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Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 07-Jul-2019 | Report No: PIDC26684

**BASIC INFORMATION****A. Basic Project Data**

Country Timor-Leste	Project ID P167901	Parent Project ID (if any)	Project Name Timor Leste Water Supply and Sanitation Project (P167901)
Region EAST ASIA AND PACIFIC	Estimated Appraisal Date Dec 16, 2019	Estimated Board Date Mar 30, 2020	Practice Area (Lead) Water
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency Ministry of Public Works	

Proposed Development Objective(s)

The Project Development Objective is to increase access to sustainable water supply and sanitation services in selected project areas and strengthen sector institutions capacity to improve service delivery in Timor-Leste.

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	15.00
Total Financing	15.00
of which IBRD/IDA	15.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**

International Development Association (IDA)	15.00
IDA Credit	15.00

Environmental and Social Risk Classification
Substantial

Concept Review Decision
Track II-The review did authorize the preparation to continue



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Other Decision (as needed)

B. Introduction and Context

Country Context

- Timor-Leste has made important strides towards securing lasting peace and stability since 2002.** When Timor-Leste became the first new sovereign state of the 21st century in May 2002, public infrastructure, including schools, universities, hospitals, roads, ports and airports, water and sanitation systems, and other government facilities, was either non-existent, destroyed or severely dilapidated. Additionally, Timor-Leste's institutional frameworks were weak, extreme poverty and hunger the norm, and conflict and violence were ongoing threats. Shortages of human capital were equally severe, with few Timorese having government experience or the necessary skills and formal education for professional services or business. While there remain elevated internal and external risks that may yet thwart further development, Timor-Leste today is a more peaceful and democratic nation, having gone through two planned presidential elections since 2012.
- Timor-Leste is considered a lower middle-income country, with a non-oil per capita GDP of US\$ 1,618 in 2017.** Economic growth has been driven largely by the oil and gas sector, which accounted for about 61 percent of GDP in 2017¹, and represents almost 90 percent of government revenues and 99.5 percent of total exports (IMF, 2017). The non-oil and gas sector of the economy has grown about 10 percent annually since 2006, largely based on state capital expenditure. The construction sector has been driven by public infrastructure investment, and together with the public sector, local commerce, and agriculture and fisheries, dominates the non-oil and gas economy of Timor-Leste. Furthermore, declining oil production due to both external factors and decreasing oil reserves, have contributed to a fall in GNI from a peak of US\$4.6 billion in current prices in 2011 to US\$2.6 billion in 2017.
- Poverty levels remain very high with 41.8 percent ² of the population lacking the minimum resources needed to satisfy basic needs.** In 2015, the total population was 1.1 million and was growing at 2.37 percent per year, with an estimated 25 percent living in urban areas. Based on the latest Survey of Living Standards (2014/15), 30 percent of the population live below the \$1.90 a day international poverty line. There are also high inequalities in access to water and sanitation service provision, countrywide. Only 55 percent of people in the poorest quintile has access to water supply

¹ This represents a steep decline from 2015 when the oil and gas sector accounted for 70 percent of GDP.

² Poverty in Timor-Leste. 2014. Government of Timor-Leste. <http://www.statistics.gov.tl/wp-content/uploads/2018/02/Poverty-Report-2014-final.pdf>



compared to 90 percent in the richest quintile. On sanitation, only 10 percent of people in the poorest quintile has access compared to 95 percent in the richest quintile³.

4. **Malnutrition and poor health are widespread and continue to hamper the efforts of the people to improve their livelihood.** At present, around 49.2 percent of Timor-Leste's population experiences stunting, a rate that is among the worst in the world (Lehman et al. 2016)⁴. The three-year average of the prevalence of undernourishment in 2016 was 26.9 percent (FAO Aquastat Database, 2017). Forty percent of children under five are underweight as are 27 percent of women and 25 percent of men aged 15 – 49.
5. **Improving access to water supply and sanitation and service delivery is crucial for Timor-Leste to improve the health and well-being of its citizens and stimulate economic growth.** By 2022, the Government aims at providing sixty percent of urban population with access to 24/7 water supply and eighty percent of rural villages with access to a functioning water system. By 2030, the Government aims at providing hundred percent of urban population with 24/7 access to water supply and have 100 percent of rural villages with access to a functioning water supply system. Investing appropriately in the water sector will have a significant positive impact on industry, commerce, and agriculture, and therefore on the population.

B. Sectoral and Institutional Context

7. **Timor-Leste has made significant progress in increasing access to water supply, and sanitation, and in reducing open defecation, but more needs to be done to extend access and improve service delivery.** In 2015, 91 percent of the urban population and 60 percent of the rural population had access to improved water supply. However, only 34 percent of urban households had individual connections with piped water onto their premises. Significant sections of the population still rely on public taps (30 percent), tube wells or bore holes (16 percent), and protected springs (five percent). Sixty nine percent of the urban population had access to improved sanitation, 17 percent use shared sanitation facilities, seven percent use unimproved sanitation facilities, and seven percent of the urban population still practices open defecation. In rural areas, only 30 percent of households had access to improved sanitation facilities with seven percent using shared sanitation facilities, 30 percent using unimproved sanitation facilities, and 33 percent still practicing open defecation (JMP 2015). Over the country, 170 communities and one municipality comprising 21,000 households have been declared open-defecation free (Unicef 2018).
8. **Access rate to improved sanitation in urban area is relatively high compared to other country in the region, but most of these services are on-site without a properly functioning fecal sludge service.** Most households' facilities in urban area comprise simple pit latrines, septic tanks (generally not built up to environmental standards), or direct discharge to public surface water, contributing to major contamination of the environment and water bodies. Bacteriological analyses regularly indicate

³ Timor-Leste: Timor-Leste Poverty Monitoring and Analysis (P165123)

⁴ Timor-Leste ranks 134 out of 189 countries on the Human Development Index (United Nations Development Programme [UNDP]- Timor-Leste Data).



widespread contamination in surface and groundwater and in water supply networks. There is no centralized piped wastewater collecting system in the country. However, there is one septage treatment plant for Dili in Tibar (15 km from Dili) to treat fecal sludge collected from some government facilities, hotels, hospitals, companies, and some residencies. Fecal sludge is collected by private fecal sludge collection services, serving based on requests. A total of nine private fecal sludge collection companies exist in Dili, collecting fecal sludge mostly from nonresidential areas. There are no such facilities for the collection, transport, treatment and disposal of septic tank sludge in any of the other municipal capitals of the country. The municipality of Bacau had a septage treatment plant in Seasal, outskirts of Baucau, to serve public and commercial buildings, but is no longer functional. Households sanitation situation in Baucau is similar to other municipalities. The municipality has been however declared open defecation free in 2018, as the results of a successful community led total sanitation activities led by the municipal authorities with the support of international and national organizations.

- 9. Sanitation facilities in schools are generally poor, due to a lack of water supply, inadequate design, and poor management and maintenance.** This results in a negative impact on school attendance, especially for girls, open defecation in school yards, and most significantly, a lost opportunity for improving public health, hygiene and environmental behavior through the schools.
- 10. Improving functionality and sustainability of water supply and sanitation services is critical.** Sector institutions are characterized by limited administrative and financial autonomy, lack of human resources in the form of shortage in number and skilled management and technical staff, limited accountability and incentives for sustaining services, and lack of planning and coordination. In addition, the capacity of the responsible entities to operate and maintain urban water supply systems and sanitation facilities is also constrained by the limited annual budget to fund operation and maintenance. Consequently, maintenance is reactive, planned asset maintenance programs are not implemented, and system functionality and service quality are substandard.
- 11. Under the 6th Constitutional Government, Decree Law No. 6. 2015 the Ministry of Public Works, (MOP) is responsible for the management of water resources, the distribution of public water supply, sanitation, and for drainage.** The MOP responsibilities are delivered through the Directorate General for Water and Sanitation (DGAS) and its three national-level directorates: (i) the National Directorate for Water Supply (DNSA), (ii) the National Directorate of Basic Sanitation (DNSB), and (iii) the National Directorate of Water Resources Management (DNGRH). According to the Decree Law 4/2004, the **DNSA** is responsible for establishing national policy priorities, financing capital investments, and all capital maintenance support of public water supply systems. The DNSA operates and manages water supply service in the capital city of Dili and in all 12 municipal capitals and all 65 Administrative Post capitals. However, the daily operation of the water supply systems in the municipal capitals and administrative Posts is ensured by SMASA. SMASA's are part of the municipal government and reports to the municipal administration which reports to the Ministry of State Administration. SMASA staff also support community water management groups (*Grupu Maneja Fasilidade*, GMF) that manage the service provision in rural communities. The **DNSB** has the mandate to construct, operate, and maintain wastewater treatment facilities and drainage systems and construct public toilets in urban areas, while



the Ministry of Health through the National Directorate for Public Health (DNSP) takes leadership in sanitation and hygiene promotion at the community and household level. Households are however (with few exceptions) responsible for the financing and construction of their sanitation facilities. The **DNGRH** is responsible for monitoring and research on the quality and volume of water resources to support current water supply needs and future development of the water resources.

12. To address the multiple challenges facing the sector, the Government has prepared a 2018-2030 Sector Investment Plan (SIP) including major infrastructure development and an institutional sector reform.

The SIP aims at providing the urban and rural population with universal access to safely managed water supply and sanitation services and improved drainage. The sector needs a total investment of US\$1,323 billion for the period 2018-2030. The main investments include; (i) the rehabilitation and expansion of the water supply distribution network; (ii) the improvement in water production, storage capacity and treatment; (iii) the construction of rural water supply systems and education, information and communication for improved community and household sanitation; (iv) the improvement of the drainage systems in Dili; (v) the improvement of fecal sludge management and the construction of sewerage collection and treatment facilities; and (vi) an institutional sector reform plan to modernize the institutional framework to improve service delivery across the country. Nevertheless, at this stage, it is not totally clear how the fund requirements to implement the SIP will be provided over the coming years.

13. The DGAS has prepared, in 2016, a series of master plans for water supply, sanitation and drainage for the capital city of Dili and 4 municipal capitals (Baucau, Same, Los Palos and Viqueque).

Priority actions include: (i) establish a surface and groundwater monitoring system to assess the impact of increased groundwater extraction to meet short term needs and improve water resources knowledge to make informed decision for the long-term; (ii) replace existing network and achieve 100% coverage in the renovated areas; (iii) develop storage capacity; (iv) increase treatment capacity to improve the quality of the water supplied; (v) rehabilitate and construct boreholes and finally (vi) establish the foundations of the organization of the future service provider.

14. The Government is preparing a sector institutional reform to improve service delivery, across the country based on the separation of the policy making, regulation, and service provision functions.

The reform aims at creating a national public utility that would be responsible for infrastructure development, operation and maintenance, and commercial activities for water supply and sanitation service delivery across the country, while DGAS would become the regulator for water supply and sanitation, and DNGRA the regulator for water resources. While the timeline for promulgation of the decree law for the sector reform is not yet known, the MOP expects to have the reforms in place by 2021.



Relationship to CPF

- 15. The proposed Project will contribute to the World Bank’s goals of reducing poverty and promoting shared prosperity, by increasing access to water supply and safely managed sanitation.** The main direct beneficiaries of the proposed Project will be the population of the municipal capital of Baucau that will have increased access to water supply and sanitation services and the whole urban population of the country that will benefit from improved water and sanitation services delivery as a result of the strengthening of sector institutions capacity. According to the 2014 Timor-Leste Poverty Report, 32.6 percent of the population of Bacau⁵ and 28.3 percent of the total urban population was poor.
- 16. The project is fully aligned with the World Bank Group’s Country Partnership Strategy (CPS) for Timor-Leste, FY19–23 (P165616).** The CPS focuses on reducing poverty and promoting shared prosperity organized around three focus areas: (1) Strengthening the foundations for private sector led growth and economic stability; (2) investing in human capital, public service and social protection and; (3) raising productivity through investment and connectivity.
- 17. The proposed Project is aligned with the focus areas 2 of the CPS of investing in Human Capital, Public Services and Social Protection.** Improving access to potable water and safely managed sanitation services in Timor-Leste will have multiple benefits on health, productivity and income, mortality rates, educational attainment, and on time and opportunity costs - particularly for women, small children and vulnerable populations- as well as on stunting and cognitive development.

C. Proposed Development Objective(s)

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The Project Development Objective is to increase access to sustainable water supply and sanitation services in selected project areas and strengthen sector institutions capacity to improve service delivery in Timor-Leste.

Key Results (From PCN)

The PDO will be measured against the following indicators:

- i. People provided with access safely managed water supply services⁶ under the Project, disaggregated by sex; (number).

⁵ Poverty in Timor Leste. 2014. Government of Timor Leste. <http://www.statistics.gov.tl/wp-content/uploads/2018/02/Poverty-Report-2014-final.pdf>

⁶ Access to safely managed drinking water refers to the percentage of the population using water from an improved water source which is located on premises, available when needed and free of faecal and priority chemical contamination



- ii. People provided with access to improved public sanitation facilities under the Project, disaggregated by sex; (number).
- iii. Number of schools (including pre-primary, primary and secondary) with improved sanitation facilities⁷ in project area.
- iv. Institutional sector reform action plan developed and implemented.

D. Concept Description

18. The proposed Project is a contribution to the US\$1,323 billion 2018-2030 Sector Investment Plan. As a first engagement of the World Bank in the water and sanitation sector in Timor-Leste, the proposed Project provides an entry point for further work in Timor-Leste. The Project aims at addressing infrastructure gaps in the second largest city of the country and supporting the Government to improve water and sanitation service delivery and sustainability of the investments across the country, including in Bacau, through the development and implementation of its sector institutional reform. In addition, the proposed Project will address the climate-related risks of extreme heats, droughts and floods.

19. The proposed Project is also part of a coordinated World Bank effort to support the Human Capital development agenda in Timor-Leste. Along with the Public Expenditure Review (PER) covering Health, Education and Stunting (FY19), the Basic Education Quality Improvement Project (FY19), the Human Capital Development Strategy (FY20), the Nutrition and Stunting Project (FY21) and the Sustainable Agriculture Productivity Improvement AF (FY23), the Project is part of a well-aligned World Bank support to Government of Timor-Leste efforts to improve access to basic services and nutrition.

20. Implementation of this project will involve the following three components: Component 1 Water Supply and Sanitation infrastructure Development; Component 2: Institutional Strengthening and Capacity Development; and Component 3: Project Management.

Component 1: Water Supply and Sanitation Infrastructure Development (US\$ 15 million with US\$13 million of Bank funding)

Component 1.1 Water Supply and Sanitation Development

21. This component will finance the construction and supervision of a new water supply system in the municipal capital of Baucau to provide the entire population with 24/7 access to potable water and the construction of a septage treatment plant and sanitation facilities in schools and public spaces. The municipal capital of Bacau has a population of 17,545 (2015) with a projection of 32,000 by 2030⁸. A

⁷ improved sanitation facilities refer to sanitation facilities which are single-sex and usable and with handwashing facilities, which have soap and water available.

⁸ Figures based on the national census of 2014 and projected to 2030 on 5% population increased, as indicated in the census.



master plan has been prepared in 2016. The estimated cost for the water supply infrastructure is US\$22 M and US\$0.5 M for sanitation⁹.

Component 1.2 Sanitation and Hygiene Behavior Change

22. This sub-component will support the following activities: (i) support municipal authorities and local stakeholders to improve fecal sludge and septage management service chain in Bacau and optimize the use of the septage treatment plant to be constructed to increase access to safely managed sanitation; (ii) prepare a management plan for the proposed sanitation facilities in schools and public spaces to be constructed; and (iii) Carry out behavior change campaign (BCC) activities in the municipal capital of Bacau, including specific nutrition-sensitive water supply, sanitation and hygiene messages.

Component 2: Institutional Strengthening and Capacity Development (US\$ 2.5 million with US\$1.5 million of Bank funding)

23. The proposed project will support MOP led sector stakeholder’s collaborative platform to develop and implement the sector institutional reform to ensure sustainable service delivery. This component will finance a range of activities to support in a first phase the establishment of the national water and sanitation utility and the regulatory agencies for water supply and sanitation and water resources and, in second phase, support these new institutions to effectively deliver on their mandate and obligations.

Component 3: Project Management, (US\$ 1.25 million, with US\$0.5 million of Bank funding.)

24. The activities to be financed under this sub component include: (i) technical, environmental and social supervision of sub-projects’ implementation, as required; (ii) project audits and monitoring and evaluation activities under the Project; and (iii) provision of administrative and operational support to Project Implementation Unit.

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Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

⁹ ADB- Second District Capitals Water Supply Project (46160-001) TA-8064 TIM-January 2016



Summary of Screening of Environmental and Social Risks and Impacts

The ESS 1- 10 are relevant to the project at this concept stage, but during appraisal there will be confirmation of the relevance of ESS 6 whether the project will have potential impacts to the modified habitat or not especially during the construction of the transmission line from the water source to the water treatment plant.

Note To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document.

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APPROVAL

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