

CONFORMED

TRUST FUND FOR EAST TIMOR
GRANT NUMBER TF-029888Trust Fund for East Timor
Grant Agreement

(Second Health Sector Rehabilitation and Development Project)

between

EAST TIMOR

and

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

Dated October 15, 2001

TRUST FUND FOR EAST TIMOR
GRANT NUMBER TF-029888

TRUST FUND FOR EAST TIMOR GRANT AGREEMENT

AGREEMENT, dated October 15, 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, 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;

(C) the Recipient intends to obtain from the European Economic Community (EC) a grant in an amount equivalent to US\$8,830,000 (the EC Grant) to assist in financing Part B.2 (a) of the Project on the terms and conditions set forth in an agreement to be entered into between the Recipient and the EC (the EC Grant Agreement); and

(D) 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) "Affected Persons" means persons who, solely on account of and as a direct result of the physical implementation of the activities under Part B of the Project, had or would have their: (i) standard of living adversely affected; or (ii) right, title, interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected; and "Affected Person" means individually all those who qualify as Affected Persons;

(b) "Health Program Management Unit" means the unit established within the Recipient's Division of Health Services and responsible for the implementation of the Project, including the implementation of the financial management and procurement action plans, and means the Project implementation entity for purposes of sub-sections (g), (h), (i) and (j) of Section 6.02 of the General Conditions;

(c) "Land Acquisition and Resettlement Policy Framework" means the Framework adopted by the Recipient for the provision of compensation, rehabilitation and resettlement assistance to Affected Persons, as such Framework may be amended from time to time in agreement with the Trustee;

(d) "Operational Manual" means the manual to assist the Recipient's Health Program Management Unit in the implementation of the Project, as such manual may be amended from time to time with the agreement of the Trustee;

(e) "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

(f) "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 twelve million six hundred thousand Dollars (\$12,600,000).

(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 Resolution referred to in Whereas (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 goods and 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 March 31, 2004, 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 its Division of Health Services, with due diligence and efficiency and in conformity with appropriate administrative, engineering, environmental, financial, public health and social 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 goods, works and 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.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Recipient shall carry out a time-bound action plan acceptable to the Trustee for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Recipient, not later than October 1, 2002, or such later date as the Trustee shall agree, to prepare quarterly Project management reports, acceptable to the Trustee, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Grant during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Grant during the six-month period following the period covered by said report;
- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Grant, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Recipient shall prepare, in accordance with guidelines acceptable to the Trustee, and furnish to the Trustee not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Remedies of the Trustee

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) the EC Grant Agreement shall have failed to become effective by March 15, 2002, or such later date as the Trustee may agree; provided, however, that the provisions of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Trustee that adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement; and

- (b) (i) Subject to subparagraph (ii) of this paragraph, the right of the Recipient to withdraw the proceeds of any grant made to the Recipient for the financing of the Project shall have been

suspended, canceled or terminated in whole or in part, pursuant to the terms of the EC Grant Agreement.

- (ii) Subparagraph (i) of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Trustee that: (A) such suspension, cancellation, or termination is not caused by the failure of the Recipient to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

ARTICLE VI

Effectiveness, Termination

Section 6.01. The following events are specified as conditions to the effectiveness of this Agreement:

- (a) that a health policy and management specialist has been employed in accordance with paragraph 1 of Schedule 4 to this Agreement;
- (b) that the Program Management Unit is staffed with a finance officer in accordance with paragraph 1 of Schedule 4 to this Agreement;
- (c) that the Operational Manual has been adopted in accordance with paragraph 2 of Schedule 4 to this Agreement; and
- (d) that guidelines for the preparation of district health plans, acceptable to the Trustee, have been adopted in accordance with paragraph 3 of Schedule 4 to this Agreement.

Section 6.02. (a) Except as the Recipient and the Trustee shall otherwise agree, the Grant Agreement shall enter into effect on the date on which the Trustee dispatches to the Recipient notice of its acceptance of the evidence required by Section 6.01 of this Agreement.

(b) If, before the Effective Date, any event shall have occurred which would have entitled the Trustee to suspend the right of the Recipient to make withdrawals from the Grant Account if the Trust Fund Grant Agreement had been effective, the Trustee may postpone the dispatch of the notice referred to in paragraph (a) of this Section until such event or events shall have ceased to exist.

Section 6.03. If the Trust Fund Grant Agreement shall not have entered into effect ninety (90) days after the date of this Agreement, the Trust Fund Grant Agreement and all obligations of the parties thereunder shall terminate, unless the Trustee, after consideration of the reasons for the delay, shall establish a later date for the purposes of this Section. The Trustee shall promptly notify the Recipient of such later date.

ARTICLE VII

Representative of the Recipient; Addresses

Section 7.01. The Special Representative of the Secretary General, United Nations Transitional Administration in East Timor, is designated as representative of the Recipient for the purposes of Section 10.03 of the General Conditions.

Section 7.02 The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

United Nations Transitional Administration in East Timor
Dili, East Timor
c/o Cabinet Officer for the Department of Social Affairs
P.O. Box 2436
Darwin, NT 0801, Australia

Facsimile:

61-889463901
61-889463902
1212-9632180

For the Trustee:

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

Cable address: Telex: Facsimile:

INDEVAS 248423 (MCI) or (202) 477-6391
Washington, D.C. 64145 (MCI)

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

UNITED NATIONS TRANSITIONAL ADMINISTRATION
IN EAST TIMOR

By /s/ Dennis McNamara

Authorized Representative

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

By /s/ Sarah Cliffe

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) Civil works:		
(a) Part B.2 (a) of the Project	1,800,000	18%
(b) Part B.2 (b) of the Project	700,000	100%
(2) Goods (including local transportation):		
(a) Part A.2 of the Project	1,600,000	100% of foreign expenditures, 100% of

local expenditures
(ex-factory cost), and
90% of local expendi-
tures for other items
procured locally

(b) Part B.2 (a) of the Project	128,000	18%	
(c) Other Parts of the Project	765,000	100%	of foreign expenditures, 100% of local expenditures (ex-factory cost), and 90% of local expendi- tures for other items procured locally
(3) Incremental operating costs	277,000	100%	
(4) Training, fellowships and workshops	795,000	100%	
(5) Consultants' services and studies	6,131,000	100%	
(6) Unallocated	404,000		
TOTAL	12,600,000		

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of East Timor for goods or services supplied from the territory of any country other than that of East Timor;

(b) the term "local expenditures" means expenditures in the currency of East Timor or for goods or services supplied from the territory of East Timor; provided, however, that if the currency of East Timor is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures"; and

(c) the term "Incremental operating costs" means reasonable expenditures incurred by the Recipient for bank charges and Project auditing costs, and Health Program Management Unit staff travel, per diems, communications and consumables, but excluding staff salaries (which expenditures would not have been incurred absent the Project);

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; and (b) payments made for expenditures in respect of Category (1) set forth in the table in paragraph 1 of this Schedule unless and until a Land Acquisition and Resettlement Policy Framework acceptable to the Trustee has been adopted by the Recipient in accordance with paragraph 5 (a) of Schedule 4 to this Agreement.

4. The Trustee may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures for: (a) civil works costing less than \$200,000 equivalent per contract; (b) goods costing less than \$200,000 equivalent per contract; and (c) 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; all under such terms and conditions as the Trustee shall specify by notice to the Recipient.

5. 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.

Description of the Project

The objectives of the Project are to assist the Recipient in rehabilitating and developing a cost-effective and financially sustainable health system in East Timor to be responsive to the immediate basic health needs of the population and, within a well integrated and sustainable health policy framework, to prepare the health system to meet future needs.

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.

Part A: Supporting Ongoing Health Service Delivery

1. Delivery of health services, including selected high priority activities (including immunization, tuberculosis treatment, nutrition, and health promotion) and basic services (including maternal and child health), in accordance with district health plans, medical supply systems, logistics systems, and essential hospital care, through the provision of technical assistance to the Division of Health Services.
2. Provision of pharmaceuticals to health facilities, including hospitals.

Part B: Improvement of the Range and Quality of Health Services and Development and Implementation of Health Support Systems

1. Improvement of the quality of basic health services provided at district level, including enhancement of health promotion activities, environmental health, communicable disease surveillance and reproductive health, through the provision of technical assistance to the Division of Health Services and provision of training to health services staff.
2. Hospital rationalization and strengthening of the health referral system through:
 - (a) the rehabilitation and/or construction of about four selected hospitals, including provision of related equipment and furniture, and the provision of training to Division of Health Services staff in the use and maintenance of the equipment;
 - (b) refurbishing of the Centro Clinic and the central laboratory in Dili;
 - (c) improvement of communications and transport between health facilities and hospitals through the provision of communications equipment and vehicle spare parts, and provision of training to the Division of Health Services staff in the use, maintenance and management of the equipment and vehicles.
3. Provision of equipment and furniture to health clinics, health posts and mobile clinics and the provision of training to the Division of Health Services staff in the use and maintenance of the equipment.
4. Establishment of an autonomous medical supply entity and provision of technical assistance for the management of such entity.

Part C: Development and Implementation of a Health Sector Policy and Management Systems

1. Development of a health sector policy through the provision of technical assistance for: (a) the identification of health policy issues; (b) the carrying out of health policy studies; (c) the carrying out of a demographic household survey; (d) the carrying out of consultations with stakeholders; (e) the dissemination of findings of studies and surveys; and (f) the drafting of a health policy and associated regulations.
2. Development of health management systems through the provision of technical assistance for the preparation and the implementation of: (a) health sector planning; (b) management and health information systems; (c) monitoring and evaluation systems; and (d) administrative procedures.
3. Capacity building for health policy and health systems development through:
 - (a) the provision of technical assistance to the Division of Health Services for the training of trainers and the development and implementation of a training

program for health system trainers, managers of the Division of Health Services, members of health professional associations and health sector non-governmental organizations, and persons with responsibilities for health sector issues;

(b) the provision of fellowships and study tours to managers of the Division of Health Services, selected members of health professional associations and health sector non-governmental organizations, and selected persons with responsibilities for health sector issues; and

(c) the provision of fellowships to medical students and health professionals for the development of clinical skills.

4. Planning and design of a cost-effective and financially sustainable health system, including organizational structure and administrative procedures.

5. Planning and establishment of a strategy and an implementation plan for human resource development in the health sector.

6. Strengthening the Health Program Management Unit through the provision of technical assistance, equipment, furniture and supplies.

* * * * *

The Project is expected to be completed by September 30, 2003.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Trustee in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each, and contracts for works shall be grouped in bid packages estimated to cost \$500,000 equivalent or more each.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$700,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines and the provisions of the Annex to this Schedule.

2. International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$120,000, may be procured under contracts awarded on

the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$100,000, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Direct Contracting

Medical equipment and spare parts for vehicles which are of a proprietary nature and costing \$70,000 equivalent or less in the aggregate, may, with the Trustee's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

5. Procurement of Small Works

Works estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$600,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Trustee, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part C: Review by the Trustee of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for 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 Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement 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 works and goods estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first contract procured under international shopping procedures and the first contract procured under small works procedures, the following procedures shall apply:

- (i) prior to the selection of any supplier/execution of any contract under shopping procedures, the Recipient shall provide to the Trustee a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Recipient shall provide to the Trustee a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

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 Guidelines shall apply.

Section II. Employment of Consultants

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 Trustee 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: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services under Parts A.1, B.1, C.3 and C.4 of the Project estimated to cost less than \$100,000 equivalent per contract may 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 from specialized United Nations agencies for Part B.1 and Part C.1 (f) of the Project and services for the management of the autonomous medical supply entity under Part B.4 of the Project, 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. Individual Consultants

Services under Parts A.1, B.1, C.1, C.2, C.4, C.5 and C.6 of the Project, that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, may 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 D: 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.

National Competitive Bidding Procedures

The procedures to be followed for National Competitive Bidding under Part C.3 of Schedule 3 to the Grant Agreement shall be those set forth in the Regulation on Public Procurement for Civil Administration in East Timor (UNTAET Regulation No. 2000/10 of March 6, 2000) (the Regulation) with the following clarifications required for compliance with the provisions of paragraph 3.3 of the "Guidelines for Procurement under IBRD Loans and IDA Credits" (the Guidelines) published by the Trustee in January 1995 and revised in January and August 1996, September 1997 and January 1999:

1. The procuring entity shall procure goods in accordance with Section 5.1 of the Regulation. The exceptions provided in Section 5 shall not be valid for National Competitive Bidding procedures.
2. Section 9.1 shall be modified to provide for advertisement in the national press. Bidders shall have not less than 30 days from the date of availability of bidding documents or advertisement in the press, whichever is later, to prepare their bids.
3. Section 14.3 (g) shall be modified to read "the criteria to be used in evaluating proposals and their relative weight, shall be expressed in monetary terms."
4. Under Section 15.6 the procuring entity may request extension of the bid validity period, but suppliers shall not be required to extend such date, after bid submission.
5. Under Section 16 the bid security shall be set in such a way as to not unduly deter bidders from participating in the bidding process.
6. Section 18.4 shall not apply.

SCHEDULE 4

Implementation Program

1. The Recipient shall maintain until completion of the Project, a Health Program Management Unit responsible for the overall management of the Project, headed by a Program Director who shall be the head of the Recipient's Division of Health Services, said Unit to be provided at all times with adequate resources and staffed by qualified and experienced personnel in sufficient numbers, including:
 - (a) a program manager;
 - (b) a health policy and management specialist;
 - (c) a finance officer;
 - (d) a procurement specialist; and
 - (e) periodically, a senior procurement advisor.
2. The Recipient shall adopt and, thereafter apply in the implementation of the Project, the Operational Manual, acceptable to the Trustee, which shall include the description of: (a) the procurement procedures set forth in Schedule 3 to this Agreement and standard procurement documentation; and (b) reporting requirements, financial management procedures and audit procedures as set forth in Article 4 of this Agreement.
3. In carrying out Part A.1 of the Project, the Recipient shall adopt and apply guidelines, acceptable to the Trustee, for the preparation of district health plans.
4. In carrying out Part A.2 of the Project, the Recipient shall ensure that:
 - (a) only pharmaceuticals that are included in both the National Essential Drugs List and the World Health Organization's Essential Drugs List are procured under the Project; and
 - (b) the procurement of the pharmaceuticals under the Project is the responsibility of the autonomous medical supply entity.

5. In carrying out Part B.2 of the Project, the Recipient shall:

(a) adopt a Land Acquisition and Resettlement Policy Framework acceptable to the Trustee;

(b) take measures to avoid or minimize the acquisition of land or assets of persons and to avoid the displacement of said persons;

(c) where the acquisition of land or assets or the displacement of persons is unavoidable, ensure that the Recipient shall, before carrying out the works which would result in such acquisition or displacement, make available to Affected Persons, compensation and rehabilitation measures in accordance with the Land Acquisition and Resettlement Policy Framework; and

(d) in the event that there are two hundred or more Affected Persons:

(i) prepare a resettlement plan in accordance with the Land Acquisition and Resettlement Policy Framework and furnish such plan to the Trustee for approval; and

(ii) prior to the carrying out of the works, ensure that all Affected Persons shall have been compensated in accordance with the provisions of said plan.

6. In carrying out Part C.1 of the Project, the Recipient shall:

(a) not later than June 30, 2002, draft revised regulations for pharmaceuticals, under terms of reference acceptable to the Trustee, and furnish such drafts to the Trustee for comments; and

(b) thereafter, taking into account the comments of the Trustee, finalize and issue said regulations.

7. In carrying out Part C.1 of the Project, the Recipient shall:

(a) not later than December 31, 2001, furnish the Recipient's draft health sector policy paper to the Trustee for comments; and

(b) thereafter, taking into account the comments of the Trustee, finalize the health sector policy and (i) prepare a timetable, acceptable to the Trustee, for its implementation, and (ii) ensure that the policy is reflected in future annual health sector plans.

8. In carrying out Part C.3 (b) of the Project, the Recipient shall ensure that priority for fellowships and study tours is given to managers of the Division of Health Services.

9. 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 October 1, 2002, and October 1, 2003, 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 November 1, 2002, and November 1, 2003, or such later date as the Trustee shall request, the respective 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 reports and the Trustee's views on the matter.

Project Performance Indicators

Indicators	June 30, 2002	June 30, 2002
Percentage of children under one year of age immunized in Each district:		
(a) DPT3	>30%	>50%
(b) Measles	>30%	>50%
Percentage of births with skilled attendance:		
(a) nationally	>25%	>35%
(b) in each district	>10%	>20%
Percentage of population with access to:		
(a) basic health services within two hours from home	>90%	>95%
(b) in-patient services within two hours from a source of basic health services	>70%	>80%
Number of outpatient visits per person per year at each health Facility	>2%	>2.5%
Percentage of health facilities reporting no stock outs of Essential drugs lasting more than two weeks in the previous Quarter	>90%	>90%
Draft health sector policy paper discussed with stakeholders	Completed	
Revised pharmaceuticals regulations:		
(a) Draft prepared	Completed	
(b) Regulations issued	Completed	
Human resource management and development plan adopted	Completed	

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (5) 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 goods and 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 \$1,200,000 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 Categories, 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 Categories, 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 Categories 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.

