

CONFORMED COPY

TRUST FUND FOR EAST TIMOR
GRANT NUMBER TF-027826

Trust Fund for East Timor
Grant Agreement

(Economic Institutions Capacity Building Project)

between

EAST TIMOR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
acting as Trustee of the Trust Fund for East Timor

Dated February 26, 2001

TRUST FUND FOR EAST TIMOR
GRANT NUMBER TF-027826

TRUST FUND FOR EAST TIMOR GRANT AGREEMENT

AGREEMENT, dated February 26, 2001, between EAST TIMOR as administered by the UNITED NATIONS TRANSITIONAL ADMINISTRATION IN EAST TIMOR (the Recipient) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Trustee) acting as trustee of the Trust Fund for East Timor.

WHEREAS (A) pursuant to Resolution No. 99-8 of the Executive Directors of the International Bank for Reconstruction and Development (the Bank) and Resolution No. IDA99-5 of the Executive Directors of the Association, as amended by Resolutions No. 99-8/1 and No. IDA99-5/1, the Executive Directors established the Trust Fund for East Timor (TFET) to assist in the emergency reconstruction and recovery program in East Timor and appointed the Association as trustee of the TFET;

(B) the United Nations Security Council, acting under Chapter VII of the Charter of the United Nations, adopted on October 25, 1999, Resolution 1272 (1999) establishing a United Nations Transitional Administration in East Timor (UNTAET) for an initial period until January 31, 2001, whereas UNTAET has the objectives and a structure as set out in part IV of the Report of the Secretary-General dated October 4, 1999, and whereas the mandate period for UNTAET was, pursuant to the United Nations Security Council Resolution 1338 (2001) of January 31, 2001, extended until January 31, 2002; and

(C) the Recipient, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested assistance from the resources of the TFET for funding the Project; and

WHEREAS the Trustee has agreed, on the basis, inter alia, of the foregoing, to extend the Grant to the Recipient upon the terms and conditions set forth in this Agreement;

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01 The "General Conditions Applicable to the Trust Fund for East Timor Grant Agreements" of the International Development Association, dated May 15, 2000 (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions and in the Recitals to this Agreement have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) "Project Management Unit" and "PMU" mean the unit responsible for the implementation of the Project, including the implementation of the financial management and procurement action plans, and mean the Project implementation entity for purposes of sub-sections (g), (h), (i) and (j) of Section 6.02 of the General Conditions;

(b) "Project Performance Indicators" means those indicators designed to measure the Recipient's performance in achieving Project objectives as set forth in Schedule 5 to this Agreement; and

(c) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Grant

Section 2.01. (a) The Trustee agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the Grant in an amount equal to five hundred thousand Dollars (\$500,000).

(b) The Trustee shall not be obligated to make any payment under this Agreement except to the extent it shall have received funds for the purpose pursuant to the Resolutions referred to in the Whereas clause (A) of this Agreement.

Section 2.02. (a) The amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Trustee shall so agree, to be made) in respect of the reasonable cost of services required for the Project and to be financed out of the proceeds of the Grant.

(b) The Recipient may, for purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank, acceptable to the Trustee, on terms and conditions satisfactory to the Trustee, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2002, or such later date as the Trustee shall establish. The Trustee shall promptly notify the Recipient of such later date.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project, through the Central Fiscal Authority, with due diligence and efficiency and in conformity with appropriate administrative, educational and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Recipient and the Trustee shall otherwise agree, the Recipient shall carry out the Project in accordance with the Implementation Program set forth in

Schedule 4 to this Agreement.

Section 3.02. Except as the Trustee shall otherwise agree, procurement of the consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 8.06 of the General Conditions and without limitation thereto, the Recipient shall:

- (a) prepare, on the basis of guidelines acceptable to the Trustee, and furnish to the Trustee not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Trustee, a plan to ensure the continued achievement of the objectives of the Project; and
- (b) afford the Trustee a reasonable opportunity to exchange views with the Recipient on said plan.

ARTICLE IV

Financial Conditions

Section 4.01. (a) The Recipient shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Recipient responsible for carrying out the Project or any part thereof.

(b) The Recipient shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Trustee;
- (ii) furnish to the Trustee as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Trustee shall have reasonably requested; and
- (iii) furnish to the Trustee such other information concerning said records and accounts and the audit thereof as the Trustee shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure, the Recipient shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Trustee has received the audit report for the fiscal year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Trustee's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Effectiveness, Termination

Section 5.01. The following events are specified as conditions to the

INTERNATIONAL DEVELOPMENT ASSOCIATION
as Trustee for the Trust Fund in East Timor

By /s/ Klaus Rohland

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Grant, the allocation of the amounts of the Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Grant Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Consultants' services, training fellowships, and workshops	465,000	100%
(2) Incremental operating costs relating to Project auditing	25,000	100%
(3) Unallocated	10,000	
TOTAL:	500,000	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$60,000, may be made in respect of Category (1) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after December 4, 2000.

3. The Trustee may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures for: (i) incremental operating costs, (ii) training, fellowships and workshops, and (iii) contracts for the employment of consulting firms valued at less than \$100,000 equivalent each and contracts for the employment of individuals valued at less than \$50,000 equivalent each, under such terms and conditions as the Trustee shall specify by notice to the Recipient.

4. If the Trustee shall have determined at any time that any payment made from the Grant Account was used for any expenditure not consistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Trustee, refund to the Trustee for deposit into the Grant Account, an amount equal to the amount so used or the portion thereof as specified by the Trustee.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Recipient in strengthening the capacity of East Timor in evaluating economic options and designing and implementing economic policies through the training of relevant East Timorese staff.

The Project consists of the following Parts, subject to such modifications thereof as the Recipient and the Trustee may agree upon from time to time to achieve such objectives.

Capacity Building

Strengthening the Recipient's Central Fiscal Authority, Central Payments Office

and Research and Census Unit, and other relevant economic institutions through the provision of training to East Timorese staff of such Central Fiscal Authority, Central Payments Office, Research and Census Unit, and other relevant economic institutions, in concepts and tools of applied economic analysis, public expenditure management and compilation of main macroeconomic aggregates, and provision of related technical assistance.

* * * * *

The Project is expected to be completed by June 30, 2002.

SCHEDULE 3

Consultants' Services

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services for macroeconomic aggregates training estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$100,000 equivalent, shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Single Source Selection

Services for the establishment of the accounting system and related training estimated to cost less than \$155,000 equivalent per contract, up to an aggregate amount not to exceed \$155,000 equivalent, may, with the Trustee's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Least-cost Selection

Services for auditing estimated to cost less than \$25,000 equivalent per contract, up to an aggregate not to exceed \$25,000 equivalent, shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

4. Individual Consultants

Except as provided in paragraph 1 above, services for training estimated to cost less than \$150,000 equivalent per contract, up to an aggregate not to exceed \$210,000 equivalent, shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part C: Review by the Trustee of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Trustee for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Trustee, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Trustee for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. The Recipient shall:

(a) establish and, thereafter, maintain until completion of the Project, a Project Management Unit within the Recipient's Central Fiscal Authority, with competent personnel in adequate numbers, including:

- (i) a Project Director who shall be the head of the Central Fiscal Authority;
- (ii) a training coordinator;
- (iii) a procurement specialist; and
- (iv) a financial manager; and

(b) provide the Project Management Unit at all times with adequate office space and communication facilities.

2. The Recipient shall, not later than June 30, 2001, employ an independent auditor with terms of reference acceptable to the Trustee.

3. The Recipient shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 5 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Trustee, and furnish to the Trustee, on or about September 30, 2001, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Trustee, by October 31, 2001, or such later date as the Trustee shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Trustee's views on the matter.

SCHEDULE 5

Project Performance Indicators

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) and (2) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of services required for the Project and to be financed out of the proceeds of the Grant allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$100,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Trustee has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Trustee a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Trustee shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.

(b) (i) For replenishment of the Special Account, the Recipient shall furnish to the Trustee requests for deposits into the Special Account at such intervals as the Trustee shall specify.

(ii) Prior to or at the time of each such request, the Recipient shall furnish to the Trustee the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Trustee shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Trustee from the Grant Account under the respective eligible Category, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Recipient out of the Special Account, the Recipient shall, at such time as the Trustee shall reasonably request, furnish to the Trustee such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Trustee shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Trustee shall have determined that all further withdrawals should be made by the Recipient directly from the Grant Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Recipient shall have failed to furnish to the Trustee, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Trustee pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Trustee shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Grant allocated to the eligible Category, minus the total amount of all outstanding special commitments entered into by the Trustee pursuant to Section 5.02 of the General Conditions with respect to the

Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Grant Account of the remaining unwithdrawn amount of the Grant allocated to the eligible Category shall follow such procedures as the Trustee shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Trustee shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Trustee shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished to the Trustee, the Recipient shall, promptly upon notice from the Trustee: (A) provide such additional evidence as the Trustee may request; or (B) deposit into the Special Account (or, if the Trustee shall so request, refund to the Trustee) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Trustee shall otherwise agree, no further deposit by the Trustee into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Trustee shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from the Trustee, refund to the Trustee such outstanding amount.

(c) The Recipient may, upon notice to the Trustee, refund to the Trustee all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Trustee made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

