

CONFORMED COPY

TRUST FUND FOR EAST TIMOR
GRANT NUMBER TF-023631

Trust Fund for East Timor
Project Agreement

(Small Enterprises Project)

between

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

and

BANCO NACIONAL ULTRAMARINO

Dated April 11, 2000

TRUST FUND FOR EAST TIMOR
GRANT NUMBER TF-023631

TRUST FUND FOR EAST TIMOR PROJECT AGREEMENT

AGREEMENT, dated April 11, 2000, between the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Trustee) acting as trustee of the Trust Fund for East Timor and BANCO NACIONAL ULTRAMARINO (BNU).

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) by the Trust Fund for East Timor Grant Agreement of even date herewith between the United Nations Transitional Administration in East Timor (the Recipient) and the Association, acting as Trustee of the Trust Fund for East Timor (the Trustee), the Trustee has agreed to make available to the Recipient the amount of four million eight hundred and fifty thousand United States Dollars, on the terms and conditions set forth in the Grant Agreement, but only on condition that BNU agree to undertake such obligations toward the Trustee as are set forth in this Agreement;

WHEREAS BNU, in consideration of the Trustee's entering into the Grant Agreement with the Recipient, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Grant, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project; Management and Operations of BNU

Section 2.01. (a) BNU declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Grant Agreement, and, to this end, shall carry out Part A of the Project and conduct its operations and affairs in accordance with sound financial standards and practices, with qualified and experienced management and personnel, and in accordance with its Statutes.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Trustee and BNU shall otherwise agree, BNU shall carry out Part A of the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. (a) BNU undertakes that, unless the Trustee shall otherwise agree, Loans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 1 to this Agreement.

(b) BNU shall exercise its rights in relation to each Sub-Project in such manner as to: (i) protect the interests of the Trustee and of BNU; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of Part A of the Project.

Section 2.03. BNU shall carry out the obligations set forth in Sections 8.03, 8.04, 8.05, 8.06, 8.07 and 8.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of the Project Agreement and Part A of the Project.

Section 2.04. (a) BNU shall, at the request of the Trustee, exchange views with the Trustee with regard to the progress of the Project, the performance of its obligations under this Agreement and other matters relating to the purposes of the Grant.

(b) BNU shall promptly inform the Trustee of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Grant, or the performance by BNU of its obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) BNU shall maintain procedures and records adequate to monitor and record the progress of Part A of the Project and of each Sub-Project (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of BNU.

(b) BNU shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) 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, (A) certified copies of its financial statements for such year as so audited, and (B) 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, accounts and financial statements as well as the audit thereof as the Trustee shall from time to time reasonably request.

Section 3.02. BNU shall take such steps satisfactory to the Trustee as shall be necessary to protect itself against risk of loss resulting from changes in the rates of exchange between the various currencies (including the currency of the Recipient) used in its operations.

ARTICLE IV

Effective Date; Termination Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Grant Agreement becomes effective.

Section 4.02. (a) This Agreement and all obligations of the Trustee and of BNU thereunder shall terminate on the date on which the Grant Agreement shall terminate in accordance with its terms, and the Trustee shall promptly notify BNU thereof.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or facsimile to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other addresses as such party shall have designated by notice to the party giving such notice or making such request. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:

For the Trustee:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

For BNU:

Banco Nacional Ultramarino
Rua Dr. Antonio Carvalho
Edificio Acait
Dili - East Timor

Facsimile:

+670 390 324 298

Section 5.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of BNU or by BNU on behalf of the Recipient under the Grant Agreement, may be taken or executed by its Director, Timor Operations, or by such other person or persons as the Director, Timor Operations shall designate in writing, and BNU shall furnish to the Trustee sufficient evidence of the authority and the authenticated specimen signature of each such

person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, and Dili, East Timor as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION
As Trustee of the Trust Fund for East Timor

By /s/ Sarah Cliffe

Authorized Representative

BANCO NACIONAL ULTRAMARINO

By /s/ Vasco Carrascalao da Silva

Authorized Representative

SCHEDULE 1

Procedures for and Terms and Conditions of Loans

1. The Loans shall be made on the following terms and conditions:

- (a) the interest rate shall be 10% per year;
- (b) there shall be a front end fee of 1.5%; and

(c) the repayment terms shall be in equal monthly installments over a period of up to 36 months with a grace period of up to three months, provided, however, that no repayment date shall be beyond August 31, 2003.

2. No expenditures for goods or services required for a Sub-Project shall be eligible for financing out of the proceeds of the Grant unless:

(a) the Loan for such Sub-Project shall have been a Loan for which the Trustee has authorized withdrawals from the Grant Account and such expenditures shall have been made not earlier than ninety days prior to the date on which the Trustee shall have received the request and information required under paragraph 3(a) of this Schedule in respect of such Loan. For the purposes of the Grant Agreement and this Agreement, a Loan for a Sub-Project shall be in an amount to be financed out of the proceeds of the Grant which shall not be less than \$500 and not exceed \$50,000, the foregoing amounts being subject to change from time to time as determined by the Trustee.

3. (a) Each request by BNU for authorization to make withdrawals from the Grant Account in respect of a Loan shall contain: (i) a summary description of the Borrower and the Sub-Project, including a description of the expenditures proposed to be financed out of the proceeds of the Grant, and (ii) the terms and conditions of the Loan, including the schedule of amortization therefor.

(b) Applications and requests made pursuant to the provisions of sub-paragraph (a) of this paragraph shall be presented to the Trustee on or before December 31, 2001.

4. Loans shall be made on terms whereby BNU shall obtain, by written contract with the Borrower or by other appropriate legal means, rights adequate to protect the interests of the Trustee and BNU, including, in the case of any Loan the right to:

(a) require the Borrower to carry out and operate the Sub-Project with due diligence and efficiency and in accordance with sound technical, financial, managerial

and environmental standards and practices, and to maintain adequate records;

(b) require that: (i) the goods, works and consultants' services to be financed out of the proceeds of the Grant shall be procured at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and, in the case of consultants' services, of their quality and the competence of the parties rendering them; and (ii) such goods and services shall be used exclusively in the carrying out of the Sub-Project;

(c) inspect, by itself or jointly with representatives of the Trustee if the Trustee shall so request, such goods, works, plants and construction included in the Sub-Project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Borrower shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Grant to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Borrower to replace or repair such goods;

(e) obtain all such information as the Trustee or BNU shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Borrower and to the benefits to be derived from the Sub-Project; and

(f) suspend or terminate the right of the Borrower to the use of the proceeds of the Grant upon failure by such Borrower to perform its obligations under its contract with BNU.

SCHEDULE 2

Implementation Program

1. BNU shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Trustee, the carrying out of Part A 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 October 31, 2000, and on or about October 31, 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 Part A 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 November 30, 2000, and November 30, 2001, or such later dates as the Trustee shall request, the respective reports referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of Part A of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said reports and the Trustee views on the matter.

2. Except as the Trustee shall otherwise agree, proceeds of repayments of Loans shall be relented on the same terms and conditions as set forth or referred to in Schedule 1 to this Agreement.

3. In order to assist in the defrayment of the costs of administration and other expenses incurred by BNU, BNU may retain for its own account (a) the front-end fee of 1.5% referred to in paragraph 1(b) of Schedule 1 to this Agreement, and (b) 9.5% of the amount of any repayment of a Loan made in accordance with Part A of the Project and paragraph 2 of this Schedule.



