December 9, 2010

H. E. Emilia Pires
Minister of Finance
Ministry of Finance
GPA Building 5
Dili- República Democrática de Timor-Leste

Excellency:

Re: Planning and Financial Management Capacity Building Project
(Grant No. H210-TP); Amendment to the Financing Agreement

We refer to the Financing Agreement, dated May 18, 2006 (the Financing Agreement), between the Democratic Republic of Timor-Leste (the Recipient) and the International Development Association (the Association) for the Planning and Financial Management Capacity Building Project.

We also refer to the recent reform activities undertaken by the Recipient to reorganize the structure and functions of its former Ministry of Planning and Finance into the Ministry of Finance for the purpose of strengthening the capacity of its Ministry of Finance for prudent, effective and accountable planning and management of public finances to promote growth and poverty reduction, and the Recipient’s request to amend the Financing Agreement to align its provisions with the Recipient’s reform activities.

We are pleased to advise that the Association concurs with the Recipient’s request, and proposes to amend the Financing Agreement as set forth below.

1. In Sections 3.01, 5.01 and 5.02, the term “Ministry of Planning and Finance” is changed to the term “Ministry of Finance.”

2. Schedule 1 to the Financing Agreement is amended to read in its entirety as the new Schedule 1 attached as Annex to this letter of amendment.

Except as specifically amended by the provisions of this letter of amendment, all terms and conditions of the Financing Agreement shall remain in full force and effect.

Please confirm your agreement with the foregoing on behalf of the Democratic Republic of Timor-Leste, by countersigning, dating and returning to us the enclosed copy of this letter of amendment. Upon receipt by the Association of the countersigned copy of this letter of amendment, the amendments herein shall become effective as of the date of the countersignature.
Sincerely,
INTERNATIONAL DEVELOPMENT ASSOCIATION

s/ Robert Jauncey

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Robert Jauncey
Acting Country Director
Timor-Leste, Papua New Guinea and the Pacific Islands
East Asia and Pacific Region

AGREED:
DEMOCRATIC REPUBLIC OF TIMOR-LESTE

s/ Emilia Pires

Name: Emilia Pires
Title: Minister of Finance
Date: January 28, 2011
ANNEX

SCHEDULE 1

Project Description

The objective of the Project is to strengthen the capacity of the Recipient’s Ministry of Finance for prudent, effective and accountable planning and management of public finances to promote growth and poverty reduction.

The Project consists of the following parts, subject to such modifications thereof as the Recipient and the Association may agree upon from time to time to achieve such objective:

Part A: Strengthening Capacity in the General Directorate of State Finances

1. Strengthening the Ministry of Finance’s capacity for effective, accountable, and transparent planning, budget formulation, and budget execution by:

   (a) improving the link between planning and budgeting, in collaboration with the districts, on the basis of sound information and costing through the development of new policies and procedures;

   (b) enhancing and supporting elaboration of the budget formulation system; and

   (c) enhancing budget execution through streamlining of decision functions.

2. Improving the use, access and transparency of the financial management systems in the Ministry of Finance and related financial management functions within the Recipient’s Government.

Part B: Strengthening Capacity in the General Directorate of Revenue and Customs

Improving the Ministry of Finance’s efficient and transparent administration of its financial management of revenue, including revenue collection by:

   (a) strengthening the capacity of the Domestic Revenue Directorate and the Petroleum Revenue Directorate in tax administration and revenue collection through the upgrading of systems, processes, skills, audits and accountability mechanisms, and particularly in petroleum tax administration and revenue collection; and
(b) strengthening the capacity of the Customs Directorate to implement its strategic plan and action program through the upgrading of systems, processes, skills, audits and accountability mechanisms.

Part C: Strengthening Capacity in the General Directorate of Policy Analysis and Research

(a) Supporting the Macroeconomic Directorate in the implementation of its long term plan to provide high quality macroeconomic forecasts and economic structural and fiscal policy advice, including on the petroleum fiscal regime.

(b) Supporting the Statistics Directorate to improve the availability of reliable data to inform Government policies and budget decisions.

Part D: Strengthening Capacity in the General Directorate of Corporate Services

1. Strengthening the Ministry of Finance’s accountability, integrity and service culture, including improving its core corporate support functions, operations, and human resources functions and enhancing its good governance in public financial management by:

   (a) developing the Ministry of Finance’s public service professional leadership and management to meet civil service standards through the enhancement of skills, attitudes and behaviors, and the establishment of new systems and processes; and

   (b) enhancing the Ministry of Finance’s internal control mechanisms by promoting transparency, accountability and internal audit in public financial management.

2. Strengthening executive management through support to the Minister of Finance, the Vice-Minister of Finance and their offices.

Part E: Program Implementation

    Strengthening the capacity of the Ministry of Finance’s General Directorate of Corporate Services and the Program Implementation Unit to implement the Project and to perform its regular functions, including the maintenance of operational standards, monitoring and evaluation, and results reporting.