



Country Operations Business Plan

March 2017

Timor-Leste
2017–2019

This document is being disclosed to the public in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

The currency of Timor-Leste is the United States dollar.

ABBREVIATIONS

ADB	–	Asian Development Bank
COBP	–	country operations business plan
COL	–	concessional OCR lending
CPS	–	country partnership strategy
OCR	–	ordinary capital resources
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars.

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I. CONSISTENCY OF BUSINESS PLAN WITH COUNTRY PARTNERSHIP STRATEGY

1. The country operations business plan (COBP) presents the indicative program of support that the Asian Development Bank (ADB) will provide to Timor-Leste during 2017–2019. This COBP is the first to be prepared following the approval of the new Timor-Leste country partnership strategy (CPS) in April 2016.¹ It is aligned to Timor-Leste's Strategic Development Plan, 2011-2030 and operationalizes the CPS objectives of human capital development, economic diversification, and sustainable and inclusive growth.² The country assistance results areas are presented in Appendix 1.

2. Timor-Leste's development challenges have not changed significantly since the CPS was approved. Public spending is the main source of economic demand, and the private sector is in the early stages of development. Revenues from off-shore petroleum production have fallen sharply since 2012, and are forecast to end in 2020. Timor-Leste's Petroleum Fund provides a large fiscal buffer, with a balance of \$16.6 billion (10.5 times the non-oil gross domestic product) in September 2016, but declining oil revenues highlight the challenge of ensuring fiscal sustainability.

3. During 2007–2014, non-oil gross domestic product grew by 9% on average due to rising public investment, access to basic services improved significantly, and the poverty rate fell from 50.4% to 41.8%. However, many Timorese still lack access to employment opportunities and basic services such as clean water. Fiscal constraints highlight the importance of carefully prioritized investments to support economic diversification and private sector-led growth, which are necessary for sustained job creation and poverty reduction.

4. The COBP presents indicative pipelines of investment projects, technical assistance (TA), and knowledge activities aligned with the CPS. The lending pipeline includes projects to improve transport connectivity, enhance the electricity sector's sustainability, improve urban water supply and waste management, and expand access to technical education. The nonlending pipeline includes TA to support project preparation, financial sector development, regional cooperation and integration, and fiscal and economic reforms. The nonlending pipeline also includes grant-funded projects to support economic diversification and improved urban management.

II. INDICATIVE RESOURCE PARAMETERS

5. Timor-Leste, a group B developing member country, is eligible for both regular ordinary capital resources (OCR) lending and concessional OCR lending (COL). The indicative resources available for sovereign operations during 2017–2019 amount to \$264.09 million, including \$74.09 million for COL and \$190.00 million for regular OCR lending. The final allocation will depend on available resources and the outcome of the country performance assessments. Cofinancing and funding from other sources, including the regional pool under concessional resources and regular OCR regional cooperation and integration set-aside, will be explored. Technical assistance funds are allocated on an annual basis and are therefore subject to change.

¹ Asian Development Bank. 2016. *Timor-Leste Country Partnership Strategy 2016-2020*. Manila (accessible from the list of linked documents in Appendix 2).

² Government of Timor-Leste. 2011. *Timor-Leste Strategic Development Plan, 2011–2030*. Dili (accessible from the list of linked documents in Appendix 2).

6. The lending program for 2017–2019 is in Table A3.1 of Appendix 3. The program includes \$185 million in regular OCR lending and \$82 million in COL. A number of projects are listed as standby to ensure flexible and timely responses to rapidly evolving needs for support. Substantial government cofinancing is expected, and opportunities to leverage additional concessional cofinancing will be explored.

7. The nonlending program is in Table A3.2 of Appendix 3. A total of \$6.50 million in grants from ADB's TA special fund has been programmed for projects in 2017–2019, and an additional \$10.45 million of grants is expected from other funding sources. Two innovative grant-financed investment projects with clear synergies to the lending program have been included in the nonlending program. Grant-financed TA will help build capacity for public investment management, establish a TA facility for the preparation of new investment projects, and deepen ADB's support for financial sector development, regional cooperation and integration, and fiscal and economic policy reforms.

8. ADB's Timor-Leste Resident Mission was strengthened in 2016 by the addition of a country economist and national project analyst. An additional national project officer will be recruited to support the efficient implementation of a growing portfolio. The resident mission will continue to lead country programming, knowledge management, and economic work, and is expected to take greater responsibility for project processing and administration during 2017–2019.

III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS

9. The lending pipeline has been adjusted to reflect implementation progress and evolving government priorities. As improving urban services and access to clean water is a high priority, a project to upgrade the water supply systems in municipal capitals has been brought forward, and a new project to improve waste management in Dili has been programmed for 2017. Multitranches financing facilities for water and urban services and electricity have been reprogrammed with different lending modalities to streamline preparation and approval. Support for road upgrades has been adjusted to reflect new demand for ADB assistance in 2017, and a project to support the development of technical education and skills-training has been included in response to strong government demand.

10. The nonlending program has been adjusted to reflect a streamlining of ADB TA modalities. Transaction-related TA will support project preparation and associated capacity development, while knowledge service TA will support financial sector development, economic and fiscal reforms, and regional cooperation and integration. The new TA modalities will be used to provide more flexible and responsive TA while also increasing the average TA size. The inclusion of an education project in the lending pipeline means that an education investment project is no longer included in the nonlending pipeline. This project has therefore been replaced with grant-funded projects to support innovative urban planning, and the development of the coffee industry and agroforestry.

11. The COBP also includes a pipeline of knowledge activities to address the priorities identified in the CPS and associated country knowledge plan. Indicative knowledge publications and events are listed in Appendix 4. Where possible, knowledge activities will be implemented in partnership with other stakeholders to maximize development impacts.

COUNTRY ASSISTANCE RESULTS AREAS

Key Country Development Outcomes to which ADB Contributes	ADB		
	Key Areas of Assistance	Indicative Resource Allocation in 2017–2019	Changes from the Last COBP
1. Energy			
Improved coverage, reliability, and efficiency of electricity services Increased use of renewable energy resources	Energy sector development and institutional reform Enhanced energy efficiency, transmission, and distribution An enhanced enabling environment for private investment in the energy sector and related policies and regulations	Amount: \$5 million (COL), \$50 million (OCR), and \$15 million (cofinancing) Share of COBP envelope: 21%	The allocation of concessional resources has decreased but the total allocation has increased by \$16.7 million.
2. Transport			
Efficient and safe movement of goods and people through sustainable land and sea transport infrastructure and services	Roads, road safety, and asset management Transport policies and institutional development	Amount: \$90 million (OCR), \$0 million (COL) Share of COBP envelope: 34%	Water transport is no longer listed as a key area of assistance. The indicative resource allocation has been reduced by \$12.8 million.
3. Water and Other Urban Infrastructure and Services			
Increased access among urban households to reliable and clean drinking water supplies Improved environmental health conditions in urban centers Efficient management of urban service delivery	Urban planning, policies, and reforms New institutional structures for efficient and performance-based service delivery Priority water and sanitation infrastructure Increased private sector participation Solid waste management More market-based infrastructure and management	Amount: \$45million (OCR), \$63 million (COL) Share of COBP envelope: 40%	Solid waste management has been included as a key area of assistance.
4. Education			
A skilled workforce with improved technical and vocational training	Technical and vocational education and training	Amount: \$14 million (COL), \$0 million (OCR)	The indicative resource allocation has

Key Country Development Outcomes to which ADB Contributes	ADB		
	Key Areas of Assistance	Indicative Resource Allocation in 2017–2019	Changes from the Last COBP
	Education sector policy	Share of COBP envelope: 5%	increased following the inclusion of an education project in the lending pipeline.
5. Finance			
Improved availability and efficiency of financial services.	Inclusive finance, financial sector development	Amount: \$0 million (COL), \$0 million (OCR) ^a Share of COBP envelope: 0%	

ADB = Asian Development Bank, COBP = country operations business plan, COL = concessional OCR lending, OCR = ordinary capital resources.

^a Support for Finance will be provided through grants and technical assistance proposed to be financed from external sources

Source: ADB estimates

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/COBP/?id=TIM-2017>

1. Timor-Leste Strategic Development Plan, 2011–2030
2. Timor-Leste Country Partnership Strategy, 2016–2020

INDICATIVE ASSISTANCE PIPELINE
Table A3.1: Lending Products, 2017–2019

Project/Program Name	Sector	Poverty Targeting	Strategic Agendas and Drivers of Change	Division	Year of TRTA/PDA	Cost (\$ million)						
						Total	ADB			Gov't	Co-finance	
							Regular OCR	COL	ADF Grants			Total
2017 Firm												
Dili Solid Waste Management	WUS	TI-G	IEG, GEM, KNS, PSD	TLRM	2014	24.0	0.0	24.0	0.0	24.0	TBD	TBD
Baucau-Viqueque Road Project	TRA	GI	IEG, GEM, KNS, PSD	PATE	...	50.0	50.0	0.0	0.0	50.0	TBD	TBD
Total						74.0	50.0	24.0	0.0	74.0	0.0	0.0
2017 Standby												
District Capital Water Supply Project	WUS	TI-S	IEG, GEM, KNS, PSD	TLRM	2014	25.0	15.0	10.0	0.0	25.0	TBD	TBD
Urban Water Supply Project	WUS	TI-S	IEG, GEM, KNS, PSD	PAUS / TLRM	2014	20.0	10.0	10.0	0.0	20.0	TBD	TBD
Workforce and Skills Development Project	EDU	TI-G	IEG, GEM, KNS, PSD	PAUS	...	14.0	0.0	14.0	0.0	14.0	TBD	TBD
Total						59.0	25.0	34.0	0.0	59.0	0.0	0.0
2018 Firm												
Electricity System Strengthening and Sustainability Program (MFF)	ENE	TI-G	IEG, ESG, GEM, KNS, PSD, PAR	PATE	2016	50.0	50.0	0.0	0.0	50.0	TBD	TBD
Total						50.0	50.0	0.0	0.0	50.0	0.0	0.0

Project/Program Name	Sector	Poverty Targeting	Strategic Agendas and Drivers of Change	Division	Year of TRTA/PDA	Cost (\$ million)						
						Total	ADB			Gov't	Co-finance	
							Regular OCR	COL	ADF Grants			Total
2018 Standby												
Renewable Energy	ENE	GI	IEG, ESG, GEM, KNS, PSD, PAR	PATE	2017 ^a	20.0	0.0	5.0	0.0	5.0	TBD	15.0
Sustainable Road Transport Project	TRA	TI-G	IEG, GEM, KNS, PSD	PATE	2017 ^a	40.0	40.0	0.0	0.0	40.0	TBD	0.0
Total						60.0	40.0	5.0	0.0	45.0	0.0	15.0
2019 Firm												
Urban Water Supply Sector Project, Phase II	WUS	TI-S	IEG, GEM, KNS, PSD	PAUS	2018 ^a	39.0	20.0	19.0	0.0	39.0	TBD	TBD
Total						39.0	20.0	19.0	0.0	39.0	0.0	0.0

ADB = Asian Development Bank; ADF = Asian Development Fund; COL = concessional OCR lending; EDU = education; ENE = energy; ESG = environmentally sustainable growth; GEM = gender equity and mainstreaming; GI = general intervention; Gov't = government; IEG = inclusive economic growth; KNS = knowledge solutions; OCR = ordinary capital resources; PAR = partnerships; PATE = Pacific Transport, Energy and Natural Resources Division; PAUS = Pacific Urban, Social Development and Public Management Division; PDA = project design advance; PPTA = project preparatory technical assistance; PSD = private sector development; TRA = transport; TI-G = targeted intervention—geographic dimensions of inclusive growth; TI-S = targeted intervention—sustainable development goals; WUS = water supply and other urban infrastructure and services.

^a These projects will be prepared under the Policy and Planning for Public Investments Project that is listed in the 2017 nonlending pipeline, or under the Project Development Facility Phase I that is listed as a standby non-lending project for 2017.

Source: ADB.

Table A3.2: Nonlending Products and Services, 2017–2019

Assistance Name	Sector	Division	Assistance Type	Sources of Funding				Total (\$'000)
				ADB		Others		
				Source	Amount (\$'000)	Source	Amount (\$'000)	
2017 Firm								
Policy and Planning for Public Investments	MUL	TLRM	TRTA	TASF	2,000	...	0	2,000
Expansion of Financial Services (Additional Financing)	FIN	PLCO	KSTA	...	0	DFAT	200	200
Strengthening Sub-Regional Linkages	PSM	TLRM	KSTA	...	0	RCIF	500	500
Total					2,000		700	2,700
2017 Standby								
Innovative Partnerships for Coffee and Agroforestry Development	ANR	TLRM	TRTA			TF	3,000	3,000
Project Development Facility, Phase I	MUL	TLRM	TRTA	TASF	1,000	TBD	1,500	2,500
Total					1,000		4,500	5,500
2018 Firm								
Policy and Planning for Growth and Competitiveness	PSM	TLRM	KSTA	TASF	1,000	...	0	1,000
Inclusive Finance for Poverty Reduction	FIN	PLCO	KSTA	...	0	TBD	750	750
Supporting Inclusive Urban Planning in Dili	WUS	TLRM	KSTA			TF	2,500	2,500
Total					1,000		3,250	4,250

Assistance Name	Sector	Division	Assistance Type	Sources of Funding				
				ADB		Others		Total (\$'000)
				Source	Amount (\$'000)	Source	Amount (\$'000)	
2019 Firm								
Strengthening Sub-National Service Delivery	PSM	TLRM	KSTA	TASF	1,000	...	0	1,000
Preparing for the Implementation of Phase III of the SDP	PSM	TLRM	KSTA	TASF	1,000	...	0	1,000
Total					2,000			2,000
2019 Standby								
Project Development Facility Phase II	MUL	TLRM	TRTA	TASF	500	TBD	2,000	2,500
Total					500		2,000	2,500

ADB = Asian Development Bank; ANR = agriculture and natural resources; DFAT = Department of Foreign Affairs and Trade; FIN = finance; KSTA = knowledge and support technical assistance; MUL = multisector (includes transport, energy, water and urban services, education, and the public sector management); PATE = Pacific Transport, Energy and Natural Resources Division; PAUS = Pacific Urban, Social Development and Public Management Division; PLCO = Pacific Liaison and Coordination Office; PSM = public sector management; RCIF = Regional Cooperation and Integration Fund; SDP = Timor-Leste Strategic Development Plan 2011-2030 ; TASF = technical assistance special fund; TBD = to be determined; TF = trust fund; TLRM = Timor-Leste Resident Mission; TRTA = transaction technical assistance; WUS = water supply and other urban infrastructure and services.
Source: ADB estimates.

INDICATIVE KNOWLEDGE PUBLICATIONS AND EVENTS
Table A4.1: Knowledge Publications and Events for 2017

Title of Publication or Event	Subject	Type	Department or Sector Group or Thematic Group	Technical Assistance
Asian Development Outlook 2017	Economics	Publication and launch event	ERCD	NA
Asian Development Outlook Update 2017	Economics	Publication	ERCD	NA
Pacific Economic Monitor, July 2017	Economics	Publication	PARD	NA
Pacific Economic Monitor, December 2017	Economics	Publication	PARD	NA
PSDI Timor-Leste: Country Overview	Private sector	Publication	PARD	TA-8378 REG
Bioengineering for Increasing Resilience and Improving Transport Projects	Climate change, environment, and transport	Publication and video	PARD	NA
Transport Sector Assessment Summary	Transport	Publication	PARD	NA
Energy Sector Assessment Summary	Energy	Publication	PARD	NA
The Investment Climate in Southeast Asia and the Pacific	Private sector	Workshop	PSOD	NA
Water Supply and Urban Services Sector Assessment Summary	Water supply and other urban services	Publication	PARD	NA
Education Sector Assessment Summary	Education	Publication	PARD	NA
Gender Assessment Summary	Gender	Publication	PARD	NA
The Economic Implications of Timor-Leste's ASEAN Accession	Economics	Publication	PARD	NA
Growing the Non-Oil Economy—A Private Sector Development Strategy for Timor-Leste	Private sector	Publication	PARD	TA-9075 REG
Timor-Leste in Focus (Seminar Series)	Various	Event	PARD	NA
Total number of publications = 13				
Total number of events = 5				

ADB = Asian Development Bank, ASEAN = Association of Southeast Asian Nations, ERCD = Economic Research and Regional Cooperation Department, NA = not applicable, PARD = Pacific Department, PSOD = Private Sector Operations Department, PSDI = Private Sector Development Initiative, REG = regional, TA = technical assistance.

Note: "Publications" may include databases, multimedia, and other forms of documentation. "Events" may include event organization and training or capacity development. Source: ADB.

Table A4.2: Additional Knowledge Publications and Events Delivered in 2016

Title of Publication or Event	Subject	Type	Department or Sector Group or Thematic Group	Technical Assistance
Asian Development Outlook 2016	Economics	Publication and launch event	ERCD	NA
Asian Development Outlook Update 2016	Economics	Publication	ERCD	NA
Pacific Economic Monitor, July 2016	Economics	Publication	PARD	NA
Pacific Economic Monitor, December 2016	Economics	Publication	PARD	NA
Asian Development Bank and Timor-Leste: Fact Sheet 2016	Economics	Publication	PARD	NA
Law of the ASEAN Economic Community	Regional cooperation and integration	Training	PARD	TA-9070
Timor-Leste Coffee Industry Association Analysis	Private sector	Publication and workshop	PARD	NA
Timor-Leste Coffee Association Development Workshops	Private sector	Publication and workshop	PARD	NA
Timor-Leste International Coffee Festival	Private sector	Event organization	PARD	
Economic Analysis of Investment Projects	Economics	Training	PARD	TA-8565 REG
Gender Inclusive Budgeting	Governance and public sector management	Training	PARD	NA
Gender Statistics for the Pacific and Timor-Leste	Gender	Publication	PARD	
Economic Reform Agenda for Timor-Leste—Presentation to the Timor-Leste National Development Forum	Economics	Publication and event	PARD	NA
The Role of Nutrition in Economic Development—Presentation to Members of Parliament	Economics	Publication and event	PARD	NA
National Consultation on Competition Policy for Timor-Leste	Private sector	Event organization	PARD	TA-8378 REG
Lessons from Small Islands—Fiji Study Tour on Road Maintenance and Transport Regulation	Governance and public sector management	Training	PARD	TA
Timor-Leste in Focus (Seminar Series)	Various	Event	PARD	NA
Total number of publications = 4				
Total number of events = 11				

ADB = Asian Development Bank, ASEAN = Association of Southeast Asian Nations, NA = not applicable, PARD = Pacific Department, RETA = regional technical assistance, TA = technical assistance.

Note: "Publications" may include databases, multimedia, and other forms of documentation. "Events" may include event organization and training or capacity development. The table includes additional knowledge publications and events delivered outside the list of indicative knowledge publications and events included in the 2016–2018 country operations business plan. Source: ADB

Table A4.3: Innovation, Advanced Technology, and Pilot Initiatives to be implemented in 2017

Item	Nature	Project Number	Sector or Theme	Division
Total number of innovation, advanced technology, and pilot initiatives = 0				

Source: ADB.