May 31, 2012

Her Excellency
Ms. Emilia Pires
Minister of Finance
Ministry of Finance
Palacio do Governo
Edificio 2, 1o andar
Dili
Democratic Republic of Timor-Leste

Re: Education Sector Support Project
Letter of Amendment to the AusAID Grant Agreement
(TF Number TF090564)

Excellency:

We refer to the AusAID Grant Agreement (the “Agreement”) for the Education Sector Support Project dated September 5, 2007, between the Democratic Republic of Timor-Leste and the International Development Association (the “Association”), acting as administrator of grant funds provided by the Australian Agency for International Development (the “Donor”).

We propose to amend the Agreement to increase the amount of available Grant funds by an additional two million eight hundred sixty seven thousand five hundred sixty Australian Dollars (AUD 2,867,560) (the “Additional Contribution”). The increase in Grant funds reflects additional contributions received from the Donor.

Accordingly, the Agreement is amended as follows:

1. The first paragraph of the Agreement is amended by revising the aggregate value of the Grant funds not to exceed ten million one hundred ninety seven thousand one hundred thirty eight Australian Dollars (AUD 10,197,138) (“Grant”) on the terms and conditions set forth or referred to in said Agreement.

2. Section 1.01 of the Annex to the Agreement is amended to read as follows:

3. Part C of the Project, under Section 2.01 of the Annex to the Agreement, is amended to read as follows:


1. Ensuring the quality and cost-effectiveness of the Recipient-financed construction or rehabilitation of an estimated 2,172 classrooms and financing the construction or rehabilitation of classrooms (as per sub-paragraphs 3 through 5 below) over the course of the Project. This will be done through support to MoEC’s Infrastructure Facilities Unit (IFU), including:

   (a) consultant services;

   (b) office equipment and school furniture;

   (c) operating costs;

   (d) production and dissemination of construction and maintenance guidelines and building standards;

   (e) stakeholder workshops;

   (f) building and maintaining a school mapping database;

   (g) technical review of infrastructure facilities support and updated organizational priorities and the close alignment of infrastructure planning and programme implementation to the National Education Strategic Plan, including responsiveness to Escola Básica reform priorities, community participation approaches and evidence-based infrastructure planning; and

   (h) community workshops and training related to Part C4 and C5 of the Project.

2. Reviewing: (a) school site selection procedures and criteria to help MoEC ensure that new school construction and rehabilitation is responsive to prioritized needs, especially in respect to providing access to un-served and under-served areas; and (b) locations that merit multi-grade schools.

3. Funding of Escola Básica cluster school center construction packages for a total of 53 classrooms to updated infrastructure standards including furniture, fittings and water supply.

4. Financing Community-based school maintenance using consultative approaches within the Escola Básica reform in favor of fifty (50) schools in order to maintain and complete minor renovation for a total of 259 classrooms.
5. Financing Community-based school rehabilitation and construction using consultative approaches within the *Escola Básica* reform in favour of 25 schools in remote areas in order to rehabilitate and reconstruct a total of 75 classrooms.

4. Section 2.02 of the Annex to the Agreement is amended to read as follows:

"2.02. **Project Execution Generally:** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through MoEC in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011 ("Anti-Corruption Guidelines"); and (c) Article II."

5. Section 2.03 (f) is amended to read as follows:

"(f) The Recipient shall cause MoEC to:

(i) prepare, adopt and apply a revised Environmental and Social Management Framework in form and substance satisfactory to the Association, including mitigation measures and monitoring procedures for environmental and social purposes;

(ii) prepare, adopt and apply a revised Project Operations Manual in form and substance satisfactory to the Association, including: (a) a Project overview; (b) the responsibilities of the key MoEC staff for Project activities; (c) and implementation plan; (d) financial management procedures including for community-based school maintenance and rehabilitation under Parts C4 and C5 of the Project; (e) an updated procurement plan and procurement procedures; (f) MoEC school construction and rehabilitation standards for Project activities; (g) building codes for Project activities; (h) terms of reference for all long-term technical assistance as identified in the Procurement Plan for the Education Management Information System specialist and the textbook policy and procurement specialists; (i) the revised Environmental and Social Management Framework to manage the potential social impacts on indigenous peoples and the potential environmental impacts from the proposed construction and rehabilitation of school buildings, including water and sanitation services and safe disposal of construction waste; (j) the indicators to be used in the monitoring and evaluation of the Project; and (k) a model form for the contractual arrangements with the communities under Parts C4 and C5 of the Project for the community-based school maintenance and rehabilitation; and

(iii) Not to amend, revise or waive the provisions of the revised Project Operations Manual or the revised Environmental and
6. Section 2.04 is amended to read as follows:

"2.04 Project Monitoring, Reporting and Evaluation

(a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the Provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators set forth in the Project Operations Manual. Each semi-annual progress report (including all applicable monitoring and evaluation results) shall cover the period of six months and shall be furnished to the Association not later than one month before the AJR and not later than five (5) months after each AJR.

(b) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the Association not later than July 31, 2013.”

7. (a) For the purpose of the Additional Contribution and in reference to Section 2.06 of the Agreement: (i) Section I of the “Guidelines: Procurement of Goods, works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Procurement Guidelines”), in the case of goods and works; and (ii) Section I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by the World Bank Borrowers” dated January 2011 (“Consultant Guidelines”), in the case of consultants’ services, shall apply; and

(b) In the case of contracts financed or to be financed, in whole or in part, out of the proceeds of the Grant for which the invitation to bid was issued or the request for expression of interest for the selection of consultants was advertised, prior to the date of this Letter of Amendment: (i) the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004; and


8. In Sections 2.06(c), a new procurement method is added as item (d) and the table is revised to read as follows:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding in accordance with</td>
</tr>
<tr>
<td>procedures specified in the Appendix thereto</td>
</tr>
<tr>
<td>(b) Direct Contracting</td>
</tr>
<tr>
<td>(c) Shopping</td>
</tr>
<tr>
<td>(d) Community Participation in Procurement found</td>
</tr>
<tr>
<td>acceptable to the Association as are set forth in the</td>
</tr>
<tr>
<td>revised Project Operations Manual.</td>
</tr>
</tbody>
</table>
A new section 2.07 is added to the Annex to the Agreement to read as follows:

"2.07. Community-based School Rehabilitation and Maintenance

1. To facilitate the carrying out of Parts C 4 and C 5 of the Project, the Recipient shall make parts of the proceed of the Grant available to communities for community-based school rehabilitation and maintenance in accordance with eligibility criteria and procedures acceptable to the Association, as further detailed in the Project Operations Manual.

2. The Recipient shall make such proceeds available as a Small Grant under a contractual arrangement with the respective community on terms and conditions approved by the Association, which shall include the following adequate rights to protect its interests and those of the Association, including the right to:

   (a) suspend or terminate the right of the community to use the proceeds of the Small Grant, or obtain a refund of all or any part of the amount of the Small Grant then withdrawn, upon the Community's failure to perform any of its obligations under the existing contractual arrangements; and

   (b) require each community to: (i) carry out its school rehabilitation and/or maintenance with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including in accordance with the provisions of the revised Project Operations Manual, the revised Environmental and Social Management Framework and the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Recipient; (ii) provide, promptly as needed, the resources required for the purpose of the school rehabilitation and/or maintenance; (iii) procure the goods, works and services to be financed out of said Small Grants to communities in accordance with the provisions of this Agreement; (iv) maintain procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association and included in the Project Operations Manual the progress of the school rehabilitation and maintenance and the achievement of said objectives; (v) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the school rehabilitation and/or maintenance; (vi) at the Association's or the Recipient's request, have said financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient and the Association; (vii) enable the Recipient and the Association to inspect the school rehabilitation, its operation and any relevant records and documents; and (viii) prepare and furnish to the Recipient and the Association all such
information as the Recipient or the Association shall reasonably request relating to the foregoing.

3. The Recipient shall exercise its rights under each contractual arrangement with the respective communities in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Project. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive any such contractual arrangement or any of its provisions.”

10. The table in paragraph 3.01 of the Annex to the Agreement is replaced by the table attached below:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Financing Allocated (expressed in AUD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods and consultants’ services in respect of Part A, Part B (excluding Lafaek), Part C1 (a) through (f), Part C2 and Part D of the Project</td>
<td>4,168,703</td>
<td>50% until January 31, 2013 and 0% thereafter</td>
</tr>
<tr>
<td>(2) Goods and consultants’ services in respect of Part B (Lafaek only) and Part C (excluding Consultants’ Services under Part C 1(g) and Small Grants under Parts C4 and C5 of the Project)</td>
<td>1,966,773</td>
<td>0% in FY 2008</td>
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<tr>
<td></td>
<td></td>
<td>50% in FY 2009</td>
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<td></td>
<td></td>
<td>37.5% in FY 2010</td>
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<tr>
<td></td>
<td></td>
<td>25% in FY 2011</td>
</tr>
<tr>
<td></td>
<td></td>
<td>12.5% in FY 2012 and 0% thereafter; 0% in FY 2013</td>
</tr>
<tr>
<td>(3) Incremental Operating Costs for Part A, Part B, Part C1 (a) through (f), Part C2 and Part D of the Project</td>
<td>781,823</td>
<td>50% until January 31, 2013 and 0% thereafter</td>
</tr>
<tr>
<td>(4) Training excluding Parts C1(g) and C1(h) of the Project</td>
<td>412,279</td>
<td>50% until January 31, 2013 and 0% thereafter</td>
</tr>
<tr>
<td>Category</td>
<td>Amount of the Financing Allocated (expressed in AUD)</td>
<td>Percentage of Expenditures to be Financed (inclusive of Taxes)</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>-----------------------------------------------------</td>
<td>----------------------------------------------------------------</td>
</tr>
<tr>
<td>(5) Unallocated</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>(6) Goods and Works under Part C3 of the Project, Consultants’ Services under Part C1(g) of the Project, Small Grants under Parts C4 and C5 of the Project, Training under Part C1(h) of the Project and Incremental Operating Costs under Parts C1 (g) and (h)</td>
<td>2,867,560</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>10,197,138</td>
<td></td>
</tr>
</tbody>
</table>

11. “The Closing Date in Section 3.03 of the Annex to the Agreement shall be amended to read as follows:

   “Section 3.03. Withdrawal Period. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is July 31, 2013.”

12. The expression “Environmental Management Framework” is replaced by the expression “Environmental and Social Management Framework” throughout the Agreement.

13. The following new definitions (14, 15, 16, 17, 18, and 19) are added to Article VII of the Annex to the Agreement:

   “14. “Environmental and Social Management Framework” means the document to be adopted by the Recipient and outlining general implementation procedures, mitigation measures and monitoring procedures for environmental and social purposes under the Project, as said framework may be amended from time to time with the Bank’s prior approval.
15. "Escola Básica" means the Recipient’s national school based management reform program transferring resources and management authority to the basic education school cluster level.

16. "National Education Strategic Plan" or "NESP" means the Recipient’s comprehensive strategic framework for achieving three key sector goals in education: (a) universal primary completion by 2025, (b) gender parity in management and access by 2015, and (c) eliminating illiteracy among 15-24 year olds by 2015.

17. "Small Grant" or "Small Grants" means a small grant or small grants made available or proposed to be made available to communities for community-based school rehabilitation and maintenance under Parts C 4 and C 5 of the Project in accordance with eligibility criteria and procedures acceptable to the Association, including contractual arrangement with the respective community and the Recipient on terms and conditions approved by the Association and as further detailed in the Project Operations Manual.

18. “Project Operations Manual” means a revised manual found satisfactory to the Association and to be adopted by the Recipient in accordance with Section 2.03 (f) of this Agreement, as said manual may be amended from time to time with the Association’s prior approval.

19. “World Food Programme” means the food aid arm of the United Nations system, established and operating under the World Food Programme’s mission statement adopted on December 1994.”

Unless the context otherwise requires and except where otherwise defined in this Letter of Amendment, all capitalized terms contained herein shall have the meanings assigned to them in the Agreement.

All terms of the Agreement not hereby amended shall remain in full force and effect.

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Letter of Amendment, and returning it to the Association.
This Letter of Amendment shall become effective upon its countersignature and on the date the Association notifies the Recipient of receipt by the Association of the revised Project Operations Manual and the revised Environmental and Social Management Framework, both in form and substance satisfactory to the Association.

Sincerely,

Truman Packard
Acting Country Director
Timor-Leste, Papua New Guinea
and Pacific Islands
East Asia and Pacific Region

AGREED:

DEMOCRATIC REPUBLIC OF TIMOR-LESTE

By:
Name: Emilia Pires
Title: Minister
Ministry of Finance
Government of Timor-Leste
Date: 3\1\2013

CC:
H.E. Dr. João Câncio Freitas, Minister of Education, Ministry of Education
Mr. Jorge Saldanha, Financial Manager, Ministry of Education
Mr. Almerio da Silva Reinato Soares, Project Co-ordinator, Ministry of Education
Mr. Apolinario Magno, Director-General, Corporate Services