



Report and Recommendation of the President to the Board of Directors

Project Number: 51115-001
January 2018

Proposed Loans and Technical Assistance Grant Democratic Republic of Timor-Leste: Baucau to Viqueque Highway Project

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Asian Development Bank

CURRENCY EQUIVALENTS

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

ABBREVIATIONS

ADB	–	Asian Development Bank
CAFI	–	Conselho de Administração do Fundo Infraestrutura (Council for the Administration of the Infrastructure Fund)
DNTT	–	Direcção Nacional Transporte Terrestres (National Directorate of Land Transport)
DRBFC	–	Directorate of Roads, Bridges and Flood Control
EIRR	–	economic internal rate of return
EMP	–	environmental management plan
JICA	–	Japan International Cooperation Agency
km	–	kilometer
m	–	meter
MPWTC	–	Ministry of Public Works, Transport and Communications
NRMSP	–	national road maintenance strategy and plan
PAM	–	project administration manual
PMU	–	project management unit
SEIS	–	simplified environmental impact statement
SDP	–	strategic development plan
TA	–	technical assistance
VOC	–	vehicle operating cost

NOTE

In this report, "\$" refers to United States dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 51115-001	
Project Name	Baucau to Viqueque Highway Project	Department /Division	PARD/PATE
Country	Timor-Leste, The Democratic Republic of	Executing Agency	Council for Administration of the Infrastructure Fund (also Conselho Administrativo do Fundo Infraestrutura)
Borrower	Government of The Democratic Republic of Timor-Leste		
2. Sector		ADB Financing (\$ million)	
✓ Transport	Road transport (non-urban)		44.00
		Total	44.00
3. Strategic Agenda		Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Adaptation (\$ million)	2.00
Environmentally sustainable growth (ESG)	Global and regional transboundary environmental concerns	Climate Change impact on the Project	Medium
4. Drivers of Change		Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development	Effective gender mainstreaming (EGM)	✓
Partnerships (PAR)	Organizational development Implementation International finance institutions (IFI)		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	Yes	Rural	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG9		
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: B Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		44.00	
Sovereign Project (Concessional Loan): Ordinary capital resources		25.00	
Sovereign Project (Regular Loan): Ordinary capital resources		19.00	
Cofinancing		0.00	
None		0.00	
Counterpart		33.78	
Government		33.78	
Total		77.78	
Note: An attached technical assistance will be financed on a grant basis by the Technical Assistance Special Fund (TASF-6) in the amount of \$1,000,000.			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on proposed loans to the Democratic Republic of Timor-Leste for the Baucau to Viqueque Highway Project. The report also describes the proposed transaction technical assistance (TA) for Promoting Sustainable Land Transport Infrastructure, and if the Board approves the proposed loans, I, acting under the authority delegated to me by the Board, approve the TA.

2. The project will (i) upgrade 58 kilometers (km) of national roads from Baucau to Viqueque, with considerations for better resilience to climate change and social inclusive design; and (ii) provide institutional strengthening and capacity building. The project supports continuing efforts of the Asian Development Bank (ADB) and other development partners to upgrade and sustain the country's national road network.

II. THE PROJECT

A. Rationale

3. Timor-Leste has the third largest economy among ADB's 14 Pacific developing member countries, with gross domestic product—excluding offshore petroleum operations—at about \$1.5 billion as of 2016. Largely because of its petroleum wealth, the country has attained lower middle-income and medium human development status. However, about 70% of the 1.2 million population still live in rural areas and rely on subsistence agriculture. There is a high maternal mortality rate (557 per 100,000 live births) and a high infant mortality rate (64 per 1,000 live births) due to poverty and poor access to primary health care.¹ Formal employment opportunities are mostly found in the public sector, with very little manufacturing and production for export in the private sector.

4. **ADB has a strong track record in the sector.** A 25-year period of conflict from 1975 to 1999 suppressed any significant investment in maintenance and rehabilitation of the road network in Timor-Leste prior to independence in 2002. Progressive deterioration leading to poor road conditions continued over most of the first decade of independence. To help address road connectivity and safety in Timor-Leste, ADB has financed a series of transport sector projects, including the Road Network Development Sector Project, the Road Network Upgrading Project, and the Road Network Upgrading Sector Project.² ADB is also cofinancing with the Japan International Cooperation Agency (JICA) the upgrading of the Dili–Baucau road.³ In combination with other development partner-supported projects, about 560 km or 39% of the most important sections of the national road network are expected to be upgraded by the end of 2019.⁴ The

¹ Sustainable Development Goal 3 targets a maternal mortality rate of less than 70 per 100,000 live births, and an infant mortality rate of 12 per 1,000 live births.

² ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Asian Development Fund Grant to the Democratic Republic of Timor-Leste for the Road Network Development Sector Project*. Manila; ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loans to the Democratic Republic of Timor-Leste for the Road Network Upgrading Project*. Manila; and ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loans to the Democratic Republic of Timor-Leste for the Road Network Upgrading Sector Project*. Manila.

³ ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Democratic Republic of Timor-Leste for the Dili to Baucau Highway Project*. Manila.

⁴ For example, ADB is cofinancing the upgrading of the Dili–Baucau road together with JICA, while the World Bank is financing the upgrading of the Dili–Ainaro road.

project targets a crucial north–south component of the land transport network, extending ADB’s coverage of national road network upgrading from past and ongoing road projects.

5. The key priority under the government’s Strategic Development Plan (SDP) for 2011–2030 aims to rehabilitate and upgrade all existing roads and bridges by 2020, establish a ring national highway, and deliver a comprehensive road maintenance program by 2030.⁵ ADB’s country partnership strategy for Timor-Leste, 2016–2020 emphasizes the need for additional infrastructure investment to support inclusive growth and the development of systems for operation and maintenance to help sustain recent progress.⁶

6. **The Baucau to Viqueque Highway is an important national corridor.** It links Viqueque District and the south coast of Lautém to Baucau District, and to the capital city of Dili. The existing road is generally 4.5 meters (m) wide, mostly unsealed, and in poor condition; it takes up to 10 hours to commute between Dili and Viqueque by bus. Substantial reductions in travel time and vehicle operating costs (VOCs) are expected from upgrading the road, leading to improved road safety and better access to markets, health clinics, schools, and other community services. The government is planning the development of a downstream petrochemical industrial hub on the south coast through its Tasi Mane project. The project will support not only this government initiative but also the broader economic development of agriculture-rich and high tourism potential districts on Timor-Leste’s southern coast.

7. **Support to transport agencies is crucial for long term sustainability.** Under the Ministry of Public Works, Transport and Communications (MPWTC), the Directorate of Roads, Bridges and Flood Control (DRBFC) is responsible for national road and bridge planning, maintenance, construction and improvements, and flood protection. As increasing lengths of new and rehabilitated roads are being developed, the DRBFC recently established a maintenance unit in 2015 that is being supported by an ongoing 3-year capacity development program for road maintenance by JICA. JICA is also providing support in establishing a road maintenance fund. The government, development partners, and other stakeholders agree that the most critical obstacle to sustaining capital investments made so far in the roads subsector from premature deterioration is the absence of a comprehensive national road maintenance strategy and plan (NRMSP). The project, through the attached transaction TA, will support the development of a NRMSP to improve road maintenance planning and asset management.

8. The DRBFC is responsible for the implementation of major road improvement and rehabilitation projects. Due to previous weak implementation capacity, an ADB-financed TA is supporting the implementation of a capacity development framework and strategy for the MPWTC.⁷ The project management unit (PMU) under the DRBFC is responsible for managing ADB, JICA, and World Bank projects, and has successfully coordinated these development partners and ensured that consistent technical standards and safeguards have been applied.

9. The MPWTC, through the National Directorate of Land Transport (DNLT), is also responsible for regulating land and public transport, issuing driver’s licenses and vehicle registrations, overseeing traffic management, and controlling vehicle overloading. In 2016, the Ministry of Interior established the National Directorate of Road Safety responsible for planning, coordinating, and implementing national road safety policy, and applying road safety laws. The Department of Traffic and Road Safety under the Timor-Leste National Police enforces road

⁵ Government of Timor-Leste. 2011. *Timor-Leste Strategic Development Plan, 2011–2030*. Dili.

⁶ ADB. 2016. *Country Partnership Strategy: Timor-Leste, 2016–2020*. Manila.

⁷ ADB. 2012. *Technical Assistance to the Democratic Republic of Timor-Leste for Infrastructure Management*. Manila.

safety and traffic regulations. The project, through the attached transaction TA, will support transitioning the DNTT and National Directorate of Road Safety to an autonomous national land transport authority, which would consolidate national responsibility, improve the standard of land transport regulation and management, and help increase nontax revenue that could support road maintenance.

10. **Value added by ADB assistance.** There are various initiatives by development partners to address road maintenance. However, these efforts have largely been fragmented and driven primarily by development partners' individual TA and capacity support programs. The project will prepare a comprehensive strategy and plan for road maintenance and strengthen the existing DRBFC maintenance unit, complementing JICA's capacity efforts and road fund establishment. It is envisaged that this strategy and plan will formulate a long-term programmatic approach for routine and periodic maintenance as well as emergency work for the national road network. The strategy and plan also aim to consolidate all efforts by development partners' ongoing initiatives that focus on sustaining the national road network.

B. Impact and Outcome

11. The project is aligned with the following impact: increased and more efficient movement of people and goods (footnote 5). The project will have the following outcome: improved road transport connectivity and reduced travel time along the crucial north–south land transport link from Dili to Viqueque.⁸ The attached transaction TA (para. 20) will underpin the project outcome to address underlying road sustainability issues for the national road network by developing a 20-year comprehensive road maintenance strategy, and a road asset management plan.

C. Outputs

12. **Output 1: Improved and safe Baucau to Viqueque highway.** The project will finance civil works to upgrade 58 km of national roads from Baucau to Viqueque, including widening the existing 4.5 m wide road to 6.0 m with 1.0 m shoulders, with associated road safety furniture and signage. The improved road will be more resilient to increased rainfall due to improved roadside drainage, raising of the road in flood-prone areas, resilient asphalt pavement surfacing, and bioengineering measures to improve slope stability. It will also finance sheltered bus stops with lights at junctions of key feeder roads, appropriately located public toilets, and improved access to drinking water for communities. Awareness of road safety and transport-related social issues will be provided to communities in the project area.

13. **Output 2: Institutional strengthening and capacity building.** The PMU will continue to manage projects financed by the development partners. Under the project, the PMU will provide capacity building to seconded staff from the DRBFC so that externally funded consultants in the PMU are phased out and skills are developed and replaced with the government's own resources and project management office.⁹ More broadly, this will not only mainstream project management, but also strengthen the roads subsector administrative capacity of the DRBFC and support long-term sustainability.

⁸ The design and monitoring framework is in Appendix 1.

⁹ In addition to capacity building for DRBFC staff on project management, the project also supports institutional strengthening for road maintenance and land transport regulation, as described in the Attached Technical Assistance (accessible from the list of linked documents in Appendix 2).

D. Summary Cost Estimates and Financing Plan

14. The project is estimated to cost \$77.78 million (Table 1).

15. Detailed cost estimates by expenditure category and by financier are included in the project administration manual (PAM). Major expenditure items include civil works and consulting services.

Table 1: Summary Cost Estimates
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Improved and safe Baucau to Viqueque highway	57.93
2. Institutional strengthening and capacity building	9.50
Subtotal (A)	67.43
B. Unallocated^c	8.94
C. Financial Charges During Implementation^d	1.41
Total (A+B+C)	77.78

^a Includes taxes and duties of \$2.73 million to be financed from government resources and Asian Development Bank loan resources. Such an amount does not represent an excessive share of the project cost.

^b In mid-2017 prices as of April 2017.

^c The unallocated amount refers to contingencies. Physical contingencies computed at 10% for civil works for unforeseen expenditures, additional improvements to address climate change, road safety and social inclusiveness, and studies for future project scale up and preparation. Price contingencies computed at average of 3.03% on foreign exchange costs and 5.05% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Includes interest and commitment charges. Interest during construction for the concessional ordinary capital resources (OCR) loan has been computed at 2.0% per year. Interest during construction for the regular OCR loan has been computed at the 5-year United States dollar fixed swap rate plus an effective contractual spread of 0.5% and maturity premium of 0.1%. Commitment charges for the regular OCR loan are 0.15% per year to be charged on the undisbursed loan amount.

Note: Numbers may not sum precisely because of rounding.

Source: Asian Development Bank estimates.

16. The government has requested (i) a regular loan of \$19 million from ADB's ordinary capital resources, and (ii) a concessional loan of \$25 million from ADB's ordinary capital resources to help finance the project. The regular loan will have a 25-year term, including a grace period of 5 years; an annual interest rate determined in accordance with ADB's London interbank offered rate-based lending facility; a commitment charge of 0.15% per year (the interest and other charges during construction to be capitalized in the loan); and such other terms and conditions set forth in the draft loan agreement. Based on the straight-line method, the average maturity is 15.3 years, and the maturity premium payable to ADB is 0.10% per year. The concessional loan will have a 25-year term, including a grace period of 5 years; an interest rate of 2.0% per year during the grace period and thereafter; and such other terms and conditions set forth in the draft loan agreement.

17. The summary financing plan is in Table 2. ADB will finance the expenditures in relation to civil works, and consulting services for construction supervision. The government will finance expenditures for civil works, land acquisition and compensation, and project management staff and consultants.

Table 2: Summary Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (regular loan)	19.00	24.43
Ordinary capital resources (concessional loan)	25.00	32.15
Government	33.78	43.42
Total	77.78	100.00

Source: Asian Development Bank estimates.

E. Implementation Arrangements

18. The executing agency will be the Council for the Administration of the Infrastructure Fund (CAFI) and the implementing agency will be the MPWTC.¹⁰ The PMU manages externally supported major road upgrading projects. While each development partner maintains separate responsibility for its respective projects, a single PMU is in charge of project monitoring and reporting as well as the safeguards assessments and monitoring system, thereby reducing the project management costs. The PMU will undertake the day-to-day project management, and assist the National Procurement Commission with the preparation of bidding documents for civil works and terms of reference for consultants' services. The National Procurement Commission will procure civil works using international competitive bidding in accordance with ADB's Procurement Guidelines (2015, as amended from time to time), and recruit consultants' services contracts using quality- and cost-based selection in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time).

19. The project will be implemented from March 2018 to June 2021. The implementation arrangements are summarized in Table 3 and described in detail in the PAM.¹¹

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	1 March 2018–30 June 2021		
Estimated completion date	30 June 2021		
Estimated loan closing date	31 December 2021		
Management			
(i) Oversight body	CAFI Minister of Planning and Strategic Investment (chair) Minister of Public Works, Transport and Communications (member) Minister of Finance (member)		
(ii) Executing agency	CAFI		
(iii) Key implementing agencies	PMU under the Directorate of Roads, Bridges and Flood Control of the MPWTC		
(iv) Implementation unit	PMU, 17 staff		
Procurement	ICB	2 contracts	\$57 million
Consulting services	QCBS 90:10	930 person-months	\$7 million
	ICS ^a	170 person-months	\$2 million
Advance action	Civil works packages Construction supervision		

¹⁰ The CAFI is the government's infrastructure fund, which is administratively and technically supported by the government's Major Project Secretariat.

¹¹ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

Aspects	Arrangements
Disbursement ^a	The loan proceeds will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.

ADB = Asian Development Bank; CAFI = Conselho de Administração do Fundo Infraestrutura (Council for the Administration of the Infrastructure Fund); ICB = international competitive bidding; ICS = individual consultant selection; MPWTC = Ministry of Public Works, Transport and Communications; PMU = project management unit; QCBS = quality- and cost-based selection.

^a Individual consultants will be selected for the PMU and financed by the government.

Source: ADB.

III. ATTACHED TECHNICAL ASSISTANCE

20. The transaction TA for Promoting Sustainable Land Transport Infrastructure will support two outputs: (i) a comprehensive NRMSP for the DRBFC maintenance unit, and (ii) updated national land transport legislation and regulations to establish an autonomous and financially sustainable national land transport authority. The first output will focus on (i) undertaking organizational reform to implement a 20-year road maintenance strategy; (ii) defining the levels of service expected from the national road network; (iii) formulating a road asset management system and plan; and (iv) developing an operations manual focusing on planning, budgeting, procurement, supervision, and monitoring and evaluation for the DRBFC maintenance unit. The TA will prepare a programmatic approach for road maintenance in coordination with other development partners active in the sector. The second output will review the legislative and regulatory framework for vehicle registrations, driver licensing, road safety, and vehicle weight limits. The TA will be implemented from March 2018 to December 2020. The Ministry of Planning and Finance will be the executing agency. The DRBFC maintenance unit will be the implementing agency for the first output, and the DNTT will be the implementing agency for the second output.¹²

21. The transaction TA is estimated to cost \$1.0 million, which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF 6). The government will provide counterpart support in the form of counterpart staff, and other in-kind contributions.

IV. DUE DILIGENCE

A. Technical

22. Detailed design has been completed for the proposed Baucau to Viqueque road upgrade. The project will widen the existing 4.5 m road to 6.0 m with 1.0 m shoulders, rehabilitate the subbase and base course, and upgrade to a 50-millimeter-thick polymer-modified asphalt surface. The road alignment design is governed by topography rather than geometry to minimize land acquisition, earthworks, and other costly construction requirements. To ensure climate resilience, the roadside drainage will be improved and has been informed by hydrology and hydraulic analysis. The design also includes slope protection and grading based on geotechnical analysis, retaining structures, and bioengineering measures. Road safety measures will be implemented, including guardrails, separate pedestrian walkways on reconstructed bridges and in areas where pedestrian traffic is high, thermoplastic line markings, traffic calming near schools and public markets, and appropriate road signage. A community consultation process has been developed to identify appropriate locations for bus shelters, lighting, and public toilet facilities, and to improve access to water sources for communities in the project area during implementation. Separate community and driver road safety campaigns will also be implemented.

¹² Attached Technical Assistance (accessible from the list of linked documents in Appendix 2).

B. Economic and Financial

23. Economic analysis has been carried out in accordance with ADB's Guidelines for the Economic Analysis of Projects. Evaluation of annual streams of project economic costs and associated benefits under a baseline scenario yields an economic internal rate of return (EIRR) of 11.9%, and an economic net present value of \$20.2 million. This confirms the project's economic viability, as its EIRR exceeds ADB's minimum required EIRR for investment projects of 9%. Quantifiable road user benefits include reductions in VOCs and time savings from traveling on the upgraded road. Unquantified benefits from the project include (i) reduced frequency of, and losses from, vehicular accidents due to improved road safety; (ii) large potential gains in induced traffic driven by a decline in VOCs and complementary developments to stimulate industrial and tourism activity; (iii) better health and education outcomes resulting from better access to health and school facilities; (iv) generation of employment opportunities from improved access to markets; and (v) a possible boost to agriculture activity given the project area's importance in achieving basic food supply targets as outlined in Timor-Leste's SDP, 2011–2030 (footnote 6).

24. The DRBFC established its maintenance unit in 2015 with 17 full-time staff. Since the establishment of this maintenance unit, the DRBFC has received two cycles of road maintenance budget in 2015 (for \$4.0 million) and in 2016 (for \$3.8 million), against its annual budget requests of \$25.0 million. This is inadequate to sustain the national road network, and additional resources will be required when road rehabilitation projects are completed. The DRBFC remains unable to utilize allocations on a timely basis because of its weak institutional setup. The attached TA will provide support to the DRBFC maintenance unit in developing a comprehensive NRMS to sustain the upgraded road infrastructure over the long term.

25. Further, an additional financing proposal will be pursued nearer to the completion of this project to provide routine maintenance of the upgraded Baucau to Viqueque road for the first 3 years of its operation on a pilot basis. This approach would replicate community-based rural roads routine maintenance methods successfully implemented under the ongoing Roads for Development program (financed by the Government of Australia) on rural roads.

C. Governance

26. The public financial management system in Timor-Leste is centralized, and has numerous controls designed to promote prudent financial management in place. All signed contracts above \$5 million require approval of the High Administrative, Tax and Audit Court in Timor-Leste to have legal force. This may pose a procurement-related risk to the government and ADB, where rejection of the award of a contract may be contrary to ADB's "no objection" given on the government's bid evaluation. This risk is mitigated with an assurance in the loan agreement, which stipulates that no withdrawals will be made from the loan to finance any contract package until the relevant approval has been obtained by the Audit Court of Timor-Leste.

27. The MPWTC has implemented several ADB infrastructure projects through the PMU. Based on previous project implementation experience, the PMU has sufficient capacity to manage the financial aspects of the project, although there is a pressing need to transfer skills within the MPWTC to ensure long-term sustainability of this capacity. The financial management risk is moderate, mainly because of (i) capacity within the PMU to meet covenants on auditing, accounting, and reporting; and (ii) rigorous controls in place within the central government to ensure project expenditures are transparent.

28. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the CAFI. The specific policy requirements and supplementary measures are described in the PAM.

D. Poverty, Social, and Gender

29. Improving access to transport is critical to alleviating poverty. Increasing mobility assists development and enables access to basic social services and access of the poor to vital services such as schools, health clinics, and markets, all of which have critical importance for women. The poorest sector of the population in Timor-Leste faces the risk of road accidents in catching a bus, microlet, or *angguna* (small pick-up truck). The project is categorized as effective gender mainstreaming. The impacts on women will be positive through their improved access to markets to sell their products as well as buy a greater variety of fruits, vegetables, and protein. Safety is a major issue for pedestrians, especially women and children. Due to the increased quality of the road, public transport services will become both safer and more frequent. In addition, safety for pedestrians will be improved through the provision of separate footpaths at crossings, and near schools and public markets. As women currently travel the road in the dark to access transport to markets, this is a major benefit for women. Road safety and gender-awareness programs will be conducted through male-, female-, and child-targeted posters and leaflets designed for bus shelters, schools, health clinics, and cafes. A gender action plan has been prepared, which outlines all the gender targets and indicators.¹³

E. Safeguards

30. In compliance with ADB's Safeguard Policy Statement 2009, the project's safeguard categories are as follows.¹⁴

31. **Environment (category B).** Following the process and procedures already established by the PMU, the environmental assessment is reported in the simplified environmental impact statement (SEIS), which is equivalent to an initial environmental examination, and includes an environmental management plan (EMP). The SEIS has been reviewed by ADB to ensure that in addition to meeting the national requirements for environment, it complies with the requirements of ADB's Safeguard Policy Statement. Environmental impacts will be similar in scale to those of completed and ongoing national road projects. The main impacts will be during the construction stage and will include (i) vegetation and tree removal, and utilities relocation during site clearing and establishment works; (ii) dust, noise, runoff, sedimentation, and slope stability issues from earthworks, including excavations; and (iii) waste generation, spoil disposal, health and safety, and traffic management issues during construction activities. The road alignment traverses close to three protected areas. The potential impacts will be site-specific and readily mitigated. Few, if any, of the impacts will be irreversible. As reported in the SEIS, meaningful consultation was undertaken. The grievance redress mechanism established for ongoing projects is included in the SEIS, and will be implemented under the project. The draft SEIS has been disclosed on the ADB website and will be updated. Upon completion, it will be disclosed locally.

32. The process of minerals license application will require preparation of a location application, mining plan, and site-specific EMP for each new materials source. Training and support will be provided by construction supervision consultants to the successful contractor to

¹³ Gender Action Plan (accessible from the list of linked documents in Appendix 2).

¹⁴ ADB. Safeguard Categories. <https://www.adb.org/site/safeguards/safeguard-categories>.

prepare and implement the construction EMP, submit the minerals license applications, and monitor construction EMP compliance. Capacity building of DRBFC environmental safeguards staff will be provided through mentoring and on-the-job training by the PMU and construction supervision consultants, as detailed in the PAM. Particular conditions of contract in the bidding documents include provisions for the employer to enforce environment safeguards compliance.

33. **Involuntary resettlement (category B).** Resettlement plans were prepared for the Baucau–Venilale and Venilale–Viqueque road sections based on the detailed design completed in 2015. These resettlement plans will be updated to validate all impacts. The improvement of roads is expected to be mostly within the existing road corridor, but will require small areas of agricultural land; removal of crops and trees; and permanent and temporary impacts on residential houses, shops, and roadside stalls and kiosks. There are an estimated 82 affected households or 402 affected persons, but only 34 households or 146 persons will experience significant impacts from physical and/or economic displacement. The MPWTC will ensure that affected persons receive entitlements and compensation following the resettlement plan. Key stakeholders and affected persons have been consulted during the resettlement plan preparation and disclosure, and will be further consulted during the resettlement plan update and implementation. The PMU will be responsible for overall monitoring and supervision of safeguards activities, working closely with the construction supervision consultants. The capacity building of the DRBFC safeguard staff by the PMU is ongoing with ADB’s financing through other road projects.

34. **Indigenous peoples (category C).** The project will not trigger ADB’s Policy on Indigenous Peoples (1998) since no distinct or vulnerable indigenous groups will be affected by the project.

F. Summary of Risk Assessment and Risk Management Plan

35. Significant risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.¹⁵

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Delay in approval or rejection of contract by the Audit Court of Timor-Leste after the National Procurement Commission issues letter of acceptance to the lowest evaluated bidder	Country procedures require approval of the signed contract by Audit Court of Timor-Leste. Rejection by the audit court after issuance of the letter of acceptance may result in misprocurement. Assurances and disbursement conditions were included in the loan agreement to mitigate against the risk.
Implementation delays due to government not providing adequate counterpart resources for qualified project management staff and consultants	The loan agreement includes covenants for the government to ensure (i) sufficient budget allocation and timely payment to project management staff and consultants, (ii) the structure of the project management office is retained and fully staffed with qualified experts, and (iii) that external experts engaged transfer skills and provide capacity building to local staff.
Lack of ownership and support to develop a comprehensive road maintenance program. Completed sections of project roads are inadequately maintained, deteriorate, and do not deliver anticipated project benefits	The loan agreement includes a covenant for the government to submit the road maintenance strategy and plan to the Council of Ministers for approval by 2020, which will be prepared under the attached transaction technical assistance. The project road will be covered under the road maintenance strategy and plan developed with the support of the attached transaction technical assistance.

¹⁵ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Delay and noncompliance by the contractor to submit construction EMP and rectify environmental management non-compliances	The loan agreement includes a covenant to require the government not to allow contractors to commence works until a satisfactory construction EMP has been submitted.
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ADB = Asian Development Bank, EMP = environmental management plan.
 Source: ADB.

V. ASSURANCES AND CONDITIONS

36. The government has assured ADB that implementation of the project shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the PAM and loan documents.

37. The government has agreed with ADB on certain covenants for the project, which are set forth in the draft loan agreements. The government has agreed with ADB on the following condition for disbursement: no withdrawals shall be made from the loan account for carrying out any works for the project in relation to one individual contract package until an approval from the High Administrative, Tax and Audit Court of Timor-Leste, as applicable, has been obtained in respect of that individual contract package. The government has also agreed with ADB that the effectiveness of the regular loan is subject to the effectiveness of the concessional loan.

VI. RECOMMENDATION

38. I am satisfied that the proposed loans would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the loan of \$19,000,000 to the Democratic Republic of Timor-Leste for the Baucau to Viqueque Highway Project, from ADB’s ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB’s London interbank offered rate (LIBOR)-based lending facility; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board; and
- (ii) the loan of \$25,000,000 to the Democratic Republic of Timor-Leste for the Baucau to Viqueque Highway Project, from ADB’s ordinary capital resources, in concessional terms, with an interest charge at the rate of 2.0% per year; for a term of 25 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao
 President

30 January 2018

DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with			
Increased and more efficient movement of people and goods ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome	By 2022: a. Average travel time from Dili to Viqueque drops by 30% (2016 baseline: 10 hours by bus) b. Average daily traffic increases to 2,000 vehicles per day (2016 baseline: average for two sections of 850 vehicles per day) c. Comprehensive road maintenance strategy and plan adopted (2017 baseline: none) d. Road asset management system is adopted (2017 baseline: none) e. Ensuing road maintenance program is prepared (2017 baseline: none)	a.–b. Project completion report prepared by MPWTC	Lack of ownership and support to develop a comprehensive road maintenance program.
Outputs	By 2021:		
1. Improved and safe Baucau to Viqueque highway	1a. 58 km of national road from Baucau to Viqueque are constructed with IRI 2 m/km (2017 baseline: IRI > 8 m/km). 1b. Average travel time from Baucau to Viqueque reduced to 2 hours (2017 baseline: 3.5 hours) 1c. At least five bus shelters and separate male and female public toilets constructed in	1a. Annual road condition surveys by DRBFC; project monitoring reports from MPWTC 1b. Records of road safety education delivered to schools maintained by the Ministry of Education 1c. As-built drawings, project progress reports	Delay in approval or rejection of contract by the Audit Court of Timor-Leste after the National Procurement Commission issues letter of acceptance to the lowest evaluated bidder Delay and noncompliance by the contractor to submit construction EMP and rectify environmental

	<p>strategic locations along the road (2017 baseline: none)</p> <p>1d. Total road fatalities along the Baucau to Viqueque highway are reduced by 10% (2017 baseline: to be determined)</p> <p>1e. Community members (30% women) from each of the villages crossed by the highway participate in combined gender, HIV/AIDS, and STI awareness program during the 3 years of construction (2017 baseline: N/A)</p>	<p>1d. Records of crash fatalities maintained by the Road Safety Directorate, the Ministry of Interior, the Timor-Leste National Police Force, and the Ministry of Health</p> <p>1e. GAP biannual progress report</p>	<p>management non-compliances</p> <p>Unforeseen works or contractor’s activities outside the established project right-of-way result in adverse permanent impacts</p> <p>Implementation delays due to government not providing adequate counterpart resources for qualified project management staff and consultants</p> <p>Climate change impacts contribute to accelerated deterioration of the road assets</p>
2. Institutional strengthening and capacity building	<p>2a. Contract award and disbursement targets are met through effective project management and construction supervision (2017 baseline: N/A)</p> <p>2b. 30% of management staff from the MPWTC and DRBFC, and all PMU and construction supervision staff receive training on gender in transport and road safety during the 3 years of construction (2017 baseline: N/A)</p>	<p>2a. Contract awards and disbursements</p> <p>2b. Periodic review missions</p>	<p>Completed sections of project road is inadequately maintained, and long sections are prone to premature wear and tear</p> <p>The government does not provide adequate counterpart resources for project management, leading to implementation delays</p>
<p>Key Activities with Milestones</p> <p>1. improved and safe Baucau to Viqueque highway</p> <p>1.1 Recruit construction supervision consultants by September 2018</p> <p>1.2 Commence civil works contracts for the upgrading of the road section (Baucau to Viqueque) by September 2018 and physical completion by June 2021</p> <p>1.3 Conduct awareness and education campaigns in roadside communities and schools from September 2018 to March 2021</p> <p>2. Institutional strengthening and capacity building</p> <p>2.1 Maintain or strengthen PMU capacity for management of overall development partner-financed national road upgrading program (ongoing)</p>			

2.2 Implement resettlement plan prior to commencement of works (August 2018)
2.3 Recruit construction supervision consultants (Q1 2018-Q3 2018)
2.4 Monitor implementation of environmental management plan (Q3 2018 - Q1 2019)
2.5 Monitor performance of supervision consultant and contractors (Q3 2018 - Q1 2019)
3. Attached transaction technical assistance activities
3.1 Recruit transaction and advisory consultants by September 2018
3.2 Prepare road maintenance strategy and plan by 2020
3.3 Prepare road asset management implementation plan by 2020
3.4 Prepare draft legislation to establish a national land transport authority by 2020
Inputs
Asian Development Bank: \$19,000,000 (regular OCR loan), \$25,000,000 (concessional OCR loan); \$1,000,000 (transaction technical assistance): Technical Assistance Special Fund (TASF 6)
Government of Timor-Leste: \$33.78 million
Assumptions for Partner Financing
None

DRBFC = Directorate of Roads, Bridges and Flood Control; GAP= gender action plan; IRI = international roughness index; km = kilometer; m = meter; MPWTC = Ministry of Public Works, Transport and Communication; PMU = project management unit; OCR = ordinary capital resources.

^a ADB. 2011. *Country Partnership Strategy: Timor-Leste, 2011–2015*. Manila; and Government of Timor-Leste. 2011. *Timor-Leste Strategic Development Plan, 2011–2030*. Dili.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=51115-001-3>

1. Loan Agreement: Ordinary Operations
2. Loan Agreement: Ordinary Operations (Concessional)
3. Sector Assessment (Summary) Transport (Roads Transport [Nonurban])
4. Project Administration Manual
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Attached Technical Assistance Report
8. Economic and Financial Analysis
9. Country Economic Indicators
10. Summary Poverty Reduction and Social Strategy
11. Gender Action Plan
12. Initial Environmental Examination
13. Resettlement Plan
14. Risk Assessment and Risk Management Plan