June 15, 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: Democratic Republic of Timor-Leste: Management Strengthening Project
EFA FTI Grant No. TF012495

Excellency:

In response to the request for financial assistance made on behalf of the Democratic Republic of Timor-Leste ("Recipient"), I am pleased to inform you that the International Bank for Reconstruction and Development/International Development Association ("World Bank"), acting as administrator of grant funds provided under the Education for All (EFA) Fast Track Initiative (FTI) Catalytic Fund, proposes to extend to the Recipient, a grant in an amount not to exceed two million eight hundred thousand United States Dollars (US$2,800,000) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project").

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from Donors. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank's payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donors under the abovementioned trust fund, and the Recipient's right to withdraw the Grant proceeds is subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.

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 Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the
countersigned copy of this Agreement within ninety (90) days after the date of signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours,
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

By
Ferid Belhaj
Country Director
Timor-Leste, Papua New Guinea
& Pacific Islands Operations
East Asia and Pacific Region

AGREED:
DEMOCRATIC REPUBLIC OF TIMOR-LESTE

By
Authorized Representative
Name
Title
Date: 25 June 2012

Enclosures:

2. Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006

CC: Hon. Joao Cancio Freitas, Minister of Education
Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated February 15, 2012 ("Standard Conditions") constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement and the following additional terms shall have the following meanings:

(a) "Basic Education Priority Program 2" means the Priority Program 2 for Basic Education as specified in the Recipient’s "National Education Strategic Plan 2012-2030".

(b) "Education Management Information System" means the education sector administrative data and information system managed by the Recipient’s Ministry of Education.

(c) "Escola Basica" means the school cluster system established by the Recipient’s Ministry of Education.

(d) "Escola Basica Implementation Plan" means the Recipient’s Ministry of Education’s plan to strengthen the school clusters.

(e) "Four School Standards Pillars of Quality School Governance" means, collectively, the following pillars: (i) Quality School Governance (combining effective school leadership, democratic decision-making and responsive strategic planning); (ii), Positive School Environment (which ensures the physical and psychological wellbeing of all people within the school, develops school behavior management and encourages positive relationships with all school stakeholders (students, staff, parents and community members); (iii) Effective School Management (the administration and management of all school-based operations, including Financial, Assets, Information and Communications and Human Resource management); and (iv) Quality Learning Outcomes (with school-based programs to improve teaching and learning, curriculum implementation, teacher professionalism and assessment), as established and operating under the Recipient’s Law/Decree No. no. 7/2010 dated May 19, 2010, “Legal Regime for Administration and Management of the Basic Education System”.

(f) “INFORDEPE” means the Recipient’s National Institute for Professional Educators Training as established and operating under the Recipient’s Law/Decree No 4/2011, dated 26th January 2011 – INFORDEPE Statute (Teachers and Education Sector Training Institute.

(g) "Ministry of Education" means the Recipient’s Ministry of Education or any successor thereto.
(h) "NESP" means the Recipient’s National Education Strategic Plan as established and operating under the Recipient’s Law/Decree No. 22/2010, dated 9th December 2011, the new Organic Law of the Ministry of Education.

(i) "NESP Result 12.3" means the Strategic Plan goal of “A quality, transparent financial management system is fully achieved.”

(j) "NESP Result 12.4" means the Strategic Plan goal of “The process of monitoring and evaluating implementation of the NESP is fully supported.”

(k) “Operations Manual” means a manual to be adopted by the Recipient and found satisfactory to the World Bank and which shall contain, inter alia: (i) the terms of reference, functions and responsibilities for the personnel of the Project Implementation Unit; (ii) the procedures for procurement of goods, consultants’ services and Operating Costs, as well as for financial management and audits under the Project; (iii) the indicators to be used in the monitoring and evaluation of the Project; (iv) flow and disbursement arrangements of Project funds; and (v) the Procurement Plan, as said manual may be amended from time to time with the World Bank’s prior written approval.

(l) “Operating Costs” means the recurrent operating costs of the Project incurred by the Recipient on account of Project implementation, monitoring, evaluation, coordination and supervision, as approved by the World Bank based on annual budgets acceptable to the World Bank, which would not have been incurred but for the Project, including: (i) operation and maintenance repairs, fuel and spare parts of vehicles funded by the World Bank; (ii) equipment and computer maintenance, including hardware and software; (iii) communication costs and shipment costs (whenever these costs are not included in the cost of goods); (iv) office supplies; (v) rent for office facilities; (vi) utilities and insurances; (vii) travel and per diem costs for technical staff carrying out training, supervisory, data collection and quality control activities; and (viii) salaries of local Project administrative staff but excluding salaries of the Recipient’s civil servants.

(m) "Priority Programs” means collectively the Recipient’s Priority Program 11 (“Introducing Information Technologies and Management Information Systems”) and Priority Program 12 (“Achieving Planning and Budget Excellence”) established and operating under the Recipient’s Decree Law 22/2010, dated 9th December 2011, the new Organic Law of the Ministry of Education.

(n) “Project Implementation Unit” means a unit to be established by the Recipient to perform support functions including: procurement, disbursement, financial management, and monitoring and evaluation of Project implementation.

(o) “Public Financial Management Reform Matrix” means the matrix containing the agreed prioritized reform actions in the area of budget and financial management in the Ministry of Education.

(p) “Targeted Management Directorates” means the directorates covered under the Project in the Recipient’s Ministry of Education, i.e. the Offices of the Minister and the Vice Minister; the Office of Strategic Advice and Modernization; the Office of the Director-General of Corporate Services; the Office of the Director-General of School
Management, Innovation and Curricular Development; the Legal Advisory Office; the National Directorate of Finance and Logistics; National Directorate of Procurement; the National Directorate of Planning, Statistics and Information Technology; the National Directorate of Human Resources; the National Directorate of Basic Education; the National Institute for Professional Educators Training; the 13 District Directorates; the Basic Education Cluster Schools management teams; and any successor thereof.

Article II
Project Execution

2.01. Project Objective and Description. The objective of the Project is to support the implementation of the NESP through strengthening the capacity and systems of the Ministry of Education.

The Project consists of the following parts:

Component A: Strengthening Targeted Management Directorates

Support the Recipient to:

(1) strengthen senior management capacity in terms of sector leadership, coordination, and oversight functions in the Targeted Management Directorates in alignment with NESP priority program for general management systems in order to: (a) provide management support in the offices of the Recipient’s Minister of Education, Vice-Minister of Education and Director-Generals to ensure strategic and effective senior management and successful implementation of comprehensive capacity development actions, including partnership with an international institution in the areas of education management and organizational development; (b) provide technical support to the Recipient’s Ministry of Education coordination and oversight of management strengthening tasks, including advice towards a learning partnership with an international institution; and strengthen national, regional and district level sector management and coordination; (c) strengthen the Recipient’s Ministry of Education capacity in coordination and management of the Project; and (d) provide technical support to the development and implementation of an adequate legal framework to implement and adapt the NESP;

(2) strengthen the policy and planning capacity of Targeted Management Directorates, in alignment with NESP priority program for Basic Education Priority Program 2 to: (a) support the National Directorate of Basic Education to develop the Four School Standards Pillars of Quality School Governance, Positive School Environment, Effective School Management and Quality Learning Outcomes; (b) develop the Escola Basica Implementation Plan, including school management policy and procedures manual; and (c) develop the Escola Basica management training modules and materials, including development of systems for management by results;

(3) strengthen the development of training capacity of the Recipient’s Ministry of Education, including management training to improve service delivery by INFORDEPE to: (a) undertake a functional analysis and needs assessment reflecting its specific responsibilities to provide training to achieve NESP goals; (b) produce a capacity development plan based on the functional analysis and needs assessment; and (c) provide technical assistance to support the implementation of the capacity development plan.
Component B: Strengthening Public Financial Management and Evidence-Based Planning Capacity, including Management Information System

Support the Recipient to achieve its Priority Programs and NESP Result 12.3 and partially achieve Result 12.4 by providing:

(1) technical support to strengthened policy formulation processes and planning systems and capacity in the Recipient’s Ministry of Education;

(2) technical support to high quality and transparent financial management systems, with support to the implementation of the Public Financial Management Reform Matrix, including contribution to the establishment of a pooled fund for joint provision of external support in education through the Recipient’s systems;

(3) technical support for procurement and contract management functions in the Recipient’s Ministry of Education; and

(4) technical support to monitoring and evaluation of NESP, including to further update, maintain and upgrade the Education Management Information System and related systems.

2.02. Project Execution Generally. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project through the General Directorate for Corporate Services of the Ministry of Education 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”); (c) the Operations Manual; and (d) this Article II.

2.03. Institutional and Other Arrangements. (a) The Recipient shall, not later than three (3) months after the Effective Date: (i) establish, and thereafter maintain throughout the period of Project implementation the Project Implementation Unit to administer and coordinate the implementation of the Project, said entity to be endowed with powers, staffing (including a Project Coordinator, an executive assistant and technical staff covering, inter alia, procurement and financial management) and with terms of reference and on the basis of experience and qualifications acceptable to the World Bank as further set forth in the Operations Manual; and (ii) prepare and adopt an Operations Manual in form and substance satisfactory to the World Bank.

(b) The Recipient shall: (i) carry out the Project in accordance with the Operations Manual; and (ii) not amend the Operations Manual without the prior written approval of the World Bank. In case of any conflict between the Operations Manual and this Agreement, the terms of this Agreement shall prevail.

2.04. Donor Visibility and Visit. (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donors’ support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, enable and take all measures required on its part to enable the
representatives of the Donor(s) to visit any part of the Recipient’s territory for purposes related to the Project.

2.05. **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 acceptable to the World Bank as set forth in the Operations Manual. Each Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the World Bank not later than one (1) month after the end of the period covered by such report.

(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 World Bank not later than six (6) months after the Closing Date.

2.06. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty-five (45) days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

2.07. **Procurement**

(a) **General.** All consultants’ services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Consultant Guidelines”) in the case of consultants’ services; and

(ii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines (“Procurement Plan”).

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II, III, IV and V of the Consultant Guidelines, as the case may be.
(c) **Particular Methods of Procurement of Consultants' Services**

(i) Except as otherwise provided in item (ii) below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods, other than Quality- and Cost-based Selection, may be used for the procurement of consultants' services for those assignments which are specified in the Procurement Plan: (A) Least Cost Selection; (B) Selection based on Consultants' Qualifications; (C) Single-source Selection of consulting firms; (D) Selection of Individual Consultants; and (E) Single-source procedures for the Selection of Individual Consultants.

(d) **Review by the World Bank of Procurement Decisions.** The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.

**Article III**

**Withdrawal of Grant Proceeds**

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the category of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to the Category, and the percentage of expenditures to be financed for Eligible Expenditures in the Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Costs and consultants' services</td>
<td>2,800,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>2,800,000</td>
<td></td>
</tr>
</tbody>
</table>

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is July 31, 2015.
Article IV
Recipient's Representative; Addresses

4.01. Recipient's Representative. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is its Minister of Finance.

4.02. Recipient's Address. The Recipient's Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Finance
Palacio do Governo
Edificio 2, 1o andar
Dili
Democratic Republic of Timor-Leste

Facsimile:
(670) 331 24-67

4.03. World Bank's Address. The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

International Bank for Reconstruction and Development/International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable: INTBAFRAD
Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: 1-202-477-6391