Investing in Public-Private Partnerships

Presidente Nicolau Lobato International Airport
Timor-Leste

Project Brief

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IFC
International Finance Corporation
World Bank Group
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The Opportunity for Private Sector Investment in Infrastructure

Building and maintaining core infrastructure, including airports and sea ports, are key pillars of Timor-Leste’s Strategic Development Plan (2011-2030) as the country requires critical infrastructure to support its rapidly growing economy. The planned new Presidente Nicolau Lobato International Airport Project has been identified as a national priority, expected to be implemented within the term of the current Government (2012-2016).

The Government of Timor-Leste wishes to select a private airport partner to assist in the financing, construction and operation of the Presidente Nicolau Lobato International Airport. The International Finance Corporation (“IFC”), the private sector arm of the World Bank Group, was retained by the Government in May 2012 as Transaction Advisor to implement the Project. The Prime Minister has established a Ministerial Working Group, co-chaired by the Ministry of Finance and the Minister of Transport and Communication to support IFC in implementing the Project.

Through the resources of its Petroleum Fund (the “Fund”), with a current balance of over US$11 billion, the Government has the funding to back-up its infrastructure development aspirations. Timor-Leste was one of the first countries to adhere to the Extractive Industries Transparency Initiative (EITI), which promotes the reconciliation and publication of government receipts and industry payments from the oil, gas and mining sector.

Phase I of IFC’s transaction mandate is expected to be completed by April 2013, with the delivery of a Transaction Structuring Report to the Government, detailing the recommended options for a Public Private Partnership (PPP) for the Presidente Nicolau Lobato International Airport. The IFC report will cover the financial, technical, legal, environmental and social aspects for airport development options, including any legal, regulatory or other enabling actions the Government needs to take to implement the Project.

The Country

The Democratic Republic of Timor-Leste, comprising the eastern half of Timor Island, is located in the Timor sea with the western part of Timor Island forming part of Indonesia and with Australia located to the south. The capital, Dili, is served by non-stop flights (between 1-3 hours) from Australia (Darwin), Singapore and Indonesia (Denpasar).

The total land area is 14,609 sq km, which includes the small enclave of Oecussi in West Timor (78 sq km), Atauro Island (141 sq km) and Jaco Island (11 sq km). The current population is around 1.1 million (2010 Census) with around 30% urban, of which 75% live in Dili. The Government forecasts the population to grow at around 2.4% per year and reach 1.9 million in 2030.

In 2011, Timor-Leste had a non-oil GDP per capita of US$840. The economy is dominated by mining (largely oil) at 80% of GDP, agriculture (4.5%) and financial services at 4.4%. Petroleum revenue is the main source of income for Timor-Leste, and in 2011, oil GDP exceeded non-oil GDP by three (3) times.

The Petroleum Fund, a sovereign wealth fund where all petroleum revenues are credited, was in 2012 valued at US$ 11.4 billion and had annual revenues of US$2.1 billion. The Fund is the cornerstone of Timor-Leste’s resource management and budgeting framework. On the back of prudent use of these resources Timor-Leste’s economy is growing strongly with the IMF predicting real non-oil GDP growth of at least 10%, over the next 5 years.

Preliminary growth forecasts compiled by the IFC Technical Consultant are provided
Political and Legal System

Following more than 20 years of Timor-Leste struggling for its independence, Indonesia withdrew in 1999 and Timor-Leste gained independence in 2002, after a UN administered referendum was held. Timor-Leste has a semi-presidential political system with a judiciary based on a civil law code. The structure of administration consists of a President, a Council of Ministers or the executive led by the Prime Minister (the “Government”), a Parliament (where the Council of Ministers are not members) and the judiciary. Parliamentary elections are held every five (5) years with the next one expected in 2017. At local level, the country is divided into 13 electoral districts. In August 2012, Xanana Gusmão, the Prime Minister, formed a new coalition government. The President, Taur Matan Ruak, is the head of state.

Transaction Structure: Due Diligence Phase

The Government plans to select a private developer, under a PPP framework, to finance, build and operate the Presidente Nicolau Lobato International Airport under a long-term concession (currently expected to be 25 years). Upon completion of the Transaction Structuring Report, which will address the economic and commercial feasibility of the Project, the Government with support from IFC will invite potential investors to market sounding event or “road-show”. Potential investors will be consulted on the transaction structure, proposed risk allocation and the bidding process from an early stage. The Project will be tendered under Timor-Leste law while applying IFC’s tried and tested methodology, best international practices and transparency standards. The tender process will be based on pre-determined and objective criteria, as well as final concession terms and conditions.

Transaction Structure: Implementation Phase

After the Transaction Structuring Report is finalized and the Government decides on a specific option, the transaction implementation phase will commence. This will include opening of a virtual data room, pre-bid negotiation of the transaction documents, a transparent tender and award process and financial closing. Award will be based on evaluation of binding bids from qualified bidders on the basis of objective criteria that will be defined in the Request for Proposals (RFP). There will be a process of consultation of all transaction documents with bidders so that final and binding documents are issued to bidders at least one month prior to bid submission. The indicative timetable below is provided for reference only and is subject to change.
The Presidente Nicolau Lobato International Airport in Dili (the “Airport” or “Dili Airport”) is the only international airport in Timor-Leste. There are three (3) international airlines serving Dili Airport. The terminal is in poor condition and has limited space for non-airline based activity such as retail.

At the Airport, the Air Navigation Administration (ANATL) is the State company in charge of operating and managing national airports and air navigation services; whereas, many other services such as ground-handling and refueling are currently provided by the private sector. The airport terminal requires refurbishment and upgrading. The runway, 1850 meters long, is too short to enable larger aircraft to reach key destinations without payload restrictions.

The Government aims to boost tourism and other economic sectors by building stronger aviation links with major Asian hubs, and will be putting in place the infrastructure needed to enable this growth. In addition, the Government intends to develop the Airport to meet standards which are appropriate for its aspirations to join the Association of South East Asian Nations (ASEAN). The development will be done in accordance with aviation industry standards. By May 2013, the Government intends to finalize the Dili International Airport Master Plan, which will outline the Government’s expectations for development of Dili Airport infrastructure for the 25-year planning horizon. It is anticipated that CAPEX investments will be phased to match growing demand.

Source: IFC Technical Consultant Preliminary Report

On a conservative, base case scenario, the preliminary demand forecasts made by the
IFC Technical Consultant estimate passenger traffic to reach over 500,000 in 2036. It is expected that a growing percentage of passengers will be residents travelling overseas, on the back of increased household income from strong economic growth.

World Bank & ADB in Timor-Leste

The World Bank and Asian Development Bank (ADB) established a presence in Timor-Leste in 2000. The World Bank is supporting the upgrade and development of the road infrastructure network and has an exposure of over US$60 million in infrastructure. The ADB is supporting the upgrade and development of key road, water and sanitation infrastructure and has an exposure of over US$100 million.

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

Transaction Team

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