedures and clearly communicate expectations of employees and subcontractors; (ii) risk management processes that address the risk of CP, SEAH and avoid child labour and forced labour (including trafficked persons, slavery, servitude, debt bondage and deceptive recruiting of labour); (iii) reporting and investigation procedures in place; and (iv) recruitment and screening processes which mitigate the risk of CP, SEAH, child labour and forced labour.

## 6 Procurement Approach

44) **Procurement Context.** The Project feasibility study identified the following key considerations:

- i. **Local Content.** The local labour market is predominantly comprised of semi-skilled or unskilled workers, at sufficient number to support Project delivery in the event of demands from other infrastructure projects. Several national contractors were identified with relevant construction experience however have very limited experience delivering quality requirements (environmental and social safeguarding, WHS, OHS, etc.) and no experience delivering D&B contracts. Basic

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building materials such as concrete and asphalt are readily available, most other construction materials will need to be imported.

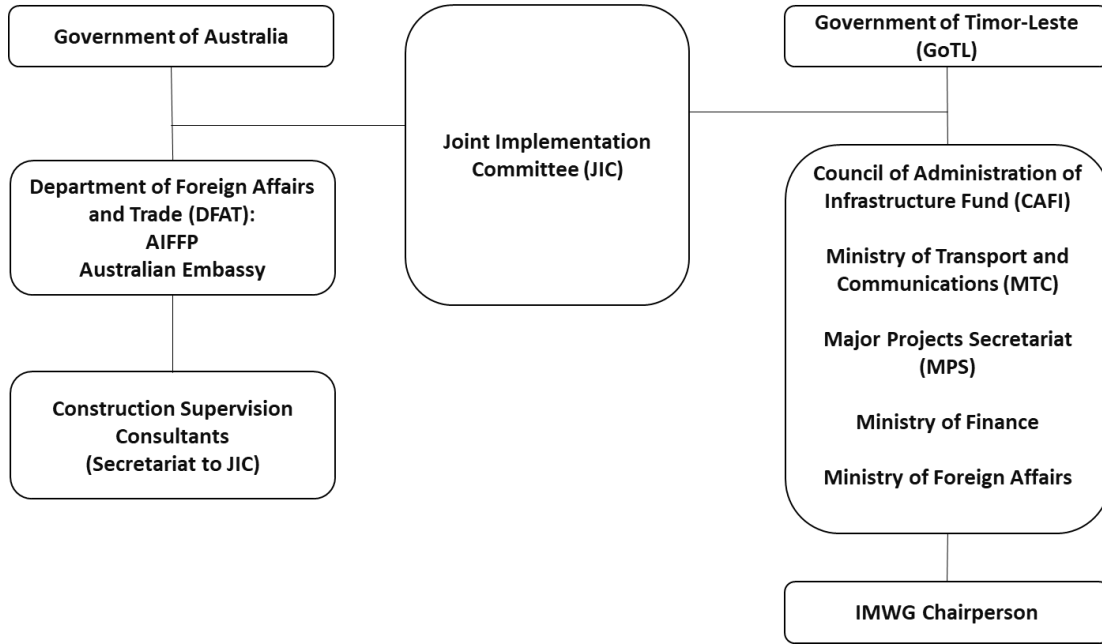
- ii. **International Contractors.** Managing quality procurement outcomes with GoTL through agreement to utilise the AIFFP Panel for Project procurements, alongside right-sizing the tender to maximise attractiveness to industry, cost efficiencies, and minimise stakeholder interfaces will be critical.
  - iii. **Procurement Management.** GoTL has requested resourcing support for the NPC to manage Project procurement to mitigate any risks to Project implementation.
- 45) **Procurement Strategy.** A procurement strategy has been developed to align Project scope, expected implementation challenges (complexities, timing, coordination, expertise), obstacles or enablers to participation of contractors in Project procurements, and delivery of AIFFP quality implementation objectives. Accordingly, AIFFP has agreed with GoTL that:
- i. **Procurement will be undertaken in accordance with the AIFFP Procurement Framework,** incorporating the AIFFP social procurement policy, value for money and quality requirements in procurement documentation.
  - ii. **Project procurements will utilise the AIFFP Panel.**
- 46) The Project will finance the following contracts:
- **Design & Build Contractor (D&B):** detailed designs for all Project investments, including the three Project (works) components separately financed by GoTL. Construction of AIFFP Project investments.
  - **Construction Supervision Consultants (CSC):** construction supervision including relevant safeguards, financial and associated expertise. Engineer to the contract.
  - **Procurement Specialist/s:** Procurement support to NPC for Project procurements including the GoTL financed Project components.

## 7 Project Implementation

- 47) **Project Governance.** A Joint Implementation Committee (JIC) will be established to provide joint Project oversight and governance between the AIFFP, Australian Embassy, and relevant GoTL agencies. The JIC will be responsible for overall Project implementation progress, national coordination and engagement to support Project delivery. The AIFFP-financed CSC will provide the Secretariat to the JIC. The structure of the JIC is shown in **Figure 2** below.

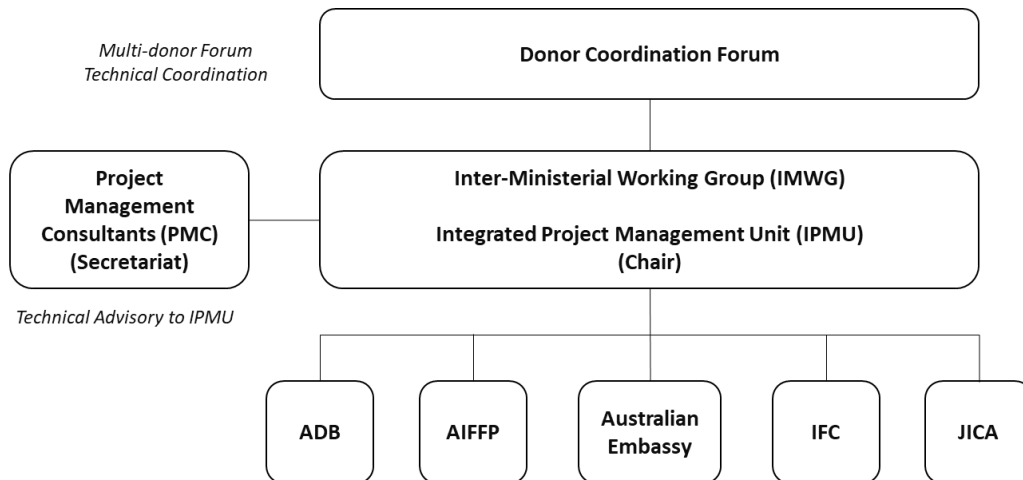
### Figure 2. Joint Implementation Committee

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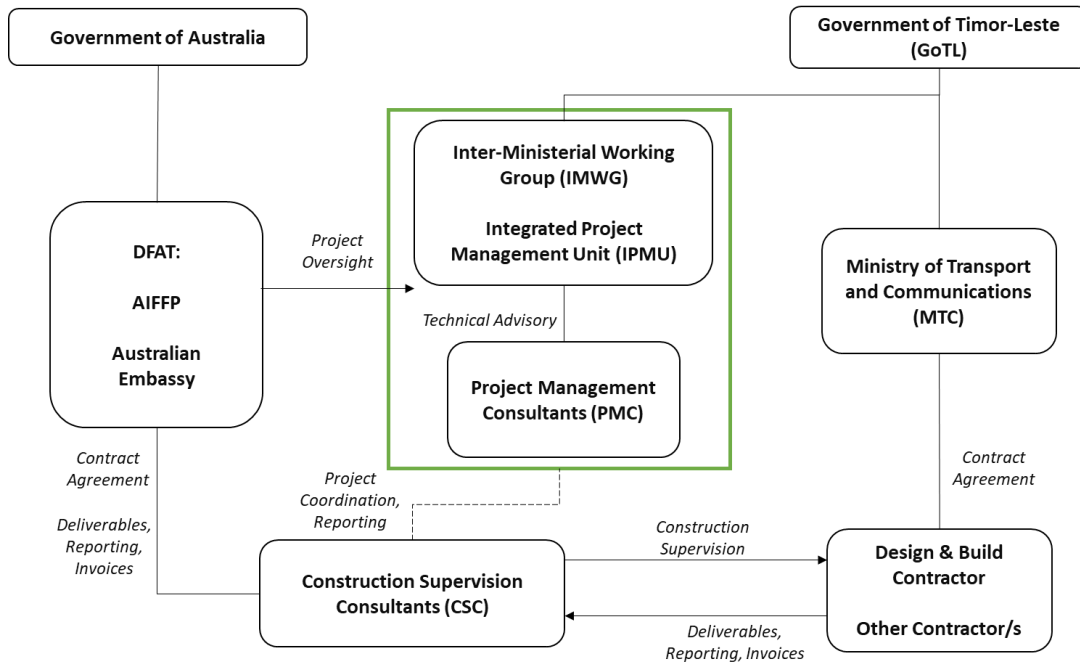
48) **Donor Coordination Forum.** The Project will be implemented as part of the broader airport redevelopment involving ADB, JICA, and GoTL, and in preparation for a future PPP supported by WB IFC. Strong coordination will be critical to ensuring successful implementation and managing Australia's relationship and reputational risks with GoTL. Whilst the GoTL financed Project Management Consultants (PMC) are responsible for coordination, this function will be supported through the continuation of the Donor Coordination Forum established during project preparation, chaired by GoTL and involving all donor parties (**Figure 3**).

**Figure 3. Donor Coordination Forum**



49) **Project Implementation Mechanisms.** To implement the Project, the below organisational structure has been developed and will function as **Figure 4** below. This has been developed in recognition of the urgency of implementation, procurement analysis, coordination challenges and GoTL resourcing. The primary coordination interface will be managed through the CSC who will be responsible for construction supervision, technical oversight and approving contractor claims. The CSC will provide their recommendations to the IPMU/PMC who will coordinate national approvals, before formal approvals are provided and/or claims forwarded to AIFFP for processing (by the IPMU).

Figure 4. Project Organisational Structure



## 8 Key Risks

50) The AIFFP assessed the Project to have an overall risk rating of **Moderate**. The complete Project risk register and safeguard screening tool will be reviewed at the end of each quarter or sooner if there are shifts in the risk profile. A summary of residual risk ratings across each category is provided in the table below.

Table 4 – Residual Risk Assessment

| Risk Category:           | REPUTATIONAL | COUNTRY | FINANCIAL | COMPLIANCE | IMPLEMENTATION |
|--------------------------|--------------|---------|-----------|------------|----------------|
| DFAT Category Risks      | Moderate     | High    | Moderate  | Moderate   | Moderate       |
| DFAT Risk Weighting      | 20%          | 15%     | 15%       | 30%        | 20%            |
| Overall DFAT Risk Rating | Moderate     |         |           |            |                |

51) Timor-Leste is not rated by the three private credit rating agencies. Timor-Leste has a small and low-income economy reliant on depleting oil reserves to drive growth, government revenue and exports, leaving it vulnerable to shocks. The government's large sovereign wealth fund—at USD19.1 billion in Q1 2022 or more than 12 times the size of the economy, provides significant fiscal buffers to counter shocks.

52) The AIFFP has been established to provide financing in developing economies and must engage effectively with country risk to do this. While political risk in Timor-Leste is moderate, Timor-Leste is an important neighbour and AIFFP was established and designed to respond to a need for infrastructure financing that goes beyond limited grant funds.

53) Country risk would be partly mitigated by AIFFP's implementation oversight arrangements, strong and ongoing engagement with stakeholders, and the presence of the Australian Embassy in Dili. Post provides representative and reporting functions for the AIFFP including on macroeconomic issues, the political economy, governance, and infrastructure issues.



## 9 Proponent due diligence

54) ADB completed a Financial Management Assessment of GoTL systems in 2021, assessing fund flow arrangements, financial reporting systems, and auditing arrangements. ADB has agreed with GoTL an action plan and mitigation measures to bolster capacity, including through additional accounting and finance staff in the IPMU, and agreement to a financial management manual for the IPMU to guide financial management and disbursement procedures. ADB has assessed these strengthening measures are sufficient to enable implementation of the broader project. AIFFP agrees with this assessment. AIFFP will use only the direct payment method of disbursement.

55) In response to significant resourcing constraints of the NPC, and request from GoTL, the Project will finance additional procurement support for NPC to mitigate the potential for implementation delays.

## 10 Monitoring & Evaluation

56) A draft M&E Plan, including an M&E Results Framework, has been developed. The M&E Plan will be reviewed annually by AIFFP in consultation with GoTL and updated as required. **Table 5** sets out the Project's program logic. AIFFP will coordinate with ADB and JICA on their M&E requirements to yield efficiencies in reporting.

57) GoTL will be required to provide quarterly progress reports to AIFFP. AIFFP will conduct semi-annual field visits to review Project progress and support M&E against the framework. Upon completion of the Project, GoTL will be required to submit an investment completion report AIFFP may also commission an independent evaluation of the investment, within three years of Project completion.

58) The findings of the M&E activities will feed into AIFFP's annual reporting and DFAT's performance reporting and may be included in AIFFP or broader DFAT media and communication products. Grant funds of up to **USD350,000** have been allocated for Project monitoring and evaluation.

Table 5 – Program Logic

|   |   |   |  |   |
|---|---|---|--|---|
| High Level Goals  | Inbound passenger inflows to PNLI Airport increase, supporting tourism                          | Enhanced economic activity and growth increases exports in key sectors such as fisheries and maritime | Timor-Leste's human capital is enhanced  | GoTL's development priorities are supported through the provision of quality infrastructure |
| Investment Objective<br>(Direct outcomes of AIFFP investment) | PNLI Airport's functionality, efficiency, and compliance with international standards increases |   | Jobs and business opportunities are created throughout construction for Timorese women and men |   |
| Outputs of AIFFP Investment                                   | Ancillary airport facilities are constructed to a high standard by a quality contractor         |   | Technical and capacity support is provided to GoTL and domestic industry partners              |   |

## 11 Key Project Milestones

| KEY MILESTONES |             |
|----------------|-------------|
| 13 Sept 2022   | AIFFP Board |

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|                      |  |
|----------------------|--|
| <b>Sept 2022</b>     | EFA Board  |
| <b>Sept/Oct 2022</b> | Loan negotiations  |
| <b>End Oct 2022</b>  | Australian Government approval   |
| <b>Nov 2022</b>      | Signing of transaction documents   |
| <b>Feb 2023</b>      | Project Commencement   |
| <b>Q4 2023</b>       | Contract awards for (i) Design and Build Contractor and (ii) Construction Supervision Consultants drawing from the AIFFP Panel |
| <b>Q1 2024</b>       | Project construction commences   |
| <b>End 2027</b>      | Project and broader project completion   |
| <b>2028</b>          | GoTL PPP concession awarded  |