Development Grant Agreement

(Consolidation Support Program Development Policy Grant)

between

DEMOCRATIC REPUBLIC OF TIMOR-LESTE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated 12 December, 2005
IDR GRANT NUMBER H186 -TP

DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated 12 December, 2005, between DEMOCRATIC REPUBLIC OF TIMOR-LESTE (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Recipient has provided to the Association and to Australia, Finland, Ireland, New-Zealand, Norway, Portugal, the United Kingdom of Great Britain and Northern Ireland, and the United States of America, a letter and attached Results Matrix, dated August 2, 2005, (the Letter of Development Policy), describing a program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty (the Consolidation Support Program), declaring the Recipient’s commitment to the execution of the Consolidation Support Program, and requesting assistance from the Association in support of the components and sub-components proposed and outlined in paragraphs 36 to 46 of the Letter of Development Policy and in sections A.1 to A.4, A.6, B, and C of the attached Results Matrix (which components and sub-components are hereinafter called “the Program”) during the execution thereof;

(B) the Recipient has carried out the measures and taken the actions described in Schedule 2 to this Agreement to the satisfaction of the Association and has maintained a macroeconomic policy framework satisfactory to the Association; and

(C) on the basis, inter alia, of the foregoing, the Association has decided, in support of the Program, to provide such assistance to the Recipient by making the Grant in one tranche as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth in Schedule 3 to this Agreement (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 term “Fiscal Year” and “FY” mean the Recipient’s fiscal year starting July 1 and ending June 30.

ARTICLE II
The Grant

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to three hundred and forty two thousand Special Drawing Rights (SDR342,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b) and (c) of this Section, the Recipient shall be entitled to withdraw the proceeds of the Grant from the Grant Account in support of the Program.

(b) Except as the Association may otherwise agree: (i) all withdrawals from the Grant Account shall be deposited by the Association into an account in United States Dollars designated by the Recipient and acceptable to the Association; and (ii) the Recipient shall ensure that upon each deposit of an amount of the Grant into said account, an equivalent amount is accounted for in the Recipient’s budget management system, in a manner acceptable to the Association.

(c) The Recipient undertakes that the proceeds of the Grant shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association determines at any time that an amount of the Grant was used to make a payment for an expenditure so excluded, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of said payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

Section 2.03. The Closing Date shall be October 31, 2006, or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

Section 2.04. (a) The Recipient shall pay to the Association a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Recipient from the Grant Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.05 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or
in the territory of, the Recipient; and (iii) in United States Dollars or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of Section 4.02 of the General Conditions.

Section 2.05. Commitment charges shall be payable semiannually on April 15 and October 15 in each year.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Recipient and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program.

(b) Prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment, a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Recipient shall exchange views with the Association on any proposed action to be taken after the disbursement of the Grant which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 2 to this Agreement.

Section 3.02. Without limitation upon the provisions of Section 9.01(a) of the General Conditions, the Recipient shall promptly furnish to the Association such information relating to the provisions of Article II of this Agreement as the Association may, from time to time, reasonably request.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02(l) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.
ARTICLE V

Termination

Section 5.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Recipient; Addresses

Section 6.01. The Minister of Planning and Finance of the Recipient is designated as the representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

Ministry of Planning and Finance
Palácio do Governo
Edifício No. 5, 1º andar
Dili, Democratic Republic of Timor-Leste

Facsimile:

670-321339

For the Association:

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

Cable address: Telex: Facsimile:
INDEVAS 248423 (MCI) (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, República Democrática de Timor-Leste, as of the day and year first above written.

DEMOCRATIC REPUBLIC OF TIMOR-LESTE

By /s/ Maria Madalena Brites Boavida

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Xian Zhu

Authorized Representative
SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Grant shall not be used to finance any of the following expenditures:

1. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Association or the Bank shall have financed or agreed to finance under another credit, loan, or grant;

2. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

<table>
<thead>
<tr>
<th>Group</th>
<th>Subgroup</th>
<th>Description of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td>-</td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td>-</td>
<td>Tobacco, unmanufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td>-</td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td>-</td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td>-</td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>Group</td>
<td>Subgroup</td>
<td>Description of Items</td>
</tr>
<tr>
<td>-------</td>
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<td>----------------------</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
</tr>
<tr>
<td>971</td>
<td>-</td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
</tr>
</tbody>
</table>

3. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

4. expenditures for environmentally hazardous goods (for purposes of this paragraph the term “environmentally hazardous goods” means goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party);

5. expenditures on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

6. expenditures under a contract in respect of which the Association determines that corrupt, fraudulent, collusive, or coercive practices were engaged in by representatives of the Recipient or of a beneficiary of the Grant during the procurement or execution of such contract, without the Recipient having taken timely and appropriate action satisfactory to the Association to remedy the situation.
SCHEDULE 2

Actions Referred to in Recital (B) of the Preamble to this Agreement

1. The Recipient has appointed the Provedor de Direitos Humanos e da Justiça (Ombudsman) pursuant to the Statutes of the Ombudsman (Lei 7/2004 que Aprova os Estatutos do Provedor de Direitos Humanos e Justiça).

2. The Recipient has published the summary reports of at least seven (7) investigations carried out by the Inspector General between May 1, 2002, and May 1, 2005, which investigations did not result in a referral to the Procurador Geral da República.

3. The Recipient’s Parliament has approved the Petroleum Fund Law including the public savings policy for petroleum revenues.

4. The Recipient has adopted disciplinary regulations and procedures for its civil service in accordance with the Law on Public Service (Lei 8/2004 que Aprova o Estatuto da Função Pública).

5. The Recipient’s Parliament has approved the FY2006 Annual Budget and Medium-Term Expenditure Framework.

6. The Recipient has implemented a pilot grant mechanism for the transfer of resources to selected primary schools to improve resource availability at the primary school level.

7. The Recipient held a business forum session during FY2005 with the private sector for the identification of regulatory barriers to private investment.
SCHEDULE 3

Modifications to the General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Sections 3.02, 3.03, 3.04(a), 3.04(b), 6.05 and Article VII are deleted in their entirety.

2. Wherever used in the General Conditions, the following terms are modified to read as follows:
   (a) The term “Borrower” is modified to read “Recipient.”
   (b) The term “Credit” is modified to read “Grant.”
   (c) The term “Credit Account” is modified to read “Grant Account.”
   (d) The term “Development Credit Agreement” is modified to read “Development Grant Agreement.”

3. Section 1.01 is modified to read as follows:

   “Section 1.01. Application of General Conditions

   These General Conditions set forth the terms and conditions generally applicable to the Development Grant Agreement to the extent and subject to any modifications set forth in such agreement.”

4. Paragraph 3 of Section 2.01 is modified to read as follows:

   “3. ‘Recipient’ means the party to the Development Grant Agreement to which the Grant is made.”

5. Paragraph 12 of Section 2.01 is modified to read as follows:

   “‘Project’ means the program, referred to in the Preamble to the Development Grant Agreement, in support of which the Grant is made.”

6. Article III is modified as follows:
   (a) The heading of Article III is modified to read “Grant Account; Partial Payment,” and the heading of Section 3.04 is modified to read “Partial Payment.”
The words “The principal of, and service charges on, the Credit” in Section 3.05 are modified to read “All amounts required to be paid under the Development Grant Agreement.”

7. Article IV is modified as follows:

(a) Section 4.01 is modified to read:

“Except as the Recipient and the Association shall otherwise agree, withdrawals from the Grant account shall be made in the currency specified in Section 2.02(b) of the Development Grant Agreement; provided, however, that withdrawals in the currency of the Recipient shall be made in such currency or currencies as the Association shall from time to time reasonably select.”

(b) Section 4.02(a) is modified to read as follows:

“Section 4.02. Currencies in which Payments are to be Made

(a) The Recipient shall pay all amounts required to be paid by it under the Development Grant Agreement in the currency specified in such agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

(c) Wherever used in Section 4.02(c) and (e) of the General Conditions, the words “principal and service charges” are modified to read “amounts”.

(d) Section 4.03 is modified to read as follows:

“Section 4.03. Amount of the Grant

The amount of the Grant withdrawn from time to time shall be the equivalent in terms of SDR (determined as of the date or respective dates of withdrawal from the Grant Account) of the value of the currency or currencies so withdrawn.”

(e) Section 4.06(b) is modified to read as follows:

“(b) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without restrictions of any kind imposed by, or in the territory of, the Recipient.”
8. Section 5.01 is modified to read as follows:

“The Recipient shall be entitled to withdraw the proceeds of the Grant from the Grant Account in accordance with the provisions of the Development Grant Agreement and of these General Conditions.”

9. The last sentence of Section 5.03 is deleted.

10. Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. Treatment of Taxes

Except as otherwise provided in the Development Grant Agreement, the proceeds of the Grant may be withdrawn to pay for taxes levied by, or in the territory of, the Recipient on the goods or services to be financed under the Grant, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association’s policy of requiring economy and efficiency in the use of the proceeds of its credits and grants. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Grant is excessive or otherwise unreasonable, the Association may, by notice to the Recipient, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Grant Agreement as required to be consistent with such policy of the Association.”

11. Article VI is modified as follows:

(a) The word “credit” in paragraphs (a)(ii) and (c)(i) of Section 6.02 is replaced with the words “credit, grant or financing”.

(b) Section 6.03(c) is modified by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.
12. Section 8.01(a) is modified to read as follows:

“(a) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without deduction for, and free from, any taxes levied by, or in the territory of, the Recipient.”

13. Section 9.06(c) is modified to read as follows:

“(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Association, the Recipient shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the program referred to in the Preamble to the Development Grant Agreement, the performance by the Recipient and the Association of their respective obligations under the Development Grant Agreement and the accomplishment of the purposes of the Grant.”

14. Section 9.04 is deleted in its entirety and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.5, 9.6 and 9.07.

15. Section 12.05 and its heading are modified to read as follows:

“Section 12.05. Termination of Development Grant Agreement.

The obligations of the Recipient under the Development Grant Agreement shall terminate on the date 20 years after the date of the Development Grant Agreement.”