

**CONFORMED COPY  
TRUST FUND FOR EAST TIMOR  
GRANT NUMBER TF050153**

# **Trust Fund for East Timor Grant Agreement**

**(Second Small Enterprises Project)**

**between**

**EAST TIMOR**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**acting as Trustee of the Trust Fund for East Timor**

**Dated October 29, 2001**

**TRUST FUND FOR EAST TIMOR  
GRANT NUMBER TF050153**

**TRUST FUND FOR EAST TIMOR GRANT AGREEMENT**

AGREEMENT, dated October 29, 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;

(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

(D) Part A of the Project will be carried out by Caixa Geral de Depositos, S.A., (CGD) with the Recipient's assistance and, as part of such assistance, the Recipient will make available to CGD part of the proceeds of the Grant as provided in this Agreement; 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 and in the agreement of even date herewith between the Trustee and CGD (the CGD Project 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 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) “BNU Timor” means BNU Timor-Caixa Geral de Depositos, S.A. Branch, a branch of CGD in East Timor and means the Project implementation entity for Part A of the Project for purposes of sub-sections (g), (h), (i) and (j) of Section 6.02 of the General Conditions;

(c) “Borrower” means an entity responsible for, or a joint venture of entities jointly and severally responsible for, the carrying out of a SME Sub-project under Part A of the Project;

(d) “Business Development Center” means a center established by the Recipient in the cities of Baucau, Dili and Maliana, and in the district of Oecussi to provide business related technical services to small- and medium-sized enterprises;

(e) “CGD Project Agreement” means the agreement between the Trustee and CGD of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the CGD Project Agreement;

(f) “CGD Project Manual” means the manual to assist CGD in the implementation of Part A of the Project, as such manual may be amended from time to time with the prior agreement of the Recipient and the Trustee;

(g) “Credit Implementation Agreement” means the agreement to be entered into between the Recipient and CGD pursuant to Section 3.01(d) of this Agreement, as the same may be amended from time to time and such term includes all schedules to the Credit Implementation Agreement;

(h) “Fiscal Year” means the Recipient’s fiscal year commencing July 1 and ending June 30;

(i) “Grantee” means a person or entity responsible for, and persons or a joint venture of entities jointly and severally responsible for, the carrying out of a Market Rehabilitation Sub-project under Part C of the Project;

(j) “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 with the prior agreement of the Trustee;

(k) “Loan” means a loan made by CGD to a Borrower for a SME Sub-project under Part A of the Project to be funded up to 90% out of the proceeds of the Grant made available by the Recipient to CGD, pursuant to the provisions of Schedule 1 to the CGD Project Agreement;

(l) “Market Rehabilitation Project Manual” means the manual to assist the Project Implementation Unit in the implementation of Part C of the Project, as such manual may be amended from time to time with the agreement of the Trustee;

(m) “Market Rehabilitation Sub-project” means a specific investment project carried out by a Grantee under Part C of the Project and utilizing the proceeds of a Sub-grant;

(n) “Market Rehabilitation Sub-project Agreement” means the agreement to be entered into between the Recipient and a Grantee for purposes of a Sub-grant;

(o) “Project Implementation Unit” means the unit within the Recipient’s Division of Industry, Mineral Resources and Tourism, or any successor thereto in charge of industry, responsible for the coordination and monitoring of Project activities and means the Project implementation entity for Parts B, C and D of the Project for purposes of sub-sections (g), (h), (i) and (j) of Section 6.02 of the General Conditions;

(p) “Project Management Report” means each report prepared in accordance with Section 4.02 of this Agreement;

(q) “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;

(r) “SME Sub-project” means a specific small- or medium-sized enterprise investment project carried out by a Borrower under Part A of the Project and utilizing the proceeds of a Loan;

(s) “Special Accounts” means the accounts referred to in Section 2.02 (b) of this Agreement;

(t) “Statutes” means the statutes of CGD, dated August 20, 1993, and as amended on May 31, 2000; and

(u) “Sub-grant” means a grant made available by the Recipient out of the proceeds of the Grant to a Grantee for a Market Rehabilitation Sub-project under Part C of the Project pursuant to the provisions of paragraph 5 of Schedule 4 to 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 seven million five hundred thousand Dollars (\$7,500,000).

(b) The Trustee shall not be obligated to make any payment under this Agreement except to the extent it shall have received funds for this purpose pursuant to the Resolutions 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: (i) for amounts paid (or, if the Trustee shall so agree, to be paid) by the Recipient on account of a Loan under Part A of the Project or a Sub-grant under Part C of the Project, to meet the reasonable cost of goods, works and services required for a SME Sub-project or a Market Rehabilitation Sub-project, respectively, and in respect of which the withdrawal from the Grant Account is requested; and (ii) for expenditures made (or, if the Trustee shall so agree, to be made) in respect of the

reasonable cost of goods, works and services required for Parts B and D of the Project and to be financed out of the proceeds of the Grant.

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

Section 2.03. The Closing Date shall be June 30, 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 Parts B, C and D of the Project through the Recipient's Division of Industry, Mineral Resources and Tourism, or through any successor thereto responsible for industry, and shall cause CGD to carry out Part A of the Project through BNU Timor, all with due diligence and efficiency and in conformity with appropriate administrative, environmental, financial and social practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without any limitation or restriction upon any of its other obligations under this Agreement, the Recipient shall cause CGD to perform in accordance with the provisions of the CGD Project Agreement all of the obligations of CGD therein set forth, shall, in accordance with the Project, take and cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable CGD to perform its obligations under Part A of the Project, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(c) 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 Parts B, C and D of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(d) The Recipient shall make the proceeds of the Grant allocated from time to time to Category 1 in the table in paragraph 1 of Schedule 1 to this Agreement available to CGD under a Credit Implementation Agreement to be entered into between the Recipient and CGD, under terms and conditions which shall have been approved by the Trustee.

Section 3.02. Except as the Trustee shall otherwise agree, procurement of the goods, works and consultants' services required for Parts B, C and D of 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.

Section 3.04. The Recipient and the Trustee hereby agree that 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, respectively) in respect of Part A of the Project shall be carried out by CGD pursuant to Section 2.03 of the CGD Project Agreement.

## **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 Project Management Reports or statements of expenditure, the Recipient shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate 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 Project Management Reports or 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 (k) of the General Conditions, the following additional events are specified:

(a) CGD shall have failed to perform any of its obligations under the CGD Project Agreement.

(b) As a result of events which have occurred after the date of the Grant Agreement, an extraordinary situation shall have arisen which shall make it improbable that CGD will be able to perform its obligations under the CGD Project Agreement.

(c) The Statutes shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial condition of CGD or its ability to carry out the Project or to perform any of its obligations under the CGD Project Agreement.

(d) The Recipient or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of CGD or for the suspension of its operations.

## **ARTICLE VI**

### **Effectiveness, Termination**

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

(a) that the CGD Project Agreement has been duly authorized or ratified by CGD, and is legally binding upon CGD in accordance with its terms;

(b) that the Credit Implementation Agreement has been executed on behalf of the Recipient and CGD;

(c) that an action plan for the financial management of the Project, acceptable to the Trustee, has been adopted;

(d) that the Project Implementation Unit has been established in accordance with paragraph 1 of Schedule 4 to this Agreement; and

(e) that the CGD Project Manual, acceptable to the Recipient and the Trustee, has



been issued.

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 Economic 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 for East Timor

By

/s/                      Sarah F. 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:

<b>Amount of the Grant Allocated (Expressed in</b>	<b>% of Expenditures</b>
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<u>Category</u>	<u>Dollars)</u>	<u>to be Financed</u>
(1) Loans under Part A of the Project	4,000,000	90% of Loan amount disbursed
(2) Sub-grants under Part C of the Project	1,000,000	100% of Sub-grant amount disbursed
(3) Goods under Part B of the Project (including local transportation to site)	350,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 90% of local expenditures for other items procured locally
(4) Civil works under Part B.1 (d) of the Project	150,000	100%
(5) Incremental operating costs	60,000	100%
(6) Consultants' services and training under Parts B, C and D of the Project	1,600,000	100%
(7) Unallocated (except for Categories (1) and (2))	340,000	
<b>TOTAL</b>	<b>7,500,000</b>	

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; provided, however, that for purposes of this definition, the Dollar shall be deemed the currency of a country other than that of East Timor;

(b) the term "local expenditures" means expenditures other than foreign expenditures; and

(c) the term "Incremental operating costs" means reasonable expenditures incurred by the Recipient for bank charges and Project auditing costs, and Project Implementation Unit communications and consumables, and staff travel and per diem, 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 under the Grant in respect of:

(a) payments made for expenditures prior to the date of this Agreement; and

(b) payments made for expenditures under Category 2 until (i) the Market Rehabilitation Project Manual, acceptable to the Trustee, has been adopted in accordance with paragraph 4 of Schedule 4 to this Agreement; and (ii) the Land Acquisition and Resettlement Policy Framework, acceptable to the Trustee, has been adopted by the Recipient.

4. The Trustee may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures for: (a) Loans; (b) Sub-grants; (c) goods under Category (3) costing less than \$40,000 equivalent per contract; (d) works under Category (4) costing less than \$10,000; (e) incremental operating costs; (f) training under Category (6); and (f) contracts for the employment of consulting firms valued at less than \$50,000 equivalent each and contracts for the employment of individuals valued at less than \$25,000 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 its efforts to accelerate economic growth through the generation of employment and the improvement of the competitiveness of small- and medium-sized enterprises.

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: Loans for Small- and Medium-Sized Enterprises**

Financing of specific investment projects through the provision of Loans to small- and medium-sized private enterprises.

#### **Part B: Private Sector Development Capacity Building**

##### **1. Business Development Services**

(a) Provision of technical services by Business Development Centers, to: (i) potential Loan applicants in the preparation of SME Sub-project proposals; (ii) Borrowers in the carrying out of SME Sub-projects; and (iii) rejected Loan applicants in the preparation of revised or new SME Sub-project proposals.

(b) Carrying out of relevant training programs for business associations and market-based associations.

(c) Carrying out of a train-the-trainer program in business skills and training

techniques for selected East Timorese trainers.

(d) Carrying out of maintenance works and provision of furniture and equipment to Business Development Centers.

2. Civil Servant Training on Private Sector Development

Carrying out of workshops and training in private sector development theory and practice for East Timorese civil servants of the Recipient's Department of Economic Affairs.

3. Business Regulatory Environment

Provision of technical assistance to the Recipient in the development of a business enabling environment, including preparation of drafts of proposed commercial legislation and policies.

**Part C: Market Rehabilitation**

Financing of the rehabilitation of selected marketplace facilities at the district and sub-district level through the provision of Sub-grants to Grantees.

**Part D: Project Management**

Strengthening the capacity of the Project Implementation Unit in coordinating and monitoring the Project, through the provision of technical assistance.

\* \* \*

The Project is expected to be completed by December 31, 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 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

3. To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$40,000 equivalent or more each.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Furniture estimated to cost less than \$40,000 equivalent per contract, up to an aggregate amount not to exceed \$40,000 equivalent, and works estimated to cost \$10,000 equivalent or more per contract, shall 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

Video and audio-visual equipment estimated to cost less than \$25,000 equivalent per contract, up to an aggregate amount not to exceed \$35,000, 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

Office equipment and communications equipment estimated to cost less than \$15,000 equivalent per contract, up to an aggregate amount not to exceed \$85,000, 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. Procurement of Small Works

Works required for Part B.1 (d) of the Project, estimated to cost less than \$10,000 equivalent per contract, up to an aggregate amount not to exceed \$150,000 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.

5. Community Participation

Works required for Part C of the Project and estimated to cost less than \$10,000 equivalent per contract, up to an aggregate amount not to exceed \$35,000 equivalent for each Market Rehabilitation Sub-project, may be procured in accordance with procedures acceptable to the Trustee.

Part D: Review by the Trustee of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations 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 goods estimated to cost the equivalent of \$40,000 or more and each contract for works estimated to cost the equivalent of \$10,000 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 two contracts for goods to be procured in accordance with the procedures referred to in paragraph C.2 of this Section, and the first two contracts for goods to be procured in accordance with the procedures referred to in paragraph C.3 of this Section, 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**

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. Quality-based Selection**

Services under Part B.1 (b) and (c) of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

#### **2. Selection Under a Fixed Budget**

Services under Parts B.2 and B.3 of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

#### **3. Least-cost Selection**

Services for Project auditing may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

#### **4. Individual Consultants**

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines 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 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 \$50,000 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 \$25,000 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 (a) and 2 (b) of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

### **ANNEX TO SCHEDULE 3**

#### **National Competitive Bidding Procedures**

The procedures to be followed for National Competitive Bidding under Part C.2 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 establish and, thereafter, maintain until completion of the Project, a Project Implementation Unit responsible for the coordination and monitoring of Project activities, said Unit to be provided at all times with adequate resources and staffed by qualified and experienced personnel in sufficient numbers, including:
  - (a) a Head;
  - (b) a Project advisor;
  - (c) a finance specialist;
  - (d) a business development specialist; and
  - (e) a procurement specialist.
2. In carrying out Part B.1 of the Project the Recipient shall cause the operator of the Business Development Centers to establish by not later than March 31, 2002, a fee schedule, acceptable to the Trustee, for the provision of services, such fees to be used solely to cover operational expenditures of the Business Development Centers.
3. The Recipient shall carry out Part B.1 (b) and (c) and B.2 of the Project in accordance with a training program acceptable to the Trustee.
4. In carrying out Part C of the Project the Recipient shall adopt and, thereafter, apply in the implementation of Part C of the Project, the Market Rehabilitation Project Manual, acceptable to the Trustee, which shall include the description of: (i) the criteria for the selection of Market Rehabilitation Sub-projects and the terms and conditions of Sub-grants set forth in paragraph 5 of Schedule 4 to this Agreement; (ii) the procurement procedures set forth in Schedule 3 to this Agreement and standard procurement documentation, (iii) the environmental criteria applicable to Market Rehabilitation Sub-project design including environmental impact mitigation, (iv) implementation arrangements; (v) maintenance provisions for works to be carried out under a Market Rehabilitation Sub-project, (vi) reporting requirements, financial management procedures and audit procedures as set forth in Article IV of this Agreement, and (vii) the Land Acquisition and Resettlement Policy Framework.
5. In carrying out Part C of the Project, the Recipient shall ensure that:

(a) each Market Rehabilitation Sub-project proposed under Part C of the Project shall be a public marketplace facilities rehabilitation project which is technically, financially, environmentally and socially viable, and economically justified by the number of people benefiting from it;

(b) the estimated cost of a proposed Market Rehabilitation Sub-project shall not be more than \$25,000;

(c) a Market Rehabilitation Sub-project Agreement shall be entered into between the Head of the Project Implementation Unit and the Grantee, on terms and conditions set forth in the Market Rehabilitation Project Manual; and

(d) prior to the carrying out of works under a Market Rehabilitation Sub-project, a technical review by the Deputy District Administrator, or the Deputy's designee, shall have been completed of such Market Rehabilitation Sub-project and shall have confirmed the following:

(i) the criteria described in sub-paragraph (a) of this paragraph have been complied with;

(ii) appropriate engineering and environmental standards and practices that would minimize any acquisition of land and avoid involuntary resettlement of Affected Persons have been considered in the design of the Market Rehabilitation Sub-project in accordance with the Market Rehabilitation Project Manual;

(iii) the requirements of the Land Acquisition and Resettlement Policy Framework have been complied with, and, if applicable, appropriate compensation, resettlement and rehabilitation arrangements have been completed and are satisfactory to the Affected Persons as set forth under the Land Acquisition and Resettlement Policy Framework and paragraph 6 of this Schedule;

(iv) a Market Rehabilitation Sub-project Agreement has been entered into and an implementation plan for the Market Rehabilitation Sub-project has been prepared in accordance with the provisions of the Market Rehabilitation Project Manual; and

(v) a maintenance program for the works to be carried out under the Market Rehabilitation Sub-project has been prepared in accordance with terms acceptable to the Trustee and has been included in the Market Rehabilitation Sub-project Agreement, which shall include assignment of maintenance responsibilities in the respective community and the identification of available sources of financing to carry out such programs.

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

(a) take measures to avoid or minimize the acquisition of land or assets of persons and

to avoid the displacement of said persons;

(b) 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

(c) 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.

7. 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, 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, 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

INDICATOR	Mid-term	Completion Date
Number of new jobs directly created	>800	>1,600
Number of new loans approved	>120	>200
Average value of new loans approved	\$23,000	\$23,000
Loan performance rate	>95%	>90%
Number of new enterprises created	>100	>160

Number of female loan recipients	>10%	>10%
Percentage of new jobs filled by women	>20%	>20%
Number of different Business Development Services delivered	>20	>25
Number of trainers trained and/or employed under the Project	>25	>30
Number of entrepreneurs and small business people trained under the Project	>1,000	>2,000
Number of new/improved private sector providers of business development services	>10	>15
Number of business regulatory initiatives supported by relevant technical assistance	>5	>10
Number of markets rehabilitated under the Project	>40	>40
Number of public sector officials handling private sector development policy trained under the Project	>25	>40

## SCHEDULE 6

### Special Accounts

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Category (1) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of Part A of the Project and Categories (2) through (6) set forth in said table in respect of Parts B, C and D of the Project;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, works 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 \$800,000 in respect of the Special Account for Part A of the Project (CGD Special Account) and an amount equivalent to \$700,000 in respect of the Special Account for Parts B, C and D thereof (PIU Special Account), to be withdrawn from the Grant Account and deposited into the Special Accounts pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the respective 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 respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective 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 respective 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 respective Special Account such amount or amounts as the Recipient shall have requested.

(b) (i) For replenishment of the respective Special Account, the Recipient shall furnish to the Trustee requests for deposits into the respective 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 para-graph 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 respective 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 respective 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 respective 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 any 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 Accounts;

(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 for the respective Special Account, minus the total amount of all outstanding special commitments entered into by the Trustee pursuant to Section 5.02 of the General Conditions, 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 respective 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 any 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 respective 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 any 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 any 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 Accounts.

(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.

