October 31, 2012

Mr. Vincent Ashcroft
Minister Counselor
Australian Agency for International Development
Rua dos Mártires da Pátria
PO Box 332
Dili, East Timor

Trust Fund Administration Agreement between the Commonwealth of Australia, through the Australian Agency for International Development, and the International Bank for Reconstruction and Development and the International Development Association concerning the Multi-Donor Trust Fund for the Health Sector Strategic Plan Support Project in Timor-Leste (TF No. 070953 / AusAID Agreement No. 44827)
Amendment Letter No. 2

Dear Mr. Ashcroft,

We refer to the Trust Fund Administration Agreement (the “Agreement”) for the same Project dated January 18, 2008 between the Commonwealth of Australia, through the Australian Agency for International Development (the “Donor”) and the International Bank for Reconstruction and Development ("IBRD") and the International Development Association ("IDA") (collectively, the "Bank"), as amended September 29, 2011.

We are pleased to acknowledge, on behalf of the Bank, the intention of the Donor to make a supplemental contribution to the Trust Fund in the amount of ten million seven hundred thousand Australian Dollars (AUD10,700,000) (the “Supplemental Contribution”). With this Supplemental Contribution, the total amount allocated by the Donor to this Trust Fund will now aggregate to thirty three million seven hundred thousand Australian Dollars (AUD33,700,000)¹ (the “Contribution”).

¹ Note: AUD1,000,000 was transferred to the Bank in June 2009 through AusAID Agreement No. 46420.
The Donor shall deposit the Supplemental Contribution into such bank account designated by the Bank in installments in accordance with the following schedule:

(a) on or before November 30, 2012, three million Australian Dollars (AUD 3,000,000) upon submission of a payment request by the Bank;

(b) on or before September 1, 2013, three million seven hundred thousand Australian Dollars (AUD 3,700,000) upon submission of a payment request by the Bank; and

(c) on or before September 1, 2014, four million Australian Dollars (AUD 4,000,000) upon submission of a payment request by the Bank.

The Donor reserves the right to make each such deposit upon submission of annual reports on the progress of activities and financial statements by the Bank.

When making each such deposit, the Donor shall instruct its bank to include in its payment details information (remittance advice) field of its SWIFT payment message, information indicating: the amount paid, that the payment is made by Donor for TF070953, Multi-Donor Trust Fund (MDTF) for the Health Sector Strategic Plan Support Project, and the date of the deposit. In addition, the Donor shall provide a copy of the Donor’s deposit instruction to the Bank’s Accounting Trust Funds Division by e-mail sent to tfremitadvice@worldbank.org or by fax sent to (202) 614-1315.

Immediately upon receipt of the Contribution funds, the Bank will convert such funds into United States Dollars.

Annex 1 and Annex 2 to the Agreement are amended as per Annex 1 and Annex 2 to this Amendment Letter.

Except as specifically indicated in this Amendment Letter, all terms and conditions of the Agreement otherwise remain in full force and effect.

The Bank will disclose this Agreement and related information on this Trust Fund in accordance with the World Bank Policy on Access to Information. By entering into this Agreement, the Donor consents to disclosure of this Agreement and related information on this Trust Fund.
Please confirm your understanding to the foregoing, on behalf of the Donor, by signing, dating, and returning to us one of the enclosed originals of this Amendment. Upon receipt by the Bank of the original of this Amendment countersigned by you, this Amendment will become effective as of the countersignature.

Sincerely,

International Bank for Reconstruction and Development
International Development Association

[Signature]
Ulrich Zachau
Acting Country Director
Timor-Leste, Papua New Guinea
& Pacific Islands Operations
East Asia and Pacific Region

CONFIRMED AND AGREED:

THE AUSTRALIAN AGENCY
FOR INTERNATIONAL DEVELOPMENT (AusAID)

By: [Signature]
Name: Vincent Ashcroft
Title: Country Head
Date: 13 November 2012
FMA Act S.44 Delegate
ANNEX 1

Description of Activities, Expenditures and Governance Arrangements under the Multi-Donor Trust Fund for the Health Sector Strategic Plan Support Project in Timor-Leste

1. Description of the Project

The objective of the Project is to support the Recipient to get more resources to where they are needed most to improve the delivery of health services in districts and sub-districts, through the Recipient’s linked sector plan, budget, and monitoring and evaluation approach, and the development of stronger financial management and procurement systems, capacity, and partnerships.

The Project consists of the following components:

**Component 1: Improving Public Financial Management and Fund Flows for Health Service Delivery**

Support the Recipient to assist central and district health teams to use the resources available to them more efficiently, equitably and effectively by: (a) strengthening Ministry of Health’s central and district planning and budgeting in line with the Recipient’s “One Plan, One Budget, One Sector Monitoring and Evaluation Framework” concept through the preparation of annual activity plans and budgets that are focused on improved health service delivery; (b) advocating for an increased overall health budget allocation that has adequate provision for recurrent costs for essential health service delivery across the country; and (c) increasing flexible and innovative financing, such as grants to districts, for district service delivery.

**Component 2: Strengthening Pharmaceutical and Medical Supplies Management**

Support the Recipient in ensuring adequate essential pharmaceuticals and supply availability to improve health service delivery by: (a) strengthening the clinical and logistics management capacity of the health sector; (b) strengthening regulatory capacity of the health sector; and (c) improving quality control.

**Component 3: Improving Evidence-Informed Decision Making and Health Sector Coordination**

Support the Recipient to build the capacity of central and district health teams to make evidence-informed decisions and coordinate the health sector by: (a) developing and using an agreed sector monitoring and evaluation framework to assess performance across the health sector; (b) institutionalizing health sector coordination group meetings and joint annual sector (planning and performance) reviews; and (c) strengthening the capacity to plan, conduct, approve, oversee and disseminate research in the health sector.
2. Use of Contribution Funds: Project and Activities to be financed

Proceeds from the IDA Grant and the MDTF Grant will be pooled in a Designated Account and the percentage of eligible expenditures to be financed by each grant will be determined from time to time as deemed necessary for the implementation of the Project. The Donors' Contributions allocated to this Multi-Donor Trust Fund will be used exclusively for the following purposes:

(a) For Recipient-Executed activities, eligible expenditures include: goods, works, consultants' services, non-consulting services, training, grants to Districts and operating costs.

(b) For Bank-Executed analytical and advisory activities, eligible expenditures including, staff costs, consultants’ fees, travel expenses, associated overheads, extended term consultants costs, media and workshops costs, up to a maximum of one million one hundred fifty thousand United States Dollars (US$1,150,000) may be charged to the Trust Fund.

(c) For Bank-Executed Project implementation support/supervision activities, eligible expenditures including, staff costs, consultants’ fees, travel expenses, associated overheads, extended term consultants costs, media and workshops costs, up to a maximum of two million five hundred thousand United States Dollars (US$2,500,000) may be charged to the Trust Fund.

3. Governance Arrangements

A Project Steering Committee shall be established, comprised of representatives of the Donors, the Recipient (including both Ministry of Health and Ministry of Finance) and the Bank as an observer. The Project Steering Committee will discuss key issues facing the Project and decide on priorities for Bank-executed analytical work, schedule for supervision visits, and Recipient-executed activities financed by this Trust Fund for a given year.

The Project Steering Committee will meet quarterly upon establishment and continue to meet at least bi-annually as required until the date specified in Paragraph 8.1 of Annex II to this Agreement. All decisions of the Project Steering Committee shall be made by consensus.
4. Indicative Budget for the Project (Amount in USD)

<table>
<thead>
<tr>
<th>Receipts</th>
<th>Existing</th>
<th>New</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution from AusAID (AUD)</td>
<td>23,000,000</td>
<td>10,700,000</td>
<td>33,700,000</td>
</tr>
<tr>
<td>Contribution from EU (EUR)</td>
<td>8,300,000</td>
<td></td>
<td>8,300,000</td>
</tr>
<tr>
<td><strong>MDTF (USD)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21,136,780</td>
<td>21,026,202</td>
<td></td>
<td>42,162,982</td>
</tr>
</tbody>
</table>

**Disbursements (USD)**

**Non-project**

| - Central Unit Cost Recovery²                | 169,094  | 210,262 | 379,356  |
| - Management Unit Cost Recovery (BETF, new)³ |          | 613,965 | 613,965  |

**Project**

| - Co-financing Grant Support to National Health Sector Program and Innovative Activities (RETF)⁴ | 20,000,000 | 17,701,975 | 37,701,975 |
| - AAA work in the health sector in Timor Leste (BETF)                                      | 150,000    | 1,000,000  | 1,150,000  |
| - Incremental Supervision (BETF)                                                           | 1,000,000  | 1,500,000  | 2,500,000  |

¹ New contribution in USD is estimated at the exchange rate as of July 27, 2012 (EUR 1.00= USD 1.2107 and AUD 1.00=USD 1.0259).
² 0.8% of the existing contribution and 1.0% of the new contribution (estimated).
³ 2.92% of the new contribution (estimated).
⁴ The estimated cost of the recipient executed Project from the new contribution is about USD 17.7 million. To manage exchange rate risks, the initial allocation for RETF will be set at USD 14.2 million (USD 34.2 million in total from the existing and new contributions). The existing RETF of USD 20.0 million includes about USD 0.2 million of investment income from the existing contribution (not shown in the table).
ANNEX 2

Standard Provisions Applicable to the Multi-Donor Trust Fund for the Health Sector Strategic Plan Support Project in Timor-Leste

The following provisions (hereinafter referred to as the "Standard Provisions") shall be applicable to and form an integral part of all agreements entered into between the International Bank for Reconstruction and Development ("IBRD") and the International Development Association ("IDA") (collectively, the "Bank") and donor countries and/or organizations (hereinafter referred to as the "Donors") that provide grants (referred to as the "Contributions") to be administered by the Bank for the Multi-Donor Trust Fund for the Health Sector Strategic Plan Support Project in Timor-Leste (the "Project").

1. Administration of the Contributions

1.1 The Bank shall be responsible only for performing those functions specifically set forth in this Agreement and shall not be subject to any other duties or responsibilities to the Donors, including, without limitation, any duties or obligations that might otherwise apply to a fiduciary or trustee under general principles of trust or fiduciary law. Nothing in this Agreement shall be considered a waiver of any privileges or immunities of the IBRD and IDA under their Articles of Agreement or any applicable law, all of which are expressly reserved.

1.2. The Contribution shall be administered in accordance with the Bank’s applicable policies and procedures, as the same may be amended from time to time, including its framework to prevent and combat fraud and corruption and its screening procedures to prevent the use of Bank resources to finance terrorist activity, in line with the Bank’s obligations to give effect to the relevant decisions of the Security Council, taken under Chapter VII of the UN Charter of the United Nations. The Donor acknowledges that this provision does not create any obligations of the Bank under the anti-terrorist financing and asset control laws, regulations, rules and executive orders of an individual member country that may apply to the Donor, nor shall it be deemed a waiver, express or implied, of any of the privileges and immunities of the Bank.

2. Commingling, Exchange and Investment of the Contributions

2.1. The Contributions shall be accounted for as a single trust fund and shall be kept separate and apart from the funds of the Bank. The Contributions may be commingled with other trust fund assets maintained by the Bank.

2.2. The Contributions may be freely exchanged by the Bank into other currencies as may facilitate their disbursement.

2.3. The Bank shall invest and reinvest the Contributions pending their disbursement in accordance with the Bank’s policies and procedures for the investment of trust funds administered by the Bank. The Bank shall credit all income from such investment to the trust fund established under this Agreement to be used for the same purposes as the Contributions.
3. **Administrative Cost Recovery**

3.1. In order to assist in the defrayment of the costs of administration and other expenses incurred by the Bank under this Agreement, the Bank may deduct and retain for its own account an amount equal to one percent (1%) of each Contribution from the Contributions.

3.2. In addition, costs for program management and administration up to a maximum of two and ninety-two hundredths percent (2.92%) of each Contribution will be charged to the Trust Fund on an actual basis. If the contributions increase beyond what was originally expected at the time of counter-signature of the first administration agreement, and the administrative costs increase as a result, the Donors acknowledge that an additional administrative fee may be applied to such new contributions.

4. **Grant to Recipient**

4.1. The Bank shall, as administrator on behalf of the Donors, enter into a grant agreement (the "Grant Agreement") with Timor Leste (the "Recipient") consistent with the purposes of this Agreement and on the terms and conditions set forth in the Grant Agreement. Grant Agreement may be entered into up to the maximum amount of the Contributions that all Donors have agreed to make available under the Administration Agreements between the Bank and the Donors. Upon request by a Donor, the Bank shall furnish a copy of the Grant Agreement to the Donors.

4.2. The Bank shall be solely responsible for the supervision of Project activities financed under the Grant Agreement. Subject to the consent of the Recipient, representatives of the Donors shall be invited by the Bank to participate in Bank supervision missions related to the Trust Fund.

4.3. The Bank shall promptly inform the Donors of any significant modification to the terms of any Grant Agreement and of any contractual remedies that are exercised by the Bank under any Grant Agreement. To the extent practicable, the Bank shall afford the Donors the opportunity to exchange views before effecting any such modification or exercising any such remedy.

5. **Procurement**

5.1. For Recipient-executed activities, the Grant Agreement shall provide that the Contributions shall be used by the Recipient to finance expenditures for goods, works and services, as the case may be, in accordance with the Bank's Guidelines on "Procurement under IBRD Loans and IDA Credits" and the Bank's Guidelines on the "Selection and Employment of Consultants by World Bank Borrowers", as in effect at the date of entry into the respective Grant Agreement.

5.2 For Bank-executed activities, the employment and supervision of any consultants and the procurement of any goods financed by the Contributions shall be the responsibility of the Bank and shall be carried out in accordance with its applicable policies and procedures.

6. **Accounting and Financial Reporting**
6.1. The Bank shall maintain separate records and ledger accounts in respect of the Contributions deposited in the Trust Fund account and disbursements made therefrom.

6.2. The Bank shall furnish to the Donors current financial information relating to receipts, disbursements and fund balance in the holding currency of the Trust Fund with respect to the Contributions via the World Bank’s Trust Funds Donor Center secure website. Within six (6) months after all commitments and liabilities under the Trust Fund have been satisfied and the Trust Fund has been closed, the final financial information relating to receipts, disbursements and fund balance in the holding currency of the Trust Fund with respect to the Contributions will be made available to the Donors via the World Bank’s Trust Funds Donor Center secure website.

6.3. The Bank shall provide to the Donors, within six (6) months following the end of each Bank fiscal year, an annual single audit report, comprising (1) a management assertion together with an attestation from the Bank’s external auditors concerning the adequacy of internal control over cash-based financial reporting for all cash-based trust funds as a whole; and (2) a combined financial statement for all cash-based trust funds together with the Bank’s external auditor’s opinion thereon. The cost of the single audit shall be borne by the Bank.

6.4. If a Donor wishes to request, on an exceptional basis, a financial statement audit by the Bank’s external auditors of the Trust Fund, the Donor and the Bank shall first consult as to whether such an external audit is necessary. The Bank and the Donor shall agree on the appropriate scope and terms of reference of such audit. Following agreement on the scope and terms of reference, the Bank shall arrange for such external audit. The costs of any such audit, including the internal costs of the Bank with respect to such audit, shall be paid by the requesting Donor.

6.5. The Bank shall provide the Donors with copies of all financial statements and auditors’ reports received by the Bank from the Recipient pursuant to the Grant Agreement.

7. **Project Reporting**

7.1. The Bank shall provide the Donors with an annual report on the progress of activities financed by the Contributions on or before February 28 of each year during Project implementation. Within six (6) months of the final disbursement date specified in paragraph 8.1, the Bank shall furnish to the Donors a final report on the activities financed by the Trust Fund.

7.2. Any Donor may review or evaluate activities financed by the Trust Fund. The Donor and the Bank shall agree on the scope and conduct of such review or evaluation, and the Bank shall provide all relevant information within the limits of its policies and procedures. All associated costs shall be borne by the Donor. It is understood that any such review or evaluation will not constitute a financial, compliance or other audit of the Trust Fund.

8. **Disbursement; Cancellation; Refund**
8.1. It is expected that the Contribution funds shall be fully disbursed by the Bank in accordance with the provisions of this Agreement by December 15, 2015. The Bank shall only disburse Contribution funds for the purposes of this Agreement after such date with the written approval of the Donors.

8.2. Any Donor or the Bank may, upon three (3) months' prior written notice, cancel all or part of the Donor's pro rata share of any remaining balance of the Contribution funds that is not committed pursuant to any agreements entered into between the Bank and any consultants and/or other third parties for the purposes of this Agreement prior to the receipt of such notice, including the Grant Agreement.

8.3. Upon the final disbursement date specified in paragraph 8.1, the Bank shall return any remaining balance of the Contribution funds to the Donors on a pro rata basis based on the Donors' paid Contributions. In the event of a cancellation the Bank shall promptly return to the relevant Donor or Donors the Donor's pro rata share of the uncommitted Contributions in accordance with paragraph 8.2.

9. Disclosure

The Bank will disclose this Agreement and related information on this Trust Fund in accordance with the World Bank Policy on Access to Information. By entering into this Agreement, Donors consent to disclosure of this Agreement and related information on this Trust Fund.