



Asian Development Bank

Memorandum

Pacific Department
Transport, Energy, and Natural
Resources Division

*OK, Thanks
[Signature]
8/3 -2018*

6 March 2018

FOR APPROVAL OF PARAS 4, 5, 8 & 10

To: Olly Norojono, Director, PATE

From: Rustam Ishenaliev, Principal Infrastructure Specialist, PATE

Subject: **L2857/2858/3181/G0504-TIM: Road Network Upgrading Project**
L3020/3021/3341/3342/G0404-TIM: Road Network Upgrading Sector Project
L3456-TIM: Dili to Baucau Highway Project
—Back-to-Office Report, Midterm Review Mission (31 January–7 February 2018)

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A. Introduction

1. The Mission¹ visited Dili, Timor-Leste from 31 January to 7 February 2018 to conduct midterm review of captioned road sector projects. The Mission held meetings with project executing and implementing agencies and stakeholders including, the Office of the Vice-Minister of Development for Public Works (DPW); Project Management Unit (PMU); Directorate of Roads, Bridges, and Flood Control (DRBFC); the Ministry of Planning and Finance (MOPF)—PPP and Loan Unit (PPPLU); National Procurement Commission (NPC); cofinancing partners including European Union (EU) and Japan International Cooperation Agency (JICA); and visited ongoing project construction sites. The key findings and agreed actions are reflected in the draft Memorandum of Understanding (MOU) in Attachment 1.

B. Key Findings and Agreed Actions

2. **Overview.** ADB's active road sector portfolio in Timor-Leste includes three projects amounting to \$254.77 million of which \$185.22 million have been committed (contracts awarded) and \$76.33 million disbursed. Overall, projects are expected to deliver output as designed, albeit over a longer loan utilization period due to start-up and implementation delays. Contract award and disbursement projections are revised to account for delays (Attachment 2 in the draft MOU).

3. **Key Issues and Actions.** As of this reporting, no projects are at risk. Agreements reached and time-bound action plans are discussed below.

(A) Road Network Upgrading Project (L2857/2858; L3181; G0504)

Performance rating – on track

- (i) **Loans 2857/2858** pending final settlement of advance accounts for financial closing. ADB will send the letter of partial cancelation of loan balances and closing of the loan accounts once all outstanding amounts from the advance accounts have been liquidated. Target: 28 February 2018.
- (ii) **Loan L3181** has long pending issue with reallocation of funds and closing date is on 30 June 2018. DPW will finalize agreement with MOPF to reallocate from unallocated category of L3181 to pay SANJOSE contractor for overdue

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retention and performance-based maintenance activities and request for extension of loan closing date. Target: 28 February 2018.

- (iii) **Grant 0504 (EU)** has terminal utilization period until 2020 and grant closing date is 30 June 2019. To expedite bidding for the remaining works Package 2, DPW will request LIB procedures and submit draft bidding documents for ADB's approval. Target: 15 February 2018.

(B) Road Network Upgrading Sector Project (L3020/3021; L3341/3342; G0404)

Performance rating – potential problem

- (i) **Loans 3020/3021** is slow disbursing due to unsatisfactory progress by the CNI Contractor. DPW will submit to ADB revised implementation schedule considering slippage in Package 2 (CNI Contractor), supported by agreed actions with CNI to complete the works per new implementation schedule. Target: 28 February 2018.
- (ii) **Loans 3341/3342** have \$23 million uncontracted amount due to significantly lower contract prices for works. DPW in agreement with MOPF will submit to ADB consolidated and detailed request for utilization of uncontracted amount. Target: 28 February 2018.
- (iii) **Grant 0404:** DPW in consultation with MOPF will submit to ADB request for utilization of uncontracted \$1.4 million amount. DPW to update on recruitment of the climate change advisor and how to resolve as well as status of each component tracked against timeline, targets, and progress on Global Environment Facility reporting. Target: 15 March 2018.

(C) Dili to Baucau Highway Project (L3456)

Performance rating – on track, no specific actions at this stage

(D) Safeguards and Covenants Across All Projects

- (i) **Social safeguards:** DPW to accomplish the following: (i) Grant 0504 from EU – submit due diligence report or resettlement plan (RP) on or before 31 March 2018; (ii) Loans 3341/3342 - submit final RP for Laga–Lautem on 9 February and final RP for Maubara–Karimabala on 20 February; (iii) Dili–Baucau Package 2 – submit the revised Corrective Action Plan Completion Report on 9 February 2018; (iv) report to ADB the resolution/status of all the issues raised by the affected persons and Suco Chiefs during the field visit (refer to Attachment 6) by 23 February 2018; (v) draft guidelines to improve social safeguards management by 30 June 2018; and (vi) submit semi-annual safeguards report for the period July–December 2017 on 19 February 2018. DPW was requested to prioritize the updating of the L3643/3644 Baucau–Viqueque RP to avoid delays in contractor's mobilization.
- (ii) **Environment safeguards:** DPW to provide immediate status update and timebound action plan (i.e. steps to be taken and dates to accomplish) for all outstanding items from November 2016 and May 2017 mission Aide Memoire (see Table A2.1 Attachment 2) by 23 February 2018.
- (iii) **Grievance redress:** DPW to report status of implementation of the grievance redress mechanism—which covers all project implementation issues—for all ongoing projects (except NR1: Dili–Baucau package 2) by 31 March 2018.
- (iv) **Covenants:** DPW is requested (i) to submit on a timely manner quarterly progress reports of all ongoing roads projects; (ii) submit to ADB auditor's reports and copies of certified accounts and related financial statements, including auditor's opinion no later than 6 months after the close of each fiscal

year in English; (iii) to ensure that copies of audit reports are also provided to MOPF.

(E) **Systemic Issues**

- (i) **Road maintenance** components of the ongoing contracts have not started or not being implemented as envisaged. The Mission and DPW agreed that an individual road maintenance expert will be engaged to review all maintenance components of the signed contracts and propose amendments to strengthen the performance-based maintenance (PBM) components for completed road sections under ADB-financing. Target: 30 March 2018.
- (ii) **Procurement** is currently done by NPC without involving DPW. NPC and DPW will coordinate to establish a mechanism to review technical aspects of the bids jointly. The joint review will be limited to technical qualification criteria and compliance with Employers Requirements, Section 6 of the bidding documents. Target: prior to bid evaluation starts for Baucau–Viqueque Highway packages– March/April 2018.
- (iii) **Late payments** are common and consistently exceed FIDIC regulated 56 days due to government's internal layers of review and approval process of the payment certificates by ADN (National Development Agency). ADB/TLRM will raise this to the higher authorities during the country programming and portfolio review missions (CPM/CPRM). Target: ADB's 2018 CPM/CPRM.
- (iv) **Environment and mineral licenses** are an issue for all projects due to unclear and confusing government procedures for the contractors to obtain and renew the minerals licenses. This hinders project implementation as some contractors operate and source materials from quarries while their applications are still pending which raises the risk of suspension or works and thereby delays implementation. ADB/TLRM will raise this to the higher authorities during the CPM/CPRM. A longer-term solution can potentially be sought through the cluster TA which includes support to NDPCEI. Target: ADB's 2018 CPM/CPRM.

C. **Recommendations**

- 4. Ref issue A (ii) – extend L3181 closing for two more years from 30 June 2018 to 30 June 2020 to complete ongoing construction of Tasitolu–Tibar four lane road section and road maintenance period. Request for extension from MOPF is received on 2 March 2018. ✓
- 5. Ref issue A (iii) – change from ICB to LIB procedures for package 2 C16/C17 under the Grant 0504. NPC submitted draft bidding documents to ADB on 28 February 2018. The Mission agreed this arrangement with PFP2, processed minor change, and provided conditional no-objection to the NPC on 6 March 2018. ✓
- 6. Ref issue B (i) – rescope the contract with CNI Contractor under L3020/3021 if construction progress remains below 5% per month, and or significant slow down is evident beyond 1 April 2018. ✓
- 7. Ref issue B (ii) – despite that DPW presented longlist of additional road sections, it is unlikely that Government will reach any decision in terms of utilization of \$23 million loan savings under the L3341/3342, particularly given the current political uncertainty and upcoming elections in mid-2018. CPRM may discuss partial cancelation of the loan proceeds if decision making gets protracted to next year.

8. Ref issue B (iii) – approve partial utilization of the G0404 savings to pay for the surveys and investigations amounting to \$76,000 to identify causes of road failures after the heavy rains in 2017 on Liquica–Batugade road sections improved under ADB financed Grant 0180.

9. Ref issue D – closer monitoring of compliance with social and environmental safeguards and covenants. Monitoring and supervision resources in all contracts need to be reviewed to ensure that adequate level of supervision and compliance check is in place.

10. Ref issue E (i) – engage a Road Maintenance Expert to review all PBM components under the ongoing projects using the TA funds under the proposed Baucau–Viqueque Highway Project once loan is signed.

11. Ref issue E (iii) to (iv) – CPRM to raise issues to the higher authorities in the government to resolve late payments and institute adequate and predictable procedures for issuance of the environment and mineral licenses to the contractors.

D. Other Business

12. The Mission also met with the Prime Minister to (i) discuss ADB's approval and subsequent signing of Baucau–Viqueque Highway Project (BVHP) loan, and (ii) present ADB support to transport sector and finalization of the National Transport Sector Development Plan (the Master Plan). The Prime Minister supported that loan needs to be signed as soon as ADB approves it, and suggested that it could be signed in Baucau sometime in March 2018. He also appreciated ADB's support to transport sector and supported the finalization of the Master Plan. The Mission agreed to provide additional staff consultancy support to help Department General of Transport and Communications finalize the Master Plan and present to the Cabinet of Minister in April 2018.

13. In addition, the Mission discussed with the Prime Minister and the development partners the importance developing a comprehensive road maintenance system in the country and provide adequate funding and explained that, complementary to JICA assisted development of road maintenance fund, the BVHP project includes TA funds that are available to help government develop the road maintenance system and strategy and consultants can be mobilized as soon as the project becomes effective.

14. The Mission also met officials from the Civil Aviation Authority (CAA) to discuss possible ADB assistance, in particular, for developing Dili Airport masterplan. JICA has been in discussions with the government on the Dili airport improvement but may only provide funds for improving the airport terminal. The 1,800 meter (m) runway can only accommodate restricted take-off weight aircrafts and requires about 300m-400m extension. The runway width of 30m, exit taxiway and apron seem adequate. The runway strength is also sufficient. The Mission assured that PATE stands ready to support CAA but the formal request for assistance should come through the central government and upcoming CPRM meeting would present a good opportunity for CAA to request for such a support.

Attachment: Memorandum of understanding (draft)

Cc: Director General, PARD; Deputy Director General, PARD; Country Director, TLRM; J. Pereira, P. Aquino, TLRM; S. Muramoto, PAOD; J. Williams; N. Carandang; M. Abao, PATE; e-Star, Chrono File