

CONFORMED COPY

**TRUST FUND FOR EAST TIMOR
GRANT NUMBER TF053898-TP**

Trust Fund for East Timor Grant Agreement

(Power Sector Priority Investment Project)

between

DEMOCRATIC REPUBLIC OF TIMOR-LESTE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

acting as Trustee of the Trust Fund for East Timor

Dated April 1, 2005

**TRUST FUND FOR EAST TIMOR
GRANT NUMBER TF053898-TP**

TRUST FUND FOR EAST TIMOR GRANT AGREEMENT

AGREEMENT, dated April 1, 2005, between the DEMOCRATIC REPUBLIC OF TIMOR-LESTE (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 and Resolution No. IDA99-5 of the Executive Directors of the International Development Association, the Executive Directors established the Trust Fund for East Timor (TFET) to assist in an emergency reconstruction and recovery program in República Democrática de Timor-Leste and appointed the International Development Association as trustee of the TFET; and

(B) 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, with the modification set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Paragraph 11 of Section 2.01 of the General Conditions is modified to read as follows: “11. ‘Recipient’ means the Democratic Republic of Timor-Leste”; and

(b) the text in Section 5.01 which reads “(a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories: or (b)” is deleted in its entirety.

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

(a) “EDTL” means *Electricidade de Timor-Leste*, the unit within the Ministry of Transport, Communication and Public Works, handling the provision of electricity within República Democrática de Timor-Leste;

(b) “EMP” means the environmental management plan dated June 18, 2004, and duly adopted by EDTL in respect of Part A of the Project, which sets out the environmental protection measures in respect of said Part A of the Project, as well as administrative and monitoring arrangements to ensure the implementation of said plan, as the same may be revised from time to time with the prior agreement of the Trustee;

(c) “Fiscal Year” and the acronym “FY” mean the Recipient’s fiscal year commencing July 1 and ending June 30;

(d) “Procurement Plan” means the Recipient’s procurement plan, dated July 8, 2004, covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(e) “Project Performance Indicators” means those indicators designed to measure the Recipient’s performance in achieving the Project objective 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 one million three hundred ninety thousand Dollars (\$1,390,000).

(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 set forth in the Resolutions referred to in paragraph A of the preamble to 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, 2006, 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 objective of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall, through EDTL, carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, public utilities and economic practices, and social and environmental standards acceptable to the Bank, and shall provide, or cause to be provided, 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. (a) Except as the Trustee shall otherwise agree, procurement of the goods 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, as said provisions may be further elaborated in the Procurement Plan.

(b) The Recipient shall update the Procurement Plan in accordance with guidelines acceptable to the trustee, and furnish such update to the Trustee not later than 12 months after the date of the preceding Procurement Plan, for the Trustee's approval.

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 6 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 objective 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 a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Trustee, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Recipient shall:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Trustee, 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 the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and 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 such records and accounts, and the audit thereof, and concerning said auditors, as the Trustee may 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 Recipient's progress reporting obligations set out in paragraph 5 of Schedule 4 to this Agreement, the Recipient shall prepare and furnish to the Trustee a financial monitoring report, in form and substance satisfactory to the Trustee, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Grant and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Trustee not later than 45 days after the end of the first calendar quarter after the Effective Date of this Agreement, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Trustee not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Effectiveness

Section 5.01. The Grant Agreement shall become effective as of the date of signature by both parties to this Agreement.

ARTICLE VI

Representative of the Recipient; Addresses

Section 6.01. The Minister of Planning and Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 10.03 of the General Conditions.

Section 6.02 The following addresses are specified for the purposes of Section 10.01 of the General Conditions:

For the Recipient:

Minister of Planning and Finance
Ministry of Planning and Finance
GPA Building 5
Dili
República Democrática de Timor-Leste

Facsimile:

(670) 333-9782

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

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, República Democrática de Timor-Leste, as of the day and year first above written.

DEMOCRATIC REPUBLIC OF TIMOR-LESTE

By: /s/ Maria Madalena Boavida

Authorized Representative

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

By: /s/ Xian Zhu

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:

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods:		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expenditures for other items procured locally
(a) Part A of the Project	1,000,000	
(b) Part B of the Project	298,000	
(c) Part C of the Project	90,000	
(2) Consultants' services under Part D of the Project	2,000	96% for firms
	<hr/>	
TOTAL	<u>1,390,000</u>	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Recipient for goods or services supplied from the territory of any country other than that of the Recipient; provided, however, that for purposes of this definition, the Dollar shall be deemed the currency of a country other than that of the Recipient; and

(b) the term "local expenditures" means expenditures in the currency of the Recipient for goods or services supplied from the territory of the Recipient.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made under the Grant:

(a) in respect of payments made for expenditures prior to the date of this Agreement.

(b) in respect of payments for purposes of Part B of the Project, until EDTL has furnished to the Trustee an Implementation Plan satisfactory to the Trustee, pursuant to Section 2 of Schedule 4 of 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 goods under contracts costing less than \$15,000 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.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Recipient in improving EDTL's energy generation capacity, and generation and distribution efficiency, through the delivery of least-cost, high quality electricity services, and the use by its consumers of energy efficient light bulbs.

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: Enhancement of the Comoro power station, including provision of a 2.8 Megawatt new engine with enhanced operational performance at unit number 5.

Part B: Carrying out of electricity distribution system rehabilitation and extension activities of high economic priority in selected areas.

Part C: Development of a program to encourage the use by EDTL's consumers of energy efficient light bulbs, including the provision of energy efficient light bulbs to about 20,000 consumers participating in EDTL's pre-payment meter program.

Part D: Auditing of Project activities, including the provision of technical assistance.

* * *

The Project is expected to be completed by September 30, 2005.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding

Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Recipient.

B. Other Procurement Procedures

1. Shopping

Goods estimated to cost less than \$15,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

Section III. Particular Methods of Procurement of Consultants' Services

1. Single Source Selection

Services under Part D of the Project for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Trustee's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

Section IV. Review by the Trustee of Procurement Decisions

Except as the Trustee shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Trustee: (a) each contract for goods procured on the basis of International Competitive Bidding; and (b) each contract for consultants' services provided by a firm. All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Implementation Program

1. In carrying out Part A of the Project, the Recipient shall:
 - (a) carry out the EMP in a manner satisfactory to the Trustee; and
 - (b) furnish any proposed revision to the EMP referred to in sub-paragraph (a) above to the Trustee for its prior approval.

2. In carrying out Part B of the Project, the Recipient shall:
 - (a) cause EDTL to furnish to the Trustee, an Implementation Plan satisfactory to the Trustee, setting forth procedures and guidelines for the implementation of said part of the Project; including: (i) the criteria for selection of areas and activities under Part B of the Project; (ii) the financial and economic analysis of different implementation options; (iii) a detailed description of the selected distribution, rehabilitation and extension activities; (iv) an implementation schedule; and (v) a procurement plan; and
 - (b) provide to the Trustee for its prior agreement any revision proposed for introduction into the aforementioned Implementation Plan, and thereafter introduce such revisions into the Plan as agreed with the Trustee.

3. In carrying out Parts B and C of the Project, the Recipient shall cause EDTL to maintain until completion of the Project, a stock control system and an inventory system by which goods procured under such Parts of the Project are at all times physically accounted for.

4. In carrying out Part C of the Project, the Recipient shall cause EDTL to furnish, free of charge, no more than three energy efficient light bulbs per consumer participating in EDTL's pre-payment meter program.

5. 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 objective thereof; and

(b) prepare, under terms of reference satisfactory to the Trustee, and furnish to the Trustee on a quarterly basis, commencing December 31, 2004, 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 objective thereof during the period following such date.

SCHEDULE 5

Performance Indicators

Indicator	November 2004	April 2005	September 2005
Procurement and installation of goods under Part A of the Project	Award of contract		Unit on line
Procurement and installation of goods under Part B of the Project		Goods procured	Installation completed
Number of lamps distributed		about 30,000 lamps distributed	about 30,000 additional lamps distributed

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 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 \$75,000 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.