

**Document of
The World Bank**

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**PROJECT APPRAISAL DOCUMENT
ON A
TRUST FUND FOR EAST TIMOR
IN THE AMOUNT OF US\$4.85 million
TO EAST TIMOR**

**FOR A
SMALL ENTERPRISES PROJECT**

April 17, 2000

East Asia and Pacific Region

CURRENCY EQUIVALENTS
(Exchange Rate Effective)

Currency Unit = US dollar
FISCAL YEAR
January 1 to December 31

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AUS	Australian dollar
BNU	Banco Nacional Ultramarino
CAS	Country Assistance Strategy
CEP	Community Empowerment and Local Governance Project
CNRT	Comite Nacional da Resistencia Timorese
IDA	International Development Association
NGO	Nongovernmental organization
Pertamina	Indonesian fuel company
Rp	Indonesian rupiah
TFET	Trust Fund for East Timor
UN	United Nations
UNCHS	UN Center for Human Settlements (Habitat)
UNDP	UN Development Programme
UNTAET	UN Transitional Administration in East Timor
USAID	US Agency for International Development

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**EAST TIMOR
SMALL ENTERPRISES PROJECT**

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Map No. IBRD 30860

EAST TIMOR

Small Enterprises Project

Project Appraisal Document

East Asia and Pacific Region
EASPS

Date: April 17, 2000		Team Leader: Frida Johansen	
Country Manager/Director: Klaus Rohland		Sector Manager/Director: Javed Hamid	
Project ID: P070283		Sector(s): IL - Small Scale Enterprise	
Lending Instrument: Specific Investment Grant		Theme(s): Poverty Reduction	
		Poverty Targeted Intervention: Y	
Project Financing Data			
For Loans/Credits/Others:			
Amount (US\$m): 4.85 first tranche, (a 5.0 second tranche is planned)			
Financing Plan:	Source	Local	Foreign
	GOVERNMENT	0.00	0.00
	SPECIAL FINANCING	0.00	4.85
	Total:	0.00	4.85
Borrower: RECIPIENT: UNTAET			
Responsible agency:			
Banco Nacional Ultramarino			
Address: Dili, East Timor			
Contact Person: Vasco Carrascalao da Silva			
Tel: Fax: Email: bnu.timor@arafura.net.au			
Other Agency(ies):			
Project Management Unit			
Address: UNTAET, Dili			
Contact Person: Roxana Ghiciu and Carolina Larriera			
Tel: Fax: Email: Larriera@UN.org			
Estimated disbursements (Bank FY/US\$m):			
FY	2000	2001	2002
Annual	0.7	4.1	0.1
Cumulative	0.7	4.8	4.8
Project implementation period: 04/20/00 - 12/31/01			
Expected effectiveness date: 04/20/2000 Expected closing date: 06/30/2002			

A. Project Development Objective

1. Project development objective: (see Annex 1)

The objectives of the project are to help restart economic activities viable in the private sector, through lending on commercial terms, and to promote sustainable employment, in urban areas; to prepare complementary follow on programs; and to restore essential elements of a land and property administration system.

2. Key performance indicators: (see Annex 1)

The indicators, shown in Annex 1 in more detail, relate to the following:

1. number of loans approved and disbursements
2. repayments by borrowers
3. number of jobs and sustainable businesses created
4. direct benefits and returns to the businesses
5. studies/program preparation satisfactorily completed

B. Strategic Context

1. Sector-related Country Assistance Strategy (CAS) goal supported by the project: (see Annex 1)

IDA's Transitional Assistance Strategy (TAS) for East Timor is being drafted, following from the work of the Joint Assessment Mission (JAM) to East Timor in October 1999, led by IDA. The TAS' intended primary goals are summarized below:

1. building strong democratic governance institutions; IDA's support in this area will focus on local institutions;
2. reinforcing social cohesion; IDA's support in this area will focus on interim safety nets and sustainable job creation, and on fostering the involvement of civil society organizations in consultative planning, implementation and monitoring processes;
3. maximizing long-run economic benefits from externally funded reconstruction activities; IDA will focus on quality reconstruction in the immediate post-crisis period with emphasis on school and health infrastructure needs. IDA will liaise with other agencies such as ADB, that focuses on other public infrastructure subsectors;
4. minimizing distortions caused by the presence of a large number of expatriates related to international aid; IDA will focus on rural areas and urban centers outside Dili, the capital, to counteract the migration attracted to Dili by the presence there of the international personnel and expenditures.

The project is part of IDA's immediate support for the goals under 2. and 4. above, in particular, the creation of sustainable jobs in district capitals. The project expects to help restart economic activities in the private sector through small loans to entrepreneurs, and to prepare further programs in support of the same goal, for training of businessmen/women. The project also includes a study on improving land and property administration. Loan repayments will be a resource for a future East Timor Government.

Additional Grants are envisaged in the future to finance the continuation of the programs if progress then provides justification.

2. Main sector issues and Government strategy:

Issues:

While activity is picking up, with a noticeable difference in level of activity in Dili from February to March, for example, the situation continues to be very difficult for East Timorese.

Almost no jobs or goods. Urban residents find it hard to get back on track, as there is little demand for their services; paid jobs are mainly the few provided by UNTAET or a spill-over. Most people in Dili are willing to work

on anything for Rp25,000-30,000 (\$3-5) per day; in rural areas, Rp10,000 per day. Lack of funds also means that houses destroyed are not being rehabilitated, though some assistance for shelter is materializing. Because of the destruction of all businesses in the aftermath of the popular consultation results, imported goods are scarce and expensive, though some prices are gradually returning to more normal levels. Some owners are starting to rebuild shops with "unburied" savings or repatriated funds.

Few services. Urban utilities and public services are grossly inadequate. Transport services are scant, mostly UNTAET's, but increasing numbers of private trucks and public passenger transport vehicles can be seen. Private sector support services available:

Airlines. Services are expanding; Air North operates daily the Darwin (Australia)-Dili route, Merpati operates flights Kupang (Indonesia)-Dili and Denpasar (Indonesia)-Dili. Few East Timorese can afford air travel. Free UN flights operate between Dili and Darwin, Dili and Oecussi (enclaved in West Timor) and some other destinations, but are available only for UN related travelers.

Shipping. Several shipping companies are active, mostly from Darwin but also from Surabaya, and queuing seems to be starting at Dili at least. It is reported to take up to 3 weeks, from loading at one port to complete unloading at the other. The administration of ports, initially military, has been handed over to UNTAET and is under Australian management.

Banking. No banks operated in East Timor after the popular consultations. Early 2000, the Banco Nacional Ultramarino (BNU, with headquarters in Portugal, a government owned commercial bank) opened an office in Dili, and it provides services for foreign exchange, deposits, payment of pensions, payrolls and disbursements of Portugal's humanitarian aid; and payments on behalf of UNTAET outside Dili. It has capability for electronic transfers; computer equipment of international standards (AS400) and better electronic connections are on the way. BNU intends to open a branch in Baucau, refurbish its old building in Dili, and expand services as soon as the legal procedures are clear. Westpac (Australia) has a small outlet in Dili open 3 days per week, dealing in foreign exchange. Westpac provides the banking service to UNTAET, mainly from Darwin. It is presumed that another bank will open for business soon.

Public utilities. Postal and telephone services (other than cell phones) are generally not available. At least in Dili, some electricity and water supply are available (at no cost until an administration reestablishes a payment system) and streets are in good condition. Interurban roads are in poor condition and rapidly deteriorating further, particularly under heavy military equipment use and no maintenance. Pertamina continues to supply fuel, at prices now close to Indonesia's. General garbage goes uncollected (UNTAET has an Australian company to collect UNTAET's generated garbage).

Decreasing humanitarian needs. Initial international aid was mostly directed to humanitarian needs, food and basic need supplies and peace keeping, that helped restore order and a sense of safety. Most international programs still focus on welfare programs. However, pledges for "humanitarian" needs could now be reduced; rural production should provide as much food as it can; farmer prices should not be depressed by having to compete with free food distributions. Food aid may still be justified in targeted areas, but a return to market processes is warranted especially as crops are expected to be good. Health, schooling and peace keeping services will continue to need budget support. Short term pledges for humanitarian aid total \$126 million, while \$146 million has been pledged for a Trust Fund for East Timor (TFET) managed by IDA for medium term development projects. The \$4.85 million grant proposed for this project would come from the TFET. In addition, UNTAET has a budget pledge of \$31.5 million; while the UN has a budget of some \$700 million per year for East Timor activities, that includes \$250 million for peace keeping.

Preparing for an industrial/service economy. For the medium and longer term, if East Timor is to achieve its objectives of higher wages, it needs to develop an industrial and service economy, with high value added by labor, a relatively high capital/labor ratio. The land is of relatively low productivity; even if new public investments in irrigation are made, water being the constraint, incomes from agriculture may remain relatively low. The urban areas need to be able to absorb increasing numbers of workers. Rural migrants normally enter informal, marginal, service sectors at low wages in urban areas; in the post conflict situation, urbanization is accelerating and the establishment of slums has to be avoided. East Timor needs to attract private capital to increase the productivity of its work force. Available skills are difficult to access, but workers can gradually expand in numbers and skills in line with demand.

Priority: public infrastructure. TFET funds should be invested in the public priorities, but as little as needed to make the rest of each investment or operation attractive to private commercial ventures where this is financially

feasible. This would provide leverage to available public funds. Ports and revenue earning utilities providing power, water supplies, etc. may attract foreign private sector interests that may invest in East Timor and/or at least provide efficient services under contract. Telecommunication services should be profitable enough to be fully privately funded. Still, much public infrastructure will need 100% public funding (e.g. roads, or a sewerage system, that offer few cost recovery possibilities). The public investments should be made as soon as possible. For instance, road construction priority projects should be identified, designed, costed and tendered based on international standards. This would reduce the length of time during which continued "emergency works" have to be done, and that can only have a short life and thus no long term benefit.

Priority: frameworks. To attract private capital and modern facilities to East Timor, and reduce investor risks, "frameworks" also need to be developed as soon as possible to restore normalcy: *laws*--necessary legislation should be developed and the judiciary system should function independently and impartially, with strict penalties for any illegal practice; *administration*--public administration should require only a minimum of licenses, simple processes with a "one-stop" office; a civil service to be kept at a minimum size. Decision making would be decentralized to the level that is best involved to reduce costs to the public and the private sector and enhance accountability and transparency. *Local traditional institutions* should be involved wherever this is more efficient; *peace and order* must be preserved. Of course, introducing new systems takes longer than just drafting the laws. UNTAET provides the interim administration, and will work with East Timorese nationals for them to learn on the job.

Priority: private sector businesses and capital. The sooner basic public facilities are built, business infrastructure support is right, or at least improvements have started, the sooner foreign private investment will come. East Timorese living abroad for many years are interested in investing in East Timor as soon as the risk is reduced; in particular they are interested in participating in the reconstruction effort and developing new businesses that later would be able to export competitively. But also, small East Timorese businesses need working capital to restart activities, if this is to take place relatively quickly in a widespread manner.

Strategy:

UNTAET is entrusted with the development of East Timor frameworks. Based on the 1999 Multidonor consultative meeting, the Asian Development Bank (ADB) and IDA have divided the areas of responsibility under the trust fund as follows: ADB has been entrusted with reviewing infrastructure needs and providing remedial assistance in that sector; IDA has been entrusted assistance to the private and social sectors and to rebuilding local institutions (up to sub-district level). Some examples of progress in the 3 priority areas are given below.

Framework development. By the end of March 2000, UNTAET has issued 13 regulations dealing with banking, a central payment office, business registration, legal tender, a public service commission and other matters. As lack of frameworks can be an impediment to restarting private business, impediment as binding as lack of funds, below is an overview of progress relevant to this project:

Duties. A simple system is adopted: 5% import duty on all goods plus a lump sum for some luxury and other goods; a 5% income tax; a 5% sales tax; and a 5% presumptive tax on coffee exports. The levies were effective in March.

Register of business. Registration was started in December 1999. Some 2500 registration application forms and 350 certificates were issued by end March. The register is manual (on paper forms) and will be difficult to use until it is computerized. The fee is \$10 for an individual or group and \$100 for a larger legal entity. A \$500 penalty applies for infractions.

East Timorese travel abroad. The UN in New York is discussing the matter of passports for East Timorese and it is UNTAET's intention to provide passports as soon as possible (at cost). Currently East Timorese are allowed to pass the border for emergencies only, with a temporary (3 month) travel permit at no cost. Australia accepts East Timorese travel permits and other countries are starting to accept them as well. In the meantime for foreign businesses, East Timorese seem to rely on formerly established commercial and banking connections abroad, and on cell phones. Foreigners, including expatriate East Timorese with a foreign passport, the more likely to invest, can enter and exit freely.

Property and land registration. Abandoned property is under UNTAET administration currently; UNTAET can assign/permit use of abandoned buildings. However, this does not preclude future claims by earlier private owners coming back. UNTAET provides titles to owners; there is reported to be a backlog and this creates uncertainties.

Customs and port services. The UNTAET Border Control has official entry/exit places with a Customs service only at the Dili port, and the Carabela port near Baucau. Shipments from Australia are preinspected at Australian ports, and enter Dili without another inspection. The road border to West Timor reportedly was opened in March. Quarantine inspections apply, for instance any imported timber found infested in any way would be destroyed. East Timor will have to increase standards of exports so that they can pass international quarantine requirements.

Minimum wage. UNTAET is discussing a minimum wage for East Timor, and UNDP is conducting a cost of living survey towards proposing a minimum wage level. Currently it is \$5 per day, based on the high cost of living in Dili. But, it is expected that wages will decrease with economic recovery, if determined by the market: as prices come down, wages can come down too. An official mandate on minimum wages would make it more difficult to reduce wages later. In nearby countries the daily rate for unskilled labor is about \$1 in rural areas and \$2 in the urban areas, prices in these being higher and thus wages needing to be higher just to provide the same purchasing power as in rural areas. With a 5:1-2 international ratio of labor costs, East Timor would not be competitive unless its exports are of a type that can compete with products from countries with higher income levels and wages. Even local primary products for local consumption may not be competitive with imports. And East Timor would not have the choice of devaluing, to adjust local prices to international prices, as it has adopted the US dollar as currency. With recovery, wages would decrease. It is recommended that no minimum wage be set as it could turn into fostering continued massive unemployment, inflation, and dualism in the economy, with a small modern formal sector, highly paid, and a large informal sector at subsistence level.

Aid investment projects and expenditures. The grants for IDA's Community Empowerment and Local Governance Project (CEP) and for this project are to disburse beginning in April. Other projects are mentioned in Section D. 2.

Private sector business and funding. The proposed project is intended to assist in this area.

3. Sector issues to be addressed by the project and strategic choices:

Issues

Job creation. The project endeavors to jump start the private sector, by providing capital directly to private sector entrepreneurs, who will provide jobs, and goods, and reduce poverty in urban areas.

Service and goods provision. Services and goods can develop with project financing. Private bank services, transport services and other will develop more variety and at more locations than without the project.

Resolution of "framework" constraints to private sector business development. Issues identified were mentioned above.

Strategic Choices

Quick implementation start. Only immediate priorities, with widespread beneficiaries, benefits that make them commercially viable and simple procedures that would make the investments feasible in the very short term, were identified for this project. Other programs, more oriented to the poorest population segments, will be funded under a second tranche/grant after their preparation will have been completed, in about three months from now, or other programs. A review meeting 6 months after Grant effectiveness, or earlier if the funds have been committed, will decide on additional funding for the loan program.

The following components were considered but not included in the project:

Project allocation for subgrants. Initially an allocation was made for grants to urban communities. But, this component was dropped because IDA's Community Empowerment and Local Governance Project (\$21.5 million) provides grants and other agencies also provide funding for grants (e.g. USAID has \$12 million to spend in the short term). As no other program provides loans to small businesses, this project focuses on loans.

House rehabilitation. Initially private house rehabilitation was to be eligible under project loans, because construction activities tend to have a high multiplier effect in job creation. However, because of the high expected demand for business loans and the existence of the humanitarian aid shelter program, house rehabilitation is no longer included.

New bank. CNRT wished the project help establish a commercial East Timorese bank to provide the full range of services. But, developing a domestic commercial/private bank requires quite some time. It also requires development of a "regulator"; UNTAET has passed banking regulations and expects them to be functional within a year. East Timorese businessmen need access to a bank that can operate internationally or at least domestically, provide checking accounts, saving accounts, loans, etc. that currently are not available. The main benefit of a bank from a client's point of view is quality service at lowest cost, not the ownership of the bank's capital. Foreign banks can provide additional capital and incur the cost of opening branches, given that they stand to gain from the business and do not need (and should not receive) subsidies. Thus, the project pursues development of services by international banks, and preparing the way to establish/revive domestic microcredit institutions, that can later develop broader service ranges. East Timorese with capital to invest could in the meantime form an investment corporation, that could also later broaden its business.

Loan sizes. Loans under the project start at \$500, up to \$50,000. Initially the project was to provide loans also for partial funding of business proposals beyond US\$ 100,000 but given the small Grant amount, and that larger investors are likely to have access to other funding sources, large loans/proposals were excluded. Initially also the project was to provide microcredit; the microcredit programs that operated pre-conflict no longer operate. There is much demand for smaller loans, microcredit, starting from maybe as little as \$100--that is a large amount for vendors, weavers, brick makers and other informal businesses. However, other agencies, in particular ADB, intend to fill the gap. Thus microcredit was also excluded from this project.

Funding. Project components are funded 100% from the Grant (for goods and services to be bought by the borrowers, as they provide business capital; and for consultant services). All funds are on a grant basis to the Government, and the Government is to recover the loan repayments.

C. Project Description Summary

1. Project components (see Annex 2 for a detailed description and Annex 3 for a detailed cost breakdown):

The project has 3 components:

1. *small loans for private businesses.* A credit line of \$4 million for loans in dollars, from \$500 up to \$50,000 each, to East Timorese businessmen/women. Initial equal suballocations have been made by district (there are 13 districts), as otherwise Dili might absorb the funds first, but any uncommitted suballocation by end of July 2000, may be reallocated. It is expected that disbursements for loans can start by end of April 2000. Below is a summary, and details are in Annex 2.

Loans. Individuals, groups or firms can apply for a loan (importers, traders, manufacturers, service providers; women and men with equal opportunity). Loans are to be repaid in full in up to 36 months including up to 3 months of grace period, in equal installments. A commercial interest of 10% per year applies (that results in about 1% per month with capitalization), both to select the better business proposals and to not crowd out lending by private banks. Priority uses of loans are expected to be, though not limited to, restocking by traders (mostly imports); purchases of inputs, imported or local, by manufacturers or groups; minibuses (10-12 passenger capacity); trucks (5-10 ton capacity); business centers; rehabilitation of small hotels/guesthouses/guestrooms; equipment purchases; other small businesses.

Information dissemination. Initially a notice will be posted on the main church and the administrative building of the district capitals. BNU East Timorese staff and facilitators employed as part of the project preparation activities are to go in teams to all district capitals, first to inform about the program, so that the opportunity and eligibility criteria are transparent to all, and to provide application forms and brochures; in a second round the teams will discuss business proposals and will help fill out the application forms. Applications will be received at the administrative district capital buildings or another location designated as an BNU temporary office; applicants will receive a receipt showing the number of the application, as applications will be reviewed in the sequence they were presented.

Intermediation. The Banco Nacional Ultramarino (BNU) will receive an initial payment to defray start up costs. Thereafter, BNU will provide the management of the loans based on a service fee, an initial 1.5% of the amount of loans approved and 9.5% from loan repayments. BNU will do the loan administration at its office, in Dili, and deal with borrowers and repayments also at part time outlets at each district, possibly the District administration building or

at the main church. The Grant Special Account will be in BNU. While funds repaid by BNU borrowers will be made available for new loans, at some time repayments will be returned to the Government, that is the recipient of the project Grant. It is foreseen that at the time of project completion, UNTAET or its successor, will agree with BNU about the disposition of the funds available from this component.

2. ***strengthening land and property administration.*** The uncertainty and lack of public confidence which characterizes the land property environment in East Timor, and conflicting claims on land, is leading to the risk of social disruption and constraining the urgently needed reestablishment of businesses and public services. UNCHS (Habitat) is to provide and manage technical assistance to strengthen the service delivery of UNTAET's Land and Property Commission, in the areas of land registration, cadastral survey and mapping, and land law, and for the review by the same Commission, of policies relating to land rights adjudication and allocation of public and abandoned property. The assistance is designed to prepare the basis for the development of an East Timorese institutional capacity in land administration. The lump sum cost is \$265,750.

3. ***technical assistance.*** Consultant services will be engaged to strengthen the Project Management Unit and to undertake preparation of 3 programs expected to be financed under another grant/tranche but that may be started under this project (grants to communities and training for businesses) but which could not be prepared for this tranche given the short, 2 month, preparation period. This component also covers the agreed initial fixed costs of the commercial bank that is to intermediate, administer and implement the loan component and disburse for other components, and funding to cover the cost of banking facilitators hired for a short term to assist the bank's longer term staff during the peak work period. The TA component has an allocation of \$390,000.

Project management unit. A PMU will interface with BNU, manage contracts for consultant services and submit related payment requests to BNU, have the overall reporting responsibility, and oversee the 3 program preparation efforts. The PMU is to have a manager, an environmental expert "on call", and other experts as may be found necessary, mostly East Timorese. Funding is also available for ad-hoc consultants to be hired by the PMU, such as to advise transporters on forming cooperatives; for assistance to East Timorese groups or individuals that may want to explore the formation of an investment corporation, or to make a larger private sector investments, though additional bilateral funding may be sought for foreign experts. UNTAET is seconding two junior staff to work in the PMU and is expected to provide assistance with contracting procedures and a chief financial officer. The PMU could be located within UNTAET's building, given its small size, its need for "procedural" support from UNTAET, and that an UNTAET high level staff is designated as the liaison person with IDA for the project. If the PMU is located elsewhere it will incur additional support costs that would need to be covered under the project. Estimated cost including allowances for ad-hoc experts: \$70,000.

Start up costs of BNU. BNU East Timor needs to set up facilities and acquire transportation means additional to those it has for its normal operations, in order to start carrying out the loan component of the project. BNU has started procuring the items it needs, so that dissemination activities in the district capitals can start by April 1 and office and other facilities are available for the loan program staff, most of whom are already on board. BNU would also need to set up small facilities in district capitals to handle the business during weekly visits by BNU staff, to receive loan applications or repayments. BNU is also hiring as of May 1, staff to assist under short term contracts in the heavy work, start up period. Allowances for these up front expenditures are \$75,000 for facilities in Dili, \$10,000 for facilities in other districts, and \$15,000 for short term staff. The total is thus \$100,000.

Preparation and carrying out of training programs for business. Borrowers are to be given training in accounting. But more broadly, a study will be undertaken of the training needs as expressed by businessmen and of earlier training programs now suspended but that could be restarted through an initial funding, to determine a simple training program that could also be started under the project (simple business practices, computer skills, dealing with new regulations including quarantine requirements, English, etc). Programs will endeavor to train East Timorese trainers. Distance learning methods may be considered. It is the intention to tap into existing knowledge bases, such as that of ILO that is already present in East Timor, similar programs ongoing in Brazil, and others to take advantage of material available in the Portuguese language; it is also the intention to tap other funding sources, such as bilateral aid, as expressions of interest have been received from them. Estimated cost: \$110,000.

Preparation of a program for grants to urban communities, in support of business. Most grant financing for East Timor seems destined for rural areas. But urban areas have more open unemployment and need employment programs. It is thus desired to prepare grant program(s) for the district capitals, urban communities, to provide public works, amenities or services with public benefits, in particular in support of business needs, but that are unable to cover costs fully or partially. Such activities would be linked to a simple urban planning exercise within each city /town, to encourage public discussion of the future shape of that town and a better determination of where public facilities should be located, such as a park/plaza, new market, cultural center, business center, chamber of commerce, trucking or bus terminals, etc. and of which are the priorities for the use of the grant funds. Operations plans would be required. The program would be prepared by East Timorese, with a minimum of foreign consultants. A pilot would be carried out in 2-3 towns. Estimated cost: \$110,000.

4. An amount of \$194,250 has been left unallocated, that can be used for either the loan or the TA components, though not for the UNCHS land administration component.

Disbursements. All the components will be funded 100% from the grant/TFET. Because speed is of the essence, the aim is to start disbursements to loan borrowers under the first component, by April 20. BNU is prefinancing the up front costs, in order not to delay project implementation start. A Special Account will be opened with \$700,000 at the BNU. BNU will be entrusted all disbursements for the project, that is, for loans and services. A first intensive implementation review would take place 3 months after the project start.

Component	Sector	Indicative Costs (US\$M)	% of Total	Bank-financing (US\$M)	% of Bank-financing
Loans		4.00	82.5	4.00	82.5
Support to Land and Property Admin.		0.27	5.6	0.27	5.6
Consultant Services		0.39	8.0	0.39	8.0
Unallocated		0.19	3.9	0.19	3.9
Total Project Costs		4.85	100.0	4.85	100.0
Total Financing Required		4.85	100.0	4.85	100.0

2. Key policy and institutional reforms supported by the project:

On the policy front, the project essentially seeks that there be no "framework" impediments to the development of (legal) private businesses. UNTAET has agreed that it would facilitate the following, even if at the time of project negotiations the frameworks developed were not yet allowing it:

1. Ease procedures for East Timorese to travel abroad; i.e. provide travel permits by demand, through easier and faster procedures and with longer validity periods (or passports, when the procedures have been worked out).
2. Accelerate titling, especially of non-controversial land or property (e.g. that property having a title under Portuguese and/or Indonesian regimes) as new buildings or businesses can hardly start without unchallenged land ownership. The Habitat assistance under the project may facilitate this.

On the institutional front, the project will help develop

3. banking services, under the loan component.
4. capacity in land and property administration, the basis for a future East Timorese system.
5. the institutional and legal bases for (i) communities undertaking public works or services intended to support businesses, and (ii) business training in the private sector, by East Timorese, in addition to building up the domestic capacity for undertaking preparation studies.

6. UNTAET's new Business Register; BNU will have the registration forms at hand and provide one to each borrower at the time of signing the loan agreement. It remains the responsibility of the businessperson, to register. UNTAET should make registration doable at district capitals so that borrowers from outside Dili do not need to go Dili's registration office.

The project may also assist development of business centers/chambers of commerce to support private businesses, the formation of public transport cooperatives (if requested by the borrowers for purchases of vehicles), and other activities as may be found useful to support private businesses.

3. Benefits and target population:

Pre crisis East Timor was one of the poorest provinces of Indonesia, based on the standard income-based poverty line. Poverty has greatly increased with the loss of assets, houses and businesses; now most of the population is poor.

The urban population is the project target. It is expected that borrowers are mostly from the district capitals; this is by design, as rural communities are covered under the CEP. However, the rural population will benefit as well, as it will have better trade prospects and lower service costs. The initial equal suballocations by district of the grant allocation for loans will produce more widespread benefits and it is expected, will help more poor business people as generally businesses in the capital are better off and might capture all the loan funds if there was no limit. Refugees abroad and internal migration make it difficult to pinpoint the total and urban population sizes (pre crisis population was about 850,000, with some 30% in urban areas, the largest being Dili); currently there may be 200,000 in urban areas. The initial number of borrowers will depend on the loan sizes, perhaps no more than 300; loan repayments will be used to provide new loans, so that the total number of borrowers will be higher. The project loan component should try to reach many beneficiaries rather than a few, but it is not known how demand will turn out, since repayment conditions are stringent in order to also promote sustainable banking lending.

Providing capital to enable entrepreneurs to restart economic activities has a high pay-off in a post conflict situation. The project aims at a quick start, to provide some services and goods, and enable benefits from other private sector investments and activities that may follow. In the case of trucks and buses, for instance, benefits may be the difference between lack and availability of motorized transport; the alternative may be transport by horse, cycles or on foot. Business centers may help establish contacts for importers, exporters and domestic traders; help with computerized document processing, etc. at an affordable cost, while minimizing the numbers of office equipment to be bought. Guest houses and small hotel redevelopment will provide facilities, now practically non-existing, for traders and experts, while allowing East Timorese families rather than a potential internationally owned hotel, to capture the income from the services. Small enterprises are more labor intensive and have large multiplier effects in informal sectors, so it is hoped that they can capture a good share of the funds available even though a few larger loans would require fewer reviews and repayment could be considered less risky.

The loan repayments shall be used for new loans; it was estimated, with an average repayment period of 2 years and 80% collection, that by the end of the project, \$2 million may have been re-lent, for a total of \$6 million in loans. The financial returns to borrowers is expected to be no less than 15%, and larger to the economy through indirect benefits. Surely some businesses will fail and be unable to repay the loans; but in the case of goods purchases, the goods may still produce benefits for a new owner and in the case of services, the funds spent may have funded labor services and had indirect benefits. Ultimately, a future East Timor Government shall own the funds (if the loan repayment rate is 80%, some \$3.4 million); given that any new Government will have limited revenues, having such funding will facilitate priority expenditures.

Another benefit of the project is that it helps restart commercial banking lending and should facilitate the provision of other banking services, not only in Dili but in the district capitals; by the project financing the start up costs and providing capital, it is expected that private banking can become sustainable in a near future. Currently no private bank is willing to use its own capital in East Timor as perceived risks are too high.

The benefits from the preparation studies under the project will be the institutional capacity they help create, by enabling the hiring of East Timorese consultants, and the readiness of useful new programs that could start

implementation later in calendar 2000, with design appropriate to the East Timor culture and implementation by East Timorese. The target population would continue to be that in district capitals.

4. Institutional and implementation arrangements:

The two main institutions involved are BNU and UNTAET/PMU.

BNU is key in the implementation of the loan program. BNU will:

1. establish/have capacity to screen and evaluate the loan applications, and decide which ones are funded. Even if it has no own capital at risk, BNU is to follow commercial judgement and standard commercial bank practices, and rules and criteria as defined in its Project Manual. It will provide adequate office capacity and facilities at Dili and as needed at district capitals, possibly at the District Administration buildings or at another location, and transportation means.
2. provide loans from \$500 to \$50,000; at 10% interest; with a grace period of up to 3 months if one is agreed, in which case interest is capitalized; and a maximum repayment period of 36 months (including any grace months) though the repayment period should be as short as feasible and no loan repayment should be due after August 31, 2003. BNU will provide current accounts at no cost to borrowers, and will also pay directly foreign suppliers if needed, without money transfer fees. BNU will have temporary offices and staff every week at each district capital, to receive loan applications, to post on public boards the loan numbers approved, not approved, and being considered; to provide the loan funds to borrowers and receive repayments. The initial allocation for each district is \$307,700; funds uncommitted after 3 months may be used in another district with outstanding loan applications.
3. BNU is to use the loan repayments and interest payments from borrowers, to provide additional loans until the scheduled end of the project, December 31, 2001. However, in the event that the average collection of loan and interest payments in any calendar month is (i) less than 80% of the amounts due that month under the terms of the loan agreements, UNTAET and BNU would meet within 10 days of the end of the month, to discuss the situation and determine an appropriate course of action; and (ii) 60% or less of the amounts due, BNU will suspend approving new loans until a course of action, acceptable to IDA, to remedy the situation is agreed between UNTAET and BNU.

In addition, BNU will

4. manage the Special Account on behalf of UNTAET, and disburse also for TA services approved by IDA and the PMU.
5. provide reports and statements of the operations under the loan program, to the Project Management Unit (representing UNTAET) in Dili, and to IDA: monthly succinct tables; quarterly reports; annual reports (the month of the annual report, no monthly or quarterly report is needed). Essential content of the reporting system was agreed at appraisal (Annex 6). It will also provide reports on disbursements for TA contracts.
6. allow an independent auditor to review the project accounts each year; the audits need to be available within 6 months after the end of the fiscal year. It will also allow IDA staff to review progress during supervision missions. BNU is audited by a reputable international audit firm that is acceptable to IDA; the audit by this firm, provided that it also provides more detailed audits of the loans under the project, would be acceptable.

BNU will be paid for its efforts as follows:

1. A maximum of \$75,000 is allowed for up front fixed costs, for facilities, transportation means, etc. that have to be incremental costs in relation to BNU's standard operations; up to \$10,000 is allowed for furnishing district level offices. These costs will be paid under a contract with the PMU. In the unlikely event of an early termination of BNU services, BNU and UNTAET would also discuss what to do with the facilities.

2. Operating costs are to be covered with a 1.5% fee upon loan approval and 9.5 % from repayments of loans and payment of interest, until August 30, 2003. The fee levels were calculated assuming an 80% collection rate and an average loan repayment period of 2 years, to cover monthly costs estimated at \$22,717 from May 1 to April 30, 2001 and \$13,967 thereafter, as the project director would delegate to the deputy director (at March 2000 unit costs, and on the basis of monthly salary and operating costs of 17 full time East Timorese staff for the program, of 3 BNU support staff, of 2 higher level staff and the director on a part time basis, and rental cost of office space at Dili). Total operating costs between May 1, 2000 and August 31, 2003 are estimated at \$664,000. Because BNU's net current income from the program fees are forecast to be negative at later months, BNU is to keep in reserve the surpluses expected as of May 1, 2001 (incomes from the 1.5% up front fee and the 9.5% retention from loan repayments, minus the operating cost in line with those agreed at project negotiations). Costs are to be reviewed every 6 months.
3. From January 1, 2002 to August 31, 2003, all repayment proceeds will be held in a non-interest bearing account with BNU in the name of UNTAET; the potential income from the funds would accrue to BNU. Promptly after October 31, 2003 BNU will provide UNTAET (or the successor Government) a financial statement providing full disclosure of incomes and expenditures under the loan program.

The implications of these provisions are discussed in Section E. 2, Financial analysis. Up front costs and the forecast cash flow (not including BNU's income from an UNTAET non-interest bearing account) are shown in Annex 5.

Because the supervision of IDA normally ends when the Project Grant is fully disbursed, while the loan program will continue implementation beyond this "completion" date, the above safeguard provisions and dates have been agreed with UNTAET and BNU and recorded in minutes of negotiations, to supplement the Implementation Program included in the Project Agreement. If the project completion date is changed, then BNU and the Government will agree on the disposition/use of the funds.

PMU. A Project Management Unit is to be established, essentially to manage the consultant services to be engaged under the project. It would also have "on-call" an environmental expert in case a loan proposal submitted to BNU is deemed to require review by such an expert. Establishment by UNTAET of a PMU including identification of the leader, a staffing plan and a budget, and a final financial management action plan proposal by UNTAET, are 2 conditions of effectiveness of the Grant. To the extent that BNU handles the SA, the PMU may not need to produce separate financial statements for the project.

The PMU will draft the terms of reference for the preparation of the training and grant programs, and will handle the procurement process of the required consultants to undertake the preparations.

D. Project Rationale

1. Project alternatives considered and reasons for rejection:

At this point the only alternative to that adopted to assist private sector activities and employment in urban areas, of small loans, seems to be welfare payments. Quite a number of programs are already available or foreseen mostly for labor intensive works. An additional pure welfare program seemed a worse alternative than taking business risks, because of the demoralization of people on welfare and then, the difficulty in getting out of it. Also, welfare payments generally are set to just cover subsistence needs of workers; they could hardly provide for savings towards capital costs of new ventures or jump start the economy, and would most likely have less sustainable results.

2. Major related projects financed by the Bank and/or other development agencies (completed, ongoing and planned).

A number of programs complements or is expected to complement the one proposed; their existence also delimited the number of alternatives considered. Some initiatives are under preparation, others are reported to be ready to start implementation. Information gathered from the various international or bilateral agencies is summarized in minutes available in the project file. Some relevant programs are mentioned below as reported mid-March, though the situation changes rapidly :

Community Empowerment and Local Governance Project (CEP). The TFET, CEP allocation is \$21.5 million, \$18 million for community grants, \$2 million for a cultural heritage component, and \$1 million for a civil society development fund. IDA and UNTAET signed the Grant Agreement in February 2000. Implementation activities are expected to start in April 2000 in some 22 subdistricts and expand to 60 subdistricts by the end of the year 2000, and be completed in 2.5 years. Protection of the old Dili Museum building has started with local workers, under the cultural component.

Humanitarian program for shelter. Some 3,500 kits with materials for houses have been distributed and more are on the way (comprising corrugated zinc sheets, timber posts, nails, hammers, etc.) . An assessment update of housing needs would be undertaken shortly, to determine how much additional funding is justified for housing repairs. It would also be useful to ascertain whether the kits are being used as intended.

Emergency road repair works. The UNTAET Infrastructure/Road group has prepared an emergency work program with emphasis on road drainage cleaning and improvement by labor intensive methods and the minimum necessary equipment. Negotiations were underway with 4 construction companies in East Timor, to award each of them a contract for about \$1 million, with initial funding by the United Kingdom and Norway, and follow on funding by ADB. Japan has pledged another \$1 million. The contracts are based on the UNDP model, including an anticorruption clause.

Dili administration. Some \$110,000 (other district capitals would have the same funding level) from various sources are available for quick impact programs, such as microcredit, drain cleaning, gully repairs. Police training is starting. An expected \$2.5 million would be used for sanitation in markets; beautification of the city including the waterfront; rehabilitation of a public swimming pool and addition of ball courts; youth centers including a Film Center, etc. Sponsorships will be sought for soccer tournaments. The administrator expects to need to remain up to 3 years.

Assistance to refugees wishing to return. The International Organization for Migration to Geneva based NGO, plans to assist some 300 persons over 3 years, starting in February 2000, with a grant to cover the cost of the return trip, \$500 for installation costs, up to \$2,500 for equipment, and \$100 or \$200 (those with university degrees) per month for some months.

USAID Office of Transition Initiatives. Activities totaling \$1.2 million were ongoing as of March 1, mainly labor intensive works starting in 3 pilot districts (Liquica, Aileu and Manatuto). A total of \$12 million is designated for further activities in the near future, to support community-led development, reconstruction and employment projects, to assist independent media outlets, enable East Timorese organizations, etc. The activities are coordinated with UNTAET.

Microcredit. ADB intends to prepare a microcredit project, that would complement this project.

Sector Issue	Project	Latest Supervision (PSR) Ratings (Bank-financed projects only)	
		Implementation Progress (IP)	Development Objective (DO)
Bank-financed providing funding in rural areas	East Timor Community Empowerment and Local Governance (starting in April) TF	S	S
assisting urban poor	Indonesia Urban Poverty Project (Cr. 3210)	S	S
post conflict assistance	Bosnia and Herzegovina Emergency Recovery Project	S	S
Other development agencies			

IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)

3. Lessons learned and reflected in the project design:

Speed is essential to help people in post-conflict situations. Private sector East Timorese could be consulted more than they have been, but as a feasible commercial process was identified, it was then also feasible to simply start with such normal process, and let the market decide what it wants, that is better anyway for sustainability. That is, the project has been kept simple and easy, and the identification to negotiations time very short--about 2 months (February 1 to March 30, 2000).

Relying on the national decision makers increases the chances of successful implementation. East Timorese persons were involved from the beginning in defining the project concept, some generously assisting at no cost. Information already collected by other experts was perused and data collection not duplicated. The only expatriates involved so far in this project preparation are the World Bank staff, BNU's Portuguese manager, and the UNTAET counterparts. The preparation cost has thus been kept very low; involving more persons and more time in preparation has quickly decreasing returns. The project itself allows for hiring expertise if private demand develops for it (e.g. for setting up transport cooperatives, for international experts to advise on more complex matters).

Relying on beneficiaries to decide their priorities also increases the chances of success of the project. Project experience elsewhere in the region tells that it is feasible to rely on even poor and illiterate persons to have good business judgement and to repay loans when the right incentive and framework are in place. It is also expected that only the best proposals will be funded and this enhances the success prospects. The project no longer comprises a grant component; some persons felt that grants could have lessened borrowers' sense of obligation to repay.

Transparency and social interest and pressure in seeing that loans are repaid and other persons given the opportunity to borrow, because funds are scarce, come into play. The initial socialization will provide public information on dos and don'ts, including that women shall have equal opportunity to borrow provided their proposal is good. BNU has been given incentives to perform its role for the project.

Bosnia-Herzegovina had 16 projects approved in one year (1996), also funded by a multidonor group after the crisis. One of the first projects was an Emergency Recovery Project that included lines of credit for small and medium sized enterprises and an emergency Social Fund. OED's review was favorable. For East Timor, the example of various small projects instead of fewer larger ones is followed, as the grant funding for the project may be in the 2 tranches, the second tranche including more or different components.

4. Indications of Recipient commitment and ownership:

The need for assistance to small and medium enterprises was agreed at the multi-donor consultative meeting with the involvement of East Timorese leaders/CNRT. Resumption of economic activities; reducing the unemployment in urban areas (above 90% early February; 80% mentioned in March) is urgent. Local East Timorese leaders will further, be involved in the public dissemination of information in district capitals. The project is designed to respond to the market demand, which is in line with economic policy adopted. East Timorese will be involved in the design of the new programs including the criteria and procedures; including the preparation under this project provides more time and funding for local involvement.

5. Value added of IDA support in this project:

There is limited capacity in East Timor itself to restart quickly the process of economic recovery, and few foreign private sector entrepreneurs would assist in this post conflict situation with risk capital, until some other activity has started. Knowing this, the international community has pledged assistance and funds, and IDA agreed to prepare projects deemed priority in selected sectors, drawing on its staff pool and earlier knowledge of the region. IDA may also involve more East Timorese in program preparation and implementation than other agencies would involve.

The number of loans is expected to be relatively low and only one bank is involved. Thus, monitoring by IDA can be quite easy, fast and useful. Therefore, it is intended to review progress 3 months after implementation start, by the end of July 2000, to observe closely the initial progress and determine changes, if any, needed in the loan program.

The preparation of new programs under the project should also be complete by July 2000. The PMU is also to provide a monitoring report by end of October 2000 and 2001, for a review with IDA by the end of November 2000 and 2001.

E. Summary Project Analysis (Detailed assessments are in the project file, see Annex 8)

1. Economic (see Annex 4):

NPV=US\$ million; ERR = % (see Annex 4)

◆ Other (specify)

Ex-ante, potential borrowers would expect a return on their loans to exceed the nominal interest cost of 10% per year. Ex post, some businesses will fail--this is a certainty more than a risk--but others will return more than the interest rate. No attempt has been made to quantify benefits for this report, even though 80 applications submitted to the IDA office in Dili before any official information was provided on the program, expected returns in excess of 10%, following a description of the business, expected profits and needed capital. The proposals helped determine the loan range; the maximum was increased as a result from \$25,000 to \$50,000. This new maximum should ensure that the funds from a loan are sufficient to start meaningful and profitable activities--but also may lead to a smaller number of loans. Benefits expected from the business has to be included in the loan application forms, and these will be analyzed by type of activity, gender of business owner, etc. Regular surveys will be made after a loan has been approved to ascertain actual profitability of the business, whether it is still operating, etc. This information will also be analyzed and included in the non-financial, periodic reports by BNU.

Overall, the expected return of the loan program for the economy is higher than 10% because as services and goods become available, more jobs are created and purchasing power starts revolving. And, the project may reduce price levels, as it would help increase supplies. Loans work as seed capital, with a multiplier effect. Repayment periods will be as short as possible, based on the business proposals, to enable more people to access funds; as loans are repaid and funds re-lent, the return to the original loan program allocation increases and would be higher than if the funds were used for grants. If repayment averages 80% and repayment periods average 2 years, it is estimated that loans will total \$6 million by the end of 2001, when no new loans should be issued. It will be important to monitor progress carefully, as if the seed money stops too early, for instance, more business may fail and the program may then not achieve the objectives. If loan repayments in any month are 60% or less of amounts due that month, then BNU will not approve new loans unless a course of action is been agreed with IDA and UNTAET.

The BNU costs are not an additional cost to the loan funded activities, given that the fee is deducted from loan payments and the initial BNU cost is paid from a different source. The project is providing benefits by helping restart what is hoped to become sustainable banking lending services that otherwise would be unavailable for a longer time. At the time of project identification, BNU was the only bank entering the retail business in East Timor; the alternative of hiring a consulting firm to provide the same services would have taken a longer time, would have cost as much and the sustainability probability would be lower. It will be in BNU's longer term interest to require a sound loan performance and be efficient and competitive. The adopted process should also lower costs of eventual future intermediations.

The effort to prepare new assistance programs--training, community grants in support of businesses--should have high returns for international aid funding, in that it will maximize the involvement of East Timorese in design and implementation; locally prepared programs have better chances of sustainability and cost less. New employment opportunities are important, and to the extent that East Timorese can learn on the job and can even redo some outputs and still be below international costs, it is a winning alternative. They will also be better prepared for the subsequent implementation. Nevertheless, some foreign experts may be needed, and additional bilateral grant funding may be sought for this.

Improving land and property administration is also essential, as businesses need the certainty of clear ownership of the assets before embarking on building new or repairing old buildings. However, the study under the project may not achieve as much progress as is desirable. It funds a limited number of international experts.

2. Financial (see Annex 5):

NPV=US\$ million; FRR = % (see Annex 4)

The BNU initial (up to \$85,000) and current operational costs from May 1, 2000 to August 30, 2003 (\$663,700) for the loan program have been reviewed, and with assumptions on loan repayment rates (average 80%) and periods (average 2 years), were the basis for determining the operational fee for BNU to cover estimated current costs (1.5% fee on loan approval and 9.5% from repayments) and the contract necessary to cover up front costs (if up front fixed costs had to be recovered from future fees, these would have had to be much higher). If BNU could earn 5% on the non-interest bearing reserve account, its income increases by about \$100,000. It must be noted that these numbers do not take into account the effect of negative and positive cash flow balances over time, nor are they in present value terms. In addition, BNU may profit from currency exchange requested by borrowers, and from other services it may develop in the district capitals for a larger clientele. BNU risks not covering its agreed operating costs; but it may make a profit if it is successful. The system to pay BNU provides incentives to recover loan payments and protect the principal, even while BNU does not have own capital at risk. It is likely that BNU terms may have to be reviewed later on, given the uncertainty of the assumptions.

BNU's initial and estimated operating costs result in 12.5% on the funds lent, assuming \$6 million lent, the initial \$4 million allocation and \$2 million re-lent (at the assumed 80% loan recovery). An income of 5% from the reserve account would add a BNU profit of less than 2% of the amount lent. In this scenario, about \$3.5 million are gradually recovered beginning January 1, 2002 and available by August 31, 2003 in an account for a new Government. If recovery rates are above 80%, more funds are available by the project end for the Government, and BNU would have a higher profit. And viceversa. Setting up another new intermediary entity would most likely cost more, certainly require a longer preparation period, and may not promote a sustainable lending entity.

The 10% interest rate was adopted so as to not crowd out future commercial lending, and it was generally considered to be affordable by borrowers for the type of loans considered. Rates were higher in other countries in similar circumstances. The few alternative, informal, sources of funds available in East Timor carry much higher interest rates. CNRT requested that future microcredit schemes apply an interest rate lower than 10%; a low interest rate is an objective mostly constrained by the need to cover costs, to protect the principal and promote sustainable operations by private sector entities, even if the initial capital is grant money.

No exchange rate losses or gains affect the project accounts, given East Timor's adoption of the US dollar as currency. Importers don't face exchange risk other than having a limited period to speculate for a better exchange rate for other currencies. Nevertheless, East Timorese use mostly Indonesian rupiah as they did before the conflict (especially in daily transactions for small amounts, that would require coins in dollar terms; but coins and even \$1 bills are not available while the Rp1,000 bill, equivalent to 1/7-1/6 of a US dollar, is available). The private sector is slowly providing more rupiah bills, and offering currency exchange on the street; the current buy and sell margins makes currency dealing profitable and arbitration is reducing margins. Transactions may lose in the rupiah/dollar exchange, if the borrower converts the loan, in US dollars, into rupiah and then has to repay in US dollars. This potential loss (or unlikely gain) is to be explained to borrowers when relevant--and may be another source of profit for BNU.

BNU is the only bank in East Timor providing retail services at this time. Still, BNU has to apply commercial banking criteria in the whole loan process. Project accounting, and audits to be performed by qualified auditors, are to meet standard IDA requirements. The costs and revenues should be monitorable easily based on the computerized reporting system to be set up. The Special Account can also be monitored easily, including the retentions of BNU for itself. Draft financial reporting data and forms have been discussed and agreed with BNU; any format changes should be agreed by April 30, 2000.

A financial management action plan will be required for Grant effectiveness from UNTAET. UNTAET has recruited a Project Chief Financial Officer for the Community Empowerment and Local Governance Project, with qualifications and experience acceptable to IDA. This person will also be the Chief Financial Officer for this project, and will oversee as needed the financial management by BNU, that is to handle all funds under the project.

Fiscal Impact: The fiscal impact is expected to be positive.

3. Technical:

The project did not require technical preparation but mostly, organizational and administrative processes. If vehicles were to be procured by an agent under the project, then (complicated) vehicle specifications would be needed. By allowing buyers to choose they can select their preferred option, and have a greater sense of responsibility given that the choice was theirs. Repairs or construction of buildings would follow standard practice that should be in line with the building code of the previous administration. An environmental expert is to be hired under the PMU to assist with review of environmental aspects when this may be deemed necessary. The PMU may also hire experts to assist groups interested in advice. Other technical matters arising under subprojects would be addressed as needed; borrowers could also hire short term experts under the loans.

No rate regulations will be imposed on the services to be provided by the borrowers, as they will be expected to operate in a competitive market (e.g. no maximum freight rates).

4. Institutional:

The institutional set up for project implementation was explained in an earlier section.

4.1 Executing agencies:

IDA is the Trustee of the TFET funding the project. UNTAET is the interim administration; it signs the Grant Agreement with IDA and monitors implementation through a designated senior staff, and the PMU.

4.2 Project management:

BNU is the implementation agency for the loan program and for all disbursements. The staffing of BNU in general, has been ascertained as being sufficient and qualified, while also the staffing and facilities required to implement the program have been agreed and are part of BNU's proposal. The proposal is in Annex 5.

A PMU is to manage the consultant services. UNTAET has seconded two junior staff for the PMU, and needs to provide a full PMU proposal for Grant effectiveness.

4.3 Procurement issues:

A Procurement Capacity Assessment (PCA) was carried out by the Bank on all of the procurement and executing agencies to be involved in this project and concluded that there are no major issues. Procurement under the project will be carried out with the assistance of the International Tendering Company (ITC) of the China Technology Import & Export Corporation, which is one of the state-approved and controlled international tendering companies which are certified by the central government as being proficient in international procurement. The ITC also was the procurement agency for the first Beijing Project, financed by the Bank, and is the tendering company for the ongoing ADB project.

The PCA determined that while BDC has the experience and capacity to satisfactorily conduct the procurement required in this project, the procurement units of Shihuan-Jietian and the EPB will receive adequate assistance from experienced PMO staff for procurement, and the ITC will provide additional procurement training to all three agencies. All procurement in the project will be carried out in accordance with World Bank guidelines. The PCA concluded that there are no unusual features in this project which could give rise to concern with respect to procurement matters, and considering the record of procurement implementation and management in China and in Beijing Municipality, the risks on this project are considered below average. The enactment of the national procurement law, effective from January 1, 2000, should serve to further reinforce this conclusion.

4.4 Financial management issues:

Financial Management and Disbursement: The detailed analysis and assessment of the adequacy of the project financial management system is shown in "Review of Financial Management System" (hereafter called Review) in the

project file. The results of the Review and corresponding Action Plan to address measures needed to improve capacities are included in Attachment 1 of the Review. The Review has concluded that this project meets minimum Bank financial management requirements. In terms of disbursement technique, the project will be utilizing traditional disbursement techniques as opposed to using the PMR-based disbursement system.

The status of the borrower's and the project implementing entities' compliance with audit covenants in existing Bank-financed projects is satisfactory. The auditors issued an unqualified opinion and no major outstanding issues exist with the prior project: Beijing Environment Project, with the exception of delay in counterpart funding. Details regarding agreements reached with the borrower on standards and formats for audited financial statements and timetable for their submission are shown in "Review" Section V for Internal Controls and Section VII Project Reporting Requirements.

5. Environmental: Environmental Category: **B**

5.1 Summarize the steps undertaken for environmental assessment and EMP preparation (including consultation and disclosure) and the significant issues and their treatment emerging from this analysis.

Although the specific types of investments to be financed with loans are uncertain, their size will be limited by the relatively low loan ceiling. Most are unlikely to have significant environmental impacts. Public transport vehicles (buses and trucks) would only have to meet standard emission limits and should also comply with the usual safety standards (vehicles would have to be relatively new or new). Any new or renovated buildings, such as guesthouses, should have adequate provisions for sanitation and wastewater disposal, such as septic tanks, soak-aways and drainage around the buildings; the building code applies. The BNU staff would pass on to the PMU the types of proposals pre-identified as having a potential environmental impact; the PMU is to engage an environmental consultant to be "on call" to assist with the necessary review, mitigation and monitoring measures.

The Project Manual will contain environmental principles to guide project implementation.

5.2 What mechanisms have been established to monitor and evaluate the impact of the project on the environment? Do the indicators reflect the objectives and results of the EMP?

The PMU will keep track of investments financed by loans.
No indicators specific to environmental impacts are proposed.

6. Social:

6.1 Summarize key social issues relevant to the project objectives, and specify the project's social development outcomes.

Potential social issues associated with the project: (a) unrest by many loan seekers who may not be assisted; (b) applications by women not given the same consideration as those by men; (c) larger borrowers likely to be better prepared and capture the funds available; (d) "elite" groups capturing the funds--this latter issue is complex, because elites are likely able to comply better with loan requirements and to provide employment, good management and repayment. Nevertheless, it was considered better to not have allocations by loan size. A microcredit program will be essential to provide funds for potential borrowers of smaller amounts, who may be bypassed in this program.

Names of defaulters will be made public. Groups of persons are jointly liable can apply for loans; this is expected to help women applicants.

6.2 Participatory Approach: How are key stakeholders participating in the project?

At the community meetings announcing the loan program, some preselection of genuine loan candidates is expected to take place. Overall, loans are to private parties, and the "participation" may be restricted to see that not too many similar types of businesses are proposed or approved for the same locality. It will be important that program facilitators do not discourage shy or less experienced persons.

For the preparation of programs proposed under the project, on the other hand, participation will be extensive, so that the programs can be genuinely East Timorese. Field trips, surveys, discussions, consultations are part of the envisaged preparation with East Timorese consultants or NGOs, though the time taken of East Timorese being consulted will be kept short as such time detracts from their work and potentially from their income.

7. Safeguard Policies

7.1 Do any of the following safeguard policies apply to the project?

Policy	Applicability
<u>(OP 4.01, BP 4.01, GP 4.01)</u>	Yes
<u>(OP 4.04, BP 4.04, GP 4.04)</u>	No
<u>(OP 4.36, GP 4.36)</u>	No
<u>(OP 4.09)</u>	No
<u>(OPN 11.03)</u>	No
<u>(OD 4.20)</u>	No
<u>(OD 4.30)</u>	No
<u>(OP 4.37, BP 4.37)</u>	No
<u>(OP 7.50, BP 7.50, GP 7.50)</u>	No
<u>(OP 7.60, BP 7.60, GP 7.60)</u>	No

F. Sustainability and Risks

1. Sustainability:

The program is proposed as part of the overall East Timor reconstruction effort. It is planned for a short implementation period, some 2 years; although the Grant disbursements are expected to be faster than scheduled, and the period for revolving of funds is expected to go beyond the scheduled project "completion" date (when the Grant funds will have been disbursed, the Grant closes). The services developed should remain sustainable thereafter on a commercial basis; that is a reason why loans are of a commercial type (even if BNU is not taking capital risks). BNU may want to lend its own funds after the project funds are exhausted and the public is used to the commercial terms; in fact, BNU has the potential of acquiring a customer base through the project. If at a project review it is judged that the economy received sufficient impetus, by this or other means, and that continued loans under the project could crowd out private capital, then no further loans would need to be provided. However, in a growth scenario capital will be in much demand while foreign investors are unlikely to focus on small loans; their funds could be channeled into larger ventures. Grants may be justified even if further loans are not; or vice versa, depending on other programs and progress. Sustainability of the need for the project is more likely if the recovery is not successful-- sustainable results would lead to a non-sustained program.

2. Critical Risks (reflecting assumptions in the fourth column of Annex 1)

The project overall may be high or substantial risk, even if individual ratings suggest an average modest risk.

The alternative of distributing the Grant funds to the population as open-ended grants (a negative tax or welfare), is less attractive, though it would carry fewer risks, of a different nature. Even if because of the emergency situation loans carry higher risk than usual, fear of business failures, that are bound to happen, should not stop the restart of a bank lending process. It is expected that the majority of loans will be repaid, first because there are good business opportunities, and also because of social pressure and the penalties, both formal and informal, applicable on defaulters; names of defaulters will be posted in a public place, defaulters will be ineligible for further loans, collateral can be seized. The process adopted is as commercial as feasible, given the support from the TFET and that the BNU is not putting its own capital at risk, which could lessen its scrutiny of applications and collection effort.

Risk	Risk Rating	Risk Minimization Measure
From Outputs to Objective		
Poor quality of application screening	M	BNU staff trained; large number of applications expected so that only the best, good ones are retained
Capture by elites	M	Small loan amounts, and public disclosure, would not attract the wealthier businessmen
Failure of loan financed businesses	M	Proper business screening, and training
Local NGOs, Church, help	N	Discussions at project start for their early involvement if desired
Inadequate East Timorese staff	N	BNU, good staff hired and trained; for PMU, to be selected carefully but qualified candidates are available
Inadequate training and assistance to private sector	S	Surveys to identify needs, potential providers of training and expertise, under the TA component
Few jobs created	M	Number of jobs created is given importance in loan application screening, but indirect jobs created may be more than direct ones
From Components to Outputs		
Poor mechanisms by BNU	N	BNU's staffing and implementation plan discussed extensively
Poor loan recovery	S	BNU's fee is to come from loan repayments, that provides an incentive for high collection. Also, BNU to operate in the future, wants to create a good precedent with high loan recovery practices.
Overall Risk Rating	M	

Risk Rating - H (High Risk), S (Substantial Risk), M (Modest Risk), N (Negligible or Low Risk)

3. Possible Controversial Aspects:

Delays may be more controversial than any detail of the program, even though as time passes more programs are becoming available, but none of these are for loans to East Timorese entrepreneurs.

In the World Bank, a) the provision of loans through an intermediary rather than to a borrowing entity that in turn on-lends at its own risk, is controversial; b) allowing loans to individuals rather than only to community groups (as under Social Funds) may also be controversial. However, East Timor is in a post-conflict situation, where normal circumstances barely apply, and there is a need to restart commercial processes that cannot start unless the average businessmen can obtain some financing to buy equipment and materials, cover labor costs, etc. until the product is sold. That is why the TFET funds are available--and not private foreign capital. The provision of grants for community improvements would be non controversial, but would not achieve the same end.

G. Main Grant Conditions

1. Effectiveness Conditions

There were 3 conditions for Grant effectiveness:

1. Establishment of the PMU and a staffing plan and budget.
2. A financial management action plan for the project.
3. BNU will have issued the Project Manual, acceptable to IDA, in a final version.

2. Other [classify according to covenant types used in the Legal Agreements.]

1. BNU (PA, Schedule 2) and UNTAET (GA, Schedule 4) are to prepare a monitoring and evaluation report by October 31, 2000 and October 31, 2001, and review the reports with IDA by November 30, 2000 and November 30, 2001, respectively.
2. procedures and terms and conditions of loans (PA, Schedule 1)

H. Readiness for Implementation

1. a) The engineering design documents for the first year's activities are complete and ready for the start of project implementation.
1. b) Not applicable.
2. The procurement documents for the first year's activities are complete and ready for the start of project implementation.
3. The Project Implementation Plan has been appraised and found to be realistic and of satisfactory quality.
4. The following items are lacking and are discussed under loan conditions (Section G):

BNU was ready to start implementation of the loan program by end March 2000, as soon as negotiation of the Grant Agreement between IDA and UNTAET and the Project Agreement between BNU and IDA, IDA as Trustee of the TFET funds, were complete. BNU has a Project Implementation Plan; a Project Manual including a public notice, loan application forms and brochures in 4 languages (English, Portuguese, Tetum and Indonesian), operational directives to staff, terms of reference for project staff, etc. BNU had started procurement of the facilities it needs for the program, and is prefinancing them; a contract to cover these costs is in draft, to be finalized upon Grant effectiveness. BNU has to provide a final dated plan for the missing items. Staff have been hired and trained. BNU's plans to start approving loans around the end of April.

UNCHS will prepare the land and property administration study.

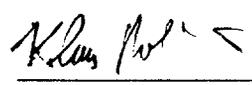
The PMU will draft terms of reference for other studies and their related procurement documents.

I. Compliance with Bank Policies

1. This project complies with all applicable Bank policies.
2. The following exceptions to Bank policies are recommended for approval. The project complies with all other applicable Bank policies.


Fryda Johansen
Team Leader


Javed Hamid
Sector Manager/Director


Klaus Rohland
Country Manager/Director

Annex 1: Project Design Summary
EAST TIMOR: Small Enterprises Project

Hierarchy of Objectives	Key Performance Indicators	Monitoring & Evaluation	Critical Assumptions
Sector-related CAS Goal: Medium term reconstruction program Poverty reduction	Sector Indicators: Economic growth estimates Poverty assessments	Sector/ country reports: Macroeconomic reports Social sector reports	(from Goal to Bank Mission) Continued law and order. Quick return of gov't to Timorese leaders. Foreign investment is attracted Recovery programs work
Project Development Objective: Restart economic activities in the private sector, urban areas, as soon as possible	Outcome / Impact Indicators: # small businesses and group activities, working	Project reports: Business surveys	(from Objective to Goal) Infrastructure and framework are not constraints.
Output from each component: Component 1: loans develop small businesses develop services banking other provide sustainable jobs Component 2: services Land administration Program preparation Training	Output Indicators: # loans approved and disbursements service availability # jobs generated PMU, efficient administration. Potential NGOs, private sector initiatives	Project reports: BNU monthly, quarterly Loan agreements PMU monthly, quarterly. Yearly audits. Public information boards and other notices.	(from Outputs to Objective) Good quality application screening No capture by elites Business can succeed in difficult circumstances PMU Timorese staff are available. Training and assistance to private sector are identified and provided.
Project Components / Sub-components: Loans Land administration study Services PMU Studies	Inputs: (budget for each component) \$4.00 million \$0.27 million \$0.39 million	Project reports: As above, and Special Account statements	(from Components to Outputs) - Good mechanisms by BNU

Small Enterprises Project
PERFORMANCE INDICATORS

	6/30/00	12/31/00	6/30/01	12/31/01
I. Inputs				
Loans				
# of requests, cum.	400	800	1000	1100
% approved	37%	30%	25%	30%
Days between request and approval, average	15	12	10	5
Disbursements, cum. \$ million	2	4.2		
Disbursements, cum. with revolving funds	2	4.5	5	6
TA, disbursements., cum. \$ million	0.1	0.2	0.2	0.2
II. Outputs				
Loans				
Cum. # of loans approved	150	220	250	300
Of which to women	>20	>30	>35	>40
# of workers	450	700	1500	2000
of which women	45	70	150	200
Cum. loan amount approved, \$m	2	4.2	5	6
Average loan size, \$	20,000	20,000	20,000	20,000
Average disbursement period, years	2	2	2	1
Repayments of capital, \$m	-	0.3	0.7	1.0
Payment of interest	.	0.1	0.3	0.4
Repayments, % of due amounts	100	>90	>80	>80
Defaults, %	-	<10	<20	<20
Amounts repaid, and revolving	-	0.3		
Land Study		completed		
TA				
TA to enterprises/training	defined	ongoing	ongoing	complete
III. Impacts				
Projected net benefits, % of loan amounts approved	>15%	>15%	>15%	>15%
Benefits by type of activity	survey	survey	survey	survey
Business still operating, %	100	>90	>80	>80

Annex 2: Project Description

EAST TIMOR: Small Enterprises Project

The project is to provide loans to small businesses, and consultant services.

By Component:

Project Component 1 - US\$4.00 million

Small loans. Commercial practices will be followed for small loans. Instruction sheets will be in four languages (alphabetical order: English, Indonesian, Portuguese and Tetum). Loan Applications are to show, in any of the four languages,

1. Personal identification (name, address, age, assets, sources and amounts of periodic income)
2. business location
3. proposed business description
4. previous experience/ongoing business
5. proposed use of the loan
6. business plan
7. financing plan
 - expected investment cost
 - financing and assets available for the business
 - sales/market expectations
 - expected revenues, operating expenses, cash flow by month
8. number of employees required, by type
9. guarantees and warrantor
10. any earlier default

Note:---No land acquisition can be financed with the loan.

Loan applications should be presented to the bank office in Dili or at the District Administrator offices, or when BNU staff and facilitators are in the districts. Applications will be logged in with standard bank practice (with a sequence number at each location; this and the date will be stamped on the application. The applicant shall receive proof of submission, with location, date and number). Incomplete applications may not be considered further by the reviewers. As it is expected that demand for loans will exceed funds available under this line of credit only the best proposals will be funded. Reviewers will verify the information provided; initial verification may have been done by facilitators.

Approvals, or denials, should be decided as soon as possible after receipt of the applications (initially a large volume may result in some delays). When an application is "approved", a Loan Agreement in any of the four languages is prepared; loan agreements are to show the repayment schedule, sanctions (for late repayment, for non repayment after attempts to obtain payment by the bank, such as repossessing the goods or the guarantee, recourse to the warrantor, exclusion of the borrower from eligibility of future loans), etc. Loan agreements would be signed within 1 week of the approval date, by the applicant and the bank; the applicant may be given an extra week to comply with some criteria. An English translation shall be made of each signed agreement.

The recipient trader/producer can do his shopping/procurement based on standard commercial practices; a borrower would look for the best deal. Disbursement of the loan should start within 2 weeks of its approval, unless an extension is justified and accepted by BNU.

The disbursement procedures are varied to reflect also different procurement processes as may be needed: For **imports of goods**, the BNU will pay directly the foreign supplier, based on the pro-forma invoice, commercial payment terms, bill of lading, etc. in the required currency. The importer is expected to have followed best commercial practices to obtain lowest evaluated prices, and will have agreed on FOB, CIF, or other terms. The title on imported equipment would remain in BNU; the goods remain as collateral, until the loan is fully paid. For **other payments in Timor**, the bank can pay in cash to the borrower, or can also pay directly the supplier of goods, works or services, based on the agreed proposal by the supplier including payment terms, even if several suppliers are involved.

The borrower agrees to repay the loan per the loan agreement even if he/she does not receive cash. Groups can designate one person to be the interlocutor with BNU, but all group members remain liable. Repayments will be made based on the agreed schedule, that will reflect the business modalities (i.e., variable repayment periods, up to 36 months and up to 3 initial months

without payment of principal and interest, that would be capitalized). Payments will be in fixed installments, in US dollars (i.e. the borrower incurs any exchange rate risk if he works in another currency). If a borrower wishes to prepay, a small penalty apply on account of the administrative work. The warrantor is fully liable in case of default by the principal.

The brochure, the loan application/agreement form are at the end of the Annex.

Probable businesses with loan financing

The loans to traders (to stock materials, goods, etc.) and small manufacturers (eg. for timber for furniture makers, materials for weaving, etc.) will not be discussed separately as they would be pretty standard. Below are more unusual projects expected to be proposed:

Loans for buying buses and trucks

Provision of essential public transport services is a priority, as currently the supply is minimum. Few vehicles are available. The project allows loans for the procurement of trucks and buses, to be paid by Timorese transporters on an installment basis. The interested parties would have to submit an application for a loan for a vehicle at one of the banks operating in Timor, and specify the basic type, specifics of the transport service to be provided, estimated cost, his experience (prior transport business would have priority), etc.. The applicants also have to submit information as that listed below for other loans. The persons having an application approved, can then concrete the purchase knowing that the loan will be available, and the loan agreement will be signed for the final amount by BNU and transporters. BNU would pay directly the vehicle supplier. Insurance against major loss will be required for the period of loan repayment. Deeds or titles would remain in BNU until the vehicle is fully paid.

Buyers may identify their own vehicle; or traders may provide the facilitation/import service; or it could be desirable to procure vehicles on a bulk basis rather than one by one by different loan recipients. Some 60 buses and 60 trucks could be purchased in a first round, and if justified, a second round could be undertaken. By purchasing in bulk, the vehicle suppliers would have to agree to set up a service office in Dili (that can be a Timorese business with a license), not necessarily to stock spare parts in Dili, but to ensure that orders can be placed promptly and delivery take place in Dili within 2-3 days of the order. The winning supplier would also have to offer to train.. Timorese mechanics, as part of the contract, so that Timorese mechanics become familiar with the vehicle. Another advantage would be some standardization in the fleet, and thus minimization of the spare part types and inventories needed. It is said that good, 1-2 year old second hand vehicles are available in Australia and Singapore, at much lower cost than new vehicles, and even second hand vehicles could be purchased in bulk. However, this may not be practical currently, and the best generic way will be researched during project preparation.

It is also possible that forming transport cooperatives would be a good solution to reduce fixed costs, improve the service of mechanics, garage, etc., but this would require more time so the option is left for project implementation, if the transporters are interested. An objective could be to provide loans to small groups or firms that would buy a 5-10 ton truck or a small bus, use it for public transport at competitive rates, and pay back the loan and interest at commercial rates. It could be desirable to form transport cooperatives, with owner-operators, but forming such cooperatives up front would take a longer time than providing loans for single vehicles. Owner operators may increase the potential for competition in the market, but loan recipients could also be assisted to group in cooperatives later.

Small public transport cooperatives are shown to be efficient, with up to 10 members, each of whom would be the owner of one vehicle but together would run the company, would share routes and schedules, administration facilities, repair facilities and mechanics, etc. If cooperatives were to be formed, interested parties could have to show they are willing to form a commercial "company", specify the responsibilities of each party, what happens in case of default in payment by one member, indicate their plans for operation and maintenance, planned fares, expected repair facilities and mechanics, etc. and present this in the request to obtain a loan from the Grant. Cooperatives would provide more guarantees than individuals. The cooperative would be liable for the repayment of the cost of buses, all owners jointly responsible for all payments on vehicles; should the cooperative members break with the agreed provisions, they would also be liable to lose the license, and the vehicles could be sold to another firm. A lender would have to deal with only a few firms instead of many individuals. It is likely that forming such groups will need help.

Loans for business service centers

Private traders and other business cannot each afford to have telephone, faxes etc but need these available close by and would pay a competitive rate for such services. The Grant can provide small loans to businessmen in each district capital, to install serviced offices providing electronic communications, fax (to send and receive faxes), phone, print, internet access, etc. with

operators at the shop. They would also have the Yellow Pages of several foreign cities, where procurement may be of interest to Timorese, so contacts/enquiries about imports can be started by fax. Businessmen may decide to provide more complete services.

Businessmen interested in setting up business centers, would have to submit proposals for a loan from the Grant, and the ones proposing the lowest borrowing amount and the best rates to the public users for a given quality of service, already having office space or plans for it, etc. would have the loan approved. The equipment could be purchased by each "winning" businessman, or if there is estimated to be advantages in bulk supply, especially for service and repairs of equipment, procurement can be by a procurement unit, if the winners so choose. Timorese could also envisage getting a "license" from a foreign business center operator, in which case that foreign firm could also provide capital.

The equipment supplier, in the case of a general procurement, would have to agree to install a service office at least in Dili, provide service contracts, and also provide an operators to train Timorese employed in the business centers.

The winning businessmen who get a loan, would have to repay the loan, per agreed schedule; they would also have an implementation agreement as under the other subprojects, and in case of default, the BNU would repossess the equipment and if need be, apply further sanctions. The title of the equipment would remain in BNU's custody until the loan is repaid. The businessmen can repay the loan faster but a penalty will apply as for the general case. A warrantor will also be required as in the general case.

Guestrooms/guesthouses/small hotels

Small loans can be given to families to install/repair one or 2 rooms to rent out. Also, businessmen could propose development or rehabilitation of smaller hotels/guesthouses; this could require more than the ceiling of \$25,000 per loan (not a problem with larger loans; or the balance would have to be provided by the applicant). There would be a cross screening wherever there is more than one group interested in a larger investment in any one district capital, taking into account the probable demand for each. Owners interested in a loan, would need to submit an application, with specific information on number of rooms, expected standard of facilities, cost of works, self financing possible for rehabilitation, amount needed to borrow, expected monthly expenditures to operate the hotel, proposed room rental price, amount expected can be paid per month in repayment of loan_all part of the standard application.

Project Component 2 - US\$0.27 million

Land and Property Administration study. The uncertainty and lack of public confidence in regards to land and property registration in East Timor may lead to social disruption by conflicting claims to land, and may be a constraint to establishment of businesses and services. The United Nations Center for Human Settlements will assist the Land and Property Commission within UNTAET, towards (a) restoring institutional capacity to provide the essential components of a formal land registration system; (b) developing national policies and procedures for the effective resolution of property disputes, (c) developing an interim building policy for the allocation of public and abandoned land which maximizes the rehabilitation of the existing building environment.

Project Component 3 - US\$ 0.39 million

Services. This component will cover

- a) the cost of the PMU staff and operations, including hiring of an East Timorese for environmental reviews and enforcement of standards under the project;
- b) preparation of future programs, such as
 - Simple training programs.* Entrepreneurs and staff need training in computer use, in accounting, in English, in bidding procedures, in quarantine regulations, etc. It is desired to also train East Timorese trainers. Secondments may be sought, foreign companies willing to take apprentices. All the borrowers under the project would be required to attend some training in basic accounting.
 - A program of grants to district capitals to support businesses.* This may result in the establishment of chambers of commerce, trucking terminals, etc.
- c) short term consultants/experts as may be found needed (e.g. for trucking cooperatives, etc.)

PUBLIC NOTICE

Attention East Timorese Women and Men Small Loans Available for Good Business Ideas

Banco Nacional Ultramarino has US\$4 million available for loans in East Timor. Each District has an equal share; if this is not used within 3 months, another district with requests may use the funds.

Eligibility for Loans

- Individuals or groups of women and/or men with viable business plans or ideas that would be able to repay the loan.
- Applicants must be East Timorese and reside in East Timor.
- Business ideas from all sectors, manufacturing, construction, transportation, trading, imports, agriculture processing, are eligible. Ineligible business activities include purchase of land; trade of arms or drugs; activities with negative environmental impact.
- Community members are encouraged to discuss the proposals.

About the Loan

- Each loan can be between US\$500 (about 3.5 million rupiah) and US\$50,000 (about 350 million rupiah).
- Loans must be repaid in full, with 10% interest per year. An initial grace period may be approved, with the interest capitalized.
- The loan repayment period can be from 3 months to a maximum 36 months; repayment will be in equal monthly installments.

How to Apply for a Loan

- During March and April, BNU representatives will visit district capitals to provide further information and application forms, and assist in filling out the forms. (See location and date details below.) Application forms also will be available at the paroquia principal and the district administration office as of April 5, 2000.
- The application form requires:
 - Ø Applicants identification
 - Ø Business description and loan amount requested.

NOTE:

Many applicants, including those with strong business plans, may not receive loans at this stage because of limited funds. Additional funding may become available depending on demand and performance. Repayments will be used to provide new loans.

The meeting to discuss business ideas of genuinely interested parties, provide application forms and their explanation will be held at:

Location:

- Ø Expected sales, income, and funds available to repay the loan.
- Ø Relevant experience (if any) and knowledge.
- Ø References and ability to guarantee the loan.
- Ø Number of workers.
- Ø Guarantors; equipment bought with loans will remain as collateral until the loan is repaid.
- Ø Community leaders will be asked to provide an opinion on the applicants.
- Ø In the case of imports, when the loan is approved in principle, another application form will be completed showing the final loan amount including the transport cost, and the bank account of the exporter for direct payment.
- Applications can be submitted beginning April 5 to BNU, the paroquia principal, or the district administration office.
- Each applicant will receive a proof of application with date and sequence number in each district. Applications will be analyzed by BNU in the order received.
- BNU will decide on final loan approval. The number of applications being processed will be posted at the district administration office. Public information also will indicate when funds are exhausted.

Loan Approval

- BNU will let all applicants know if a loan has been approved or not.
- If approved, loan agreements must be signed by the applicants and guarantors within 5 working days.
- Funds will be available to successful applicants according to the loan agreement; foreign suppliers may be paid directly.
- Strict penalties will apply for failure to repay. Names of defaulting borrowers and guarantors will also be posted in district offices. Those who repay promptly would be eligible for a second loan.

Day, time

Annex 3: Estimated Project Costs**EAST TIMOR: Small Enterprises Project**

Project Cost Component	ES\$ million	US\$ million	ES\$ million
Loans	2.00	2.00	4.00
Land administration study	0.00	0.27	0.27
Consultant Services	0.20	0.19	0.39
Total Baseline Cost	2.20	2.46	4.66
Physical Contingencies	0.10	0.09	0.19
Price Contingencies	0.00	0.00	0.00
Total Project Costs	2.30	2.55	4.85
Total Financing Required	2.30	2.55	4.85

**EAST TIMOR: Small Enterprises Project
Annex 5, Financial Analysis**



	CRÉDITO				TAXA BNU==> 9.5% Recovering percentage 80.0% Loan period 2 ANOS															
	May-00	Jun-00	Jul-00	Aug-00	Sep-00	Oct-00	Nov-00	Dec-00	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Jul-01	Aug-01	Sep-01	Oct-01		
Total Custos USD	22,717	22,717	22,717	22,717	22,717	22,717	22,717	22,717	22,717	22,717	22,717	22,717	13,967	13,967	13,967	13,967	13,967	13,967	13,967	
Empréstimos	1,000,000	1,000,000	1,000,000	1,000,000																
Soma dos recebimentos				43,367	86,734	130,100	173,467	173,467	173,467	173,467	173,467	173,467	173,467	173,467	173,467	173,467	173,467	173,467	173,467	
% p/ BNU====>				4,120	8,240	12,360	16,479	16,479	16,479	16,479	16,479	16,479	16,479	16,479	16,479	16,479	16,479	16,479	16,479	
Reaplicação						120,000	120,000	142,470	156,988	156,988	156,988	156,988	156,988	156,988	156,988	156,988	156,988	156,988	156,988	
Saldo				39,247	78,494	-2,259	36,988	14,518	0	0	0	0	0	0	0	0	0	0	156,988	
Soma dos recebimentos									5,202	10,405	17,618	24,842	32,065	39,288	46,511	53,734	60,958	68,181		
% p/ BNU====>									494	988	1,674	2,360	3,046	3,732	4,419	5,105	5,791	6,477		
Reaplicação 2												30,069	22,482	29,019	35,556	42,093	48,630	55,167		
Saldo									4,708	9,416	15,945	-7,588	6,537	6,537	6,537	6,537	6,537	6,537		
Soma dos recebimentos															1,142	2,026	3,210	4,715		
% p/ BNU====>															109	193	305	448		
Saldo																				
Saldo Acumulado																				
Soma das reaplicações efectuadas	1,000,000	1,000,000	1,000,000	1,000,000	0	120,000	120,000	142,470	156,988	156,988	156,988	187,057	179,470	186,007	192,544	199,081	205,618	205,618	55,167	
Soma dos proveitos de 1,5%	15,000	15,000	15,000	15,000	0	1,800	1,800	2,137	2,355	2,355	2,355	2,806	2,892	2,790	2,888	2,986	3,084	3,084	827	
Soma dos proveitos s/ pag.	0	0	0	4,120	8,240	12,360	16,479	16,479	16,974	17,468	18,153	18,839	19,526	20,212	21,006	21,777	22,575	23,405	23,405	
Total dos Proveitos	15,000	15,000	15,000	19,120	8,240	14,160	18,279	18,616	19,328	19,823	20,508	21,645	22,218	23,002	23,895	24,763	25,660	24,232		
Total dos Custos	22,717	22,717	22,717	22,717	22,717	22,717	22,717	22,717	22,717	22,717	22,717	22,717	13,967	13,967	13,967	13,967	13,967	13,967	13,967	
SALDO	-7,717	-7,717	-7,717	-3,597	-14,477	-8,557	-4,438	-4,101	-3,389	-2,894	-2,209	-1,072	8,251	9,035	9,928	10,796	11,693	10,265		

Nov-01	Dec-01	Jan-02	Feb-02	Mar-02	Apr-02	May-02	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	SOMA	
13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	663,680	
173,467	173,467	173,467	173,467	173,467	173,467	130,100	86,734	43,367	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3,642,814
16,479	16,479	16,479	16,479	16,479	16,479	12,360	8,240	4,120	0	0	0	0	0	0	0	0	0	0	0	0	0	0	346,067
156,988	156,988	156,988	156,988	156,988	156,988	117,741	78,494	39,247	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,501,385
75,404	82,627	82,627	82,627	82,627	82,627	82,627	82,627	82,627	82,627	82,627	77,425	72,222	65,009	57,786	50,562	43,339	36,116	28,893	21,670	14,446	7,223	1,735,171	
7,163	7,850	7,850	7,850	7,850	7,850	7,850	7,850	7,850	7,850	7,850	7,355	8,861	6,178	5,490	4,803	4,117	3,431	2,745	2,059	1,372	686	164,841	
61,704	68,241																						392,958
6,537	6,537	74,778	74,778	74,778	74,778	74,778	74,778	74,778	74,778	74,778	70,069	65,361	58,833	52,296	45,759	39,222	32,685	26,148	19,611	13,074	6,537	1,177,372	
6,571	8,657	11,158	13,960	17,224	17,224	17,224	17,224	17,224	17,224	17,224	17,224	17,224	17,224	17,224	17,224	17,224	17,224	17,224	17,224	17,224	17,224	17,224	361,482
624	823	1,060	1,326	1,636	1,636	1,636	1,636	1,636	1,636	1,636	1,636	1,636	1,636	1,636	1,636	1,636	1,636	1,636	1,636	1,636	1,636	1,636	34,341
5,947	7,644	10,096	12,634	15,588	15,588	15,588	15,588	15,588	15,588	15,588	15,588	15,588	15,588	15,588	15,588	15,588	15,588	15,588	15,588	15,588	15,588	15,588	317,101
5,947	13,781	23,888	36,522	52,110	67,698	83,285	98,873	114,461	130,049	146,636	161,224	176,812	192,399	207,987	223,575	239,163	254,750	270,338	285,926	301,513	317,101	3,403,048	
61,704	68,241	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	6,188,319
826	1,024	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	92,825
24,267	25,152	25,389	25,655	25,965	25,965	21,845	17,726	13,606	9,486	9,486	8,992	8,497	7,812	7,126	6,440	5,754	5,067	4,381	3,695	3,009	2,322	545,249	
25,193	26,176	25,389	25,655	25,965	25,965	21,845	17,726	13,606	9,486	9,486	8,992	8,497	7,812	7,126	6,440	5,754	5,067	4,381	3,695	3,009	2,322	638,074	
13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	13,967	663,680
11,226	12,209	11,422	11,688	11,998	11,998	7,878	3,759	-361	-4,481	-4,481	-4,975	-5,470	-6,155	-6,841	-7,527	-8,213	-8,900	-9,586	-10,272	-10,958	-11,645	-25,606	

EAST TIMOR: Small Enterprises Project
Annex 6: Procurement and Disbursement Arrangements

Procurement

Procurement will be in line with the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated January 1995, and revised in January and August 1996, September 1997 and January 1999. Employment of consultants and the format for consultant contracts will be based on the "Guidelines for Selection and Employment of Consultants by World Bank borrowers" of January 1997, as revised September 1997 and January 1999.

Procurement under loans will be done by the borrowers themselves; standard commercial practices that will be followed by borrowers are acceptable to IDA. The bulk of the funds may be used to procure goods, mostly imports, but given the ceiling on loans, of \$50,000, no ICB nor NCB is involved. Recipients of loans are expected to follow standard commercial practices and to seek the best evaluated price, as this is in their own interest. Nevertheless, BNU will be required to check on the reasonableness of prices quoted in the loan applications, as it should be able to do by comparing across loan applications.

BNU is the only commercial bank able to manage the loan program, and is interested in doing it at a competitive cost. Thus BNU has entered into a Project Agreement with IDA. BNU will also have a contract with UNTAET for the start up period; another contract may be entered into after the Grant is fully disbursed.

The project will strengthen the PMU. Staff/consultants for the Project Management Unit, expected to be East Timorese, will be hired following a screening of candidates. The team leader would be hired first, under a contract with UNTAET. Then other staff/consultants may be hired by the team leader, selected based on quality (QBS) following an IDA practice. However, due to the paucity of expertise in East Timor, it may be difficult obtaining expressions of interest.

Because of the above, it is not meaningful to draft a project procurement plan.

Also, there is no procurement agency at the moment to assess.

Table A: Project Costs by Procurement Arrangements
(US\$ million equivalent)

Procurement Category	Procurement Method				
	ICB	NCB	QBS	QBS	QBS
Works	0.00 (0.00)	0.00 (0.00)	1.00 (1.00)	0.00 (0.00)	1.00 (1.00)
Goods	0.00 (0.00)	0.00 (0.00)	3.00 (3.00)	0.00 (0.00)	3.00 (3.00)
Services	0.00 (0.00)	0.00 (0.00)	0.85 (0.85)	0.00 (0.00)	0.85 (0.85)
Miscellaneous	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Total	0.00 (0.00)	0.00 (0.00)	4.85 (4.85)	0.00 (0.00)	4.85 (4.85)

- 1/ Figures in parenthesis are the amounts to be financed by the . All costs include contingencies
- 2/ Includes civil works and goods expected to be procured by the borrowers following commercial practices, consulting services, services of contracted staff of the project management office, training, technical assistance services, and incremental operating costs related to managing the project.

Table A1: Consultant Selection Arrangements (optional)
(US\$ million equivalent)

Consultant Services Expenditure Category	Selection Method							Total Cost ¹
	QCBS	QBS	SFB	LCS	CQ	Other	N.B.F.	
A. Firms	0.00 (0.00)	0.36 (0.36)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.36 (0.36)
B. Individuals	0.00 (0.00)	0.29 (0.29)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.29 (0.29)
Total	0.00 (0.00)	0.65 (0.65)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.65 (0.65)

1\ Including contingencies

Note: QCBS = Quality- and Cost-Based Selection

QBS = Quality-based Selection

SFB = Selection under a Fixed Budget

LCS = Least-Cost Selection

CQ = Selection Based on Consultants' Qualifications

Other = Selection of individual consultants (per Section V of Consultants Guidelines), Commercial Practices, etc.

N.B.F. = Not Bank-financed

Figures in parenthesis are the amounts to be financed by the Bank

Table B: Thresholds for Procurement Methods and Prior Review

Expenditure Category	Contract Value Threshold (US\$ thousands)	Procurement Method	Contracts Subject to Prior Review (US\$ millions)
1. Works			0
2. Goods			0
3. Services	50/100	QBS	0.6

Total value of contracts subject to prior review:

600,000

Overall Procurement Risk Assessment

Average

Frequency of procurement supervision missions proposed: One every 6 months (includes special procurement supervision for post-review/audits)

The "average" assessment is due to that most of the procurement will be done by borrowers; and for technical assistance, the PMU will have support from UNTAET and consultants, and most contracts will be subject to prior review.

Disbursements

Financial Management

Background. The grant is to help start economic activities in the private sector in East Timor. Institutions in both the public and private sector are at best at an early stage of development. Project disbursements will be channeled

through the only private bank (BNU) currently with retail operations in East Timor. Therefore, a traditional financial management assessment, as required by Bank policies, is not possible. However, the project will incorporate adequate safeguards to ensure that the funds are spent for the purposes intended. The applicable financial management and disbursement arrangements are described below for each project component.

Loans. BNU will process loan applications in accordance with lending criteria agreed with IDA. Once a loan agreement is signed, disbursements should normally be direct to the suppliers of goods and services as provided in the loan agreement. The borrower will also be eligible to request disbursements depending on the provisions of the loan agreement. The BNU should obtain supporting documentation (purchase order, shipping documents for imports, supplier invoices) before making payments. In the event of cash payments for local suppliers, a receipt should be obtained from the payee in addition to purchase orders and invoices. BNU will maintain an account for each loan, recording all payments, interest and repayments (and any other charge applicable). All loan accounts, year end statements and supporting documentation should be available for audit. Monthly financial report formats are attached. BNU shall also provide monthly to IDA, a report with a brief description of items procured under the loans and their unit prices.

Service Fees. This will include the service fee to BNU, expert services/consultants, and some costs of the Project Management Unit. BNU will make disbursements in accordance with contract provisions. Accounting records and supporting documents should be available for audit.

Financial Reporting. BNU shall prepare monthly one page summaries and quarterly financial statements summarizing disbursement by each of the Grant categories. BNU will also report on repayment of loans by borrowers. The accounts will be maintained on a cash basis. An annual financial statement summarizing funds received in the Special Account, disbursed and retained in Special Account will be prepared. The any change to the forms agreed at appraisal shall be agreed by April 30, 2000.

Audit. An independent auditor, acceptable to IDA will be appointed by UNTAET to audit the accounts within 6 months of the end of the fiscal year. The first audit will cover the period from grant effectiveness to December 31, 2000. The terms of reference shall also be acceptable to IDA.

Table C: Allocation of Proceeds

Expenditure Category	Amount in US\$ million	Financing Percentage
Loans	4.00	100
Land and Property Administration	0.27	100
Consultant Services	0.58	100
Total Project Costs	4.85	

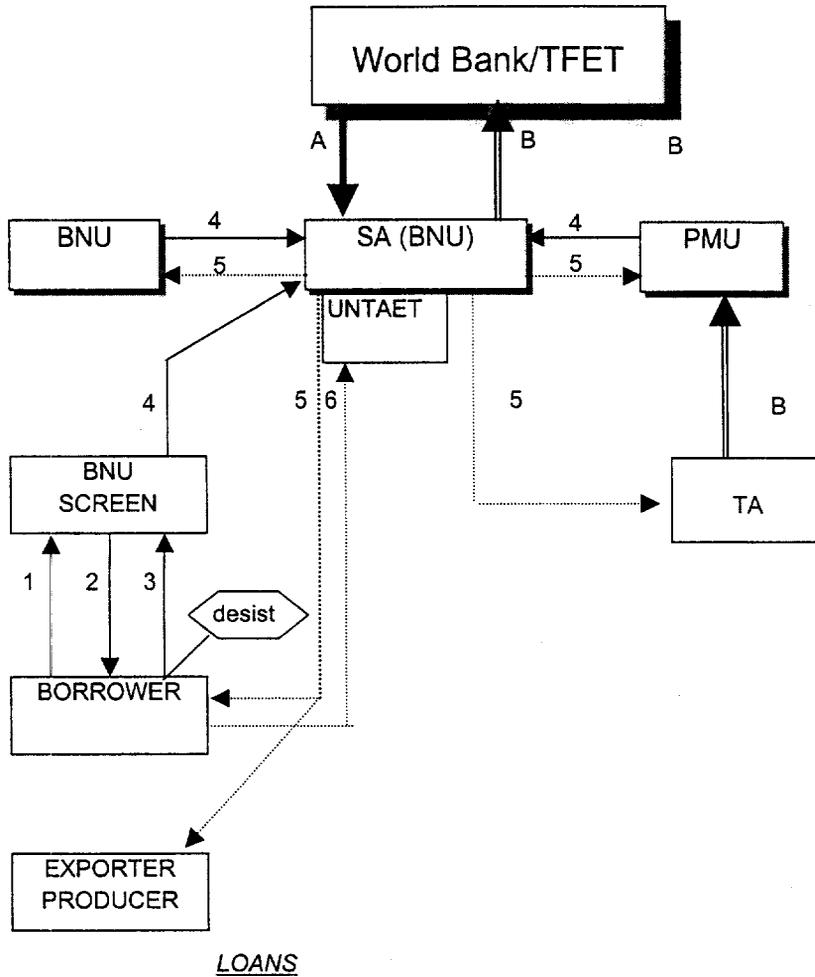
Use of statements of expenditures (SOEs):

The PMU and BNU will submit statements of expenditures for some of their operational expenses under the project. Consultants will also submit SOEs.

Special account:

UNTAET will establish a Special Account at BNU denominated in US dollars, with an initial deposit and an authorized ceiling of \$700,000. This amount, higher than the standard 10% of the grant/loan, was approved taking into account that disbursements may be large up front, and the delays between a request for replenishment from Dili and approval and transfer from Washington DC. The account will be managed by BNU, and replenished on a monthly basis or when 20% of the authorized ceiling has been disbursed, whichever occurs first.

EAST TIMOR
REPORTS AND FUNDS FLOW DIAGRAM



LOANS

- 1 - Initial request
- 2 - Clarification needs
- 3 - Final Application
- 4 - Signed Agreement
- 5 - Disbursement
- 6 - Repayment

- A - Advance and Replenishments
- B - Reports

BNU - Banco Nacional Ultramarino, Timor
 PMU - Project Management Unit/UNTAET, Dili
 TFET: Trust Fund for East Timor
 UNTAET: Un Transitional Administration
 for East Timor

Small Enterprises Project
Sources and Uses of Funds, US dollars

Month: _____ --- _____

In Month Cumul. To end of month

Loan Program

Uses and Sources of Funds

1. Loan disbursements
2. Loan repayments by borrowers

Outstanding loan balance (1.-2.)

BNU

Sources of Funds

1. From 1.5% fee
 2. From 9.5% retention from borrower repayment
- total

Uses of Funds

3. Salaries/wages
 4. Operational expenses
 5. Office rent
- total

Net

Loan information

1. Loans approved
2. Average loan size
3. Number of loans approved #
4. Due repayments
 - principal
 - interest
5. Repayment/Due repayments (%)
6. Number of loans w/overdue repayments #
7. Overdue loans/number of loans (%)

Date prepared:

Notes: Substantiating documents to be available for review by IDA, auditors and the PMU/UNTAET.

(a) In case of insufficient repayment, the shortfall would be distributed proportionally to the due interest and principal

Form for the Special Account replenishment requests

Small Enterprises Project
Statement of Expenditures, US dollars

Date:
Application #:
TF Grant:
Page: .. of .._

Payment during the period [dates of initial and final SOE submitted]

Category: 1. Loans,

Item (b)	BNU loan #	Total approved	Amount disbursed	Remarks (c)	Amortization from to Instalm, \$
-------------	------------	----------------	------------------	----------------	-------------------------------------

Total	xx
-------	----

signature

Note: Supporting documentation for this SOE are retained at BNU Timor and will be made available for review upon request

(b) this simply refers to the line on the page
(c) such as 2nd payment

or alternative middle titles for,

Category: 2. Consultant services,

Item	Consultant name	Cons. City/Country	Contract Currency Amount	Amount paid in Curr.	US\$ equiv. charged	Remarks
------	-----------------	--------------------	-----------------------------	-------------------------	------------------------	---------

Pour memoire

In discussions, it was agreed:

- a) BNU will authorize 4 signatories for disbursement requests
- b) The original application forms WB HQ needs, can be mailed from Lisbon with information provided from Dili electronically.

**Annex 7: Project Processing Schedule
EAST TIMOR: Small Enterprises Project**

Project Schedule	Planned	Actual
Time taken to prepare the project (months)		2
First Bank mission (identification)		02/01/2000
Appraisal mission departure	03/15/2000	03/09/2000
Negotiations	03/24/2000	03/27/2000
Planned Date of Effectiveness	04/16/2000	

Prepared by:

Frida Johansen, World Bank TTL; Tubal Goncalvez, BNU manager; Emilia Pires, Julio Alfaro CNRT representatives

Preparation assistance:

BNU staff, UNTAET staff

Bank staff who worked on the project included:

Name	Specialty
Frida Johansen	Principal economist, TTL
Karin Nordlander	Senior counsel
Anthony Toft	Senior counsel
Amanda Carlier	Private sector specialist
Desiree Green	Private sector specialist
Anne Harrisson	Program assistant
Jeffrey Lecksell	Cartographer
Luiz Gazoni	Procurement
Hung Kim Phung	Disbursements

Final preparation schedule

	by date	Agency
Public Notice		BNU
English version	3/13	
Translations	3/15	
Printing (xx copies?)	3/16	
Distribution to districts	3/17-18, desirable, or 3/22 Wednesday, District Administrators could take back from Dili	
Inform priests	3/18; or 3/26 (Saturday, latest, by Distr. Admin)	
Priests inform public	3/19, or 3/27 (Sunday service)	
Loan Application Forms		
Final form agreed	3/16	BNU/WB
Translation	3/24	BNU
Printing	3/27	BNU - x in Tetum, n Indonesian, z Portuguese
Distribution	3/30-31 (Friday)	BNU/facilitator teams for Districts 1-8
"Other" persons for Districts	9-12	
Available in districts	4/1 (Saturday)	

Recruitment of Facilitators

Identify 5-8 facilitators	3/13	WB
Discussions with them	3/15	WB/BNU
Sign 1 month contracts (with project preparation funds)	3/20	WB/individuals or NGO
Training	3/22-27	BNU
Pay field allowance	3/27	WB
Motorcycle rentals	3/27	WB??

Project Manual	3/21	BNU
Project Implementation plan	3/21	BNU
Proposed reporting system	3/21	BNU

Meetings at district capitals	1ST round	2nd round
1 Manatuto	3/28-31 team 1	4/10-12
2 Viqueque	id	
3 Baucau	3/28-31 team2	id
4 Los Palos	id	
5 Ainaro	3/28-31 team 3	id
6 Same	id	
7 Suai	3/28-31 team 4	id
8 Maliana	id	
9 Liquica	4/3-6 team 1	4/17-19
10 Aileu	id	
11 Dili	4/3-6 teams 2, 3	id
12 Oecussi	4/3-6 team 4	id
	1 BNU staff +1 facilitator--facilitators	

only

Loans

Applications, starting	4/5	entrepreneurs
Approvals, starting	4/20	BNU
Disbursements, starting	4/28	BNU

Consultants

PMU, TORs	3/20	UNTAET
Contract	4/5	UNTAET
Leader in place	4/10	
Other staff	5/1	
BNU fees (for facilitators, for staff, etc.)		BNU
Other studies:		
UNCHS		PMU
Training programs		
Grant program		

WB procedures

Disbursement seminar	3/21-22	WB
Grant negotiations	3/27-28	BNU/UNTAET/WB
Opening SA	4/10	BNU
Transfer of funds to SA	4/17	WB

EAST TIMOR: Small Enterprises Project**Annex 8: Documents in the Project File*****A. Project Implementation Plan**

Draft Project Manual

B. Other

Minutes from meetings with other agencies, on grant programs
Scenarios for BNU cash flow

*Including electronic files

APPLICATION FOR ACCESS TO CREDIT

1. Identification and Economic Data of the 1st Applicant/Only Applicant

Name:		Sex: F. M	
Address:		District:	Telephone:
Age:	Nationality: Timorese	Other:	Place of Birth:
Profession:		Identification Card: N°	Type:
Own goods:	Own house:	Vehicles:	Land: Others: Which ones:
Do you receive any fixed salary?	No: Yes:	How much?	
Do you receive any retirement pension?	No: Yes:	Amount?	
Have you some other income?	No: Yes:	Which?	Amount:
Monthly expenses with:	Dwelling:	Vehicles:	Other expenses:

Identification and Economic Data from the Other Applicants (Described in the attachment)

Name:	Name:

2. Declaration

I / We declare that all the enclosed information is correct. I further declare that I have not defaulted on any loan, including any from other commercial banks, within the last five (5) years. I / We authorise the BNU to confirm the above details, as well as to obtain data that it thinks necessary. Therefore I / we undersign this application on the space reserve for this purpose.
I declare that I have always fulfilled my obligations towards all banks.

3. Amount and duration

I / We request the granting of a loan of USD\$: _____, to be utilised: Immediately and fully, or By documented payment to the supplier, or As per the project scheme

The utilised capital shall be repaid, after the period of grace of (*) months, in..... monthly and equal instalments of principal and interest plus the charges due, through my account No. /211/

4. Guarantees and Guarantors

Guarantees

<input type="checkbox"/> Machines:	<input type="checkbox"/> Land:
<input type="checkbox"/> Premises:	<input type="checkbox"/> Equipment:
<input type="checkbox"/> Vehicles:	<input type="checkbox"/> Others:
<input type="checkbox"/> Goods:	

Guarantors (**)

I _____ II _____

5. Opinion of the local entity:

Name of the entity: _____
Name of the responsible for the opinion: _____

Opinion:

This project is of interest to the community?	Yes:	No:	Already exist?	Yes:	No:
The applicant(s) (is) are honest?	Yes:	No:	And hardworking?	Yes:	No:
The applicant(s) (has) have permanent residence in that community?	Yes:	No:	Are they going to stay there?	Yes:	No:
The project is going to be placed in a location belonging to the applicant?	Yes:	No:	If not, are they going to rent it?	Yes:	No:
Does (he) they deserved to be supported?	Yes:	No:			

I declare that all the above-given information are correct and have been given free of charge and without any coercion

Signature: _____ Date: / /

6. Technical File of the Project

Location:					
Description of the Project, including: Description of the products and services					
How and where the product will be sold and how the business will attract customers					
Existing or potential customers					
Information on existing and potential competitors					
How the business will be organized, and the key people involved					
Other relevant information, including environmental impact			Environmental impact	Yes	No
Previous or present experience:					
Starting date of the investment:		Date of its conclusion:			
Amount to be invested:		Own financial resources to be applied:			
Description of own goods to apply on the project:					
Labours to be employed on the project:		1 st Year	2 nd Year	3rd Year	
Total number of workers					
Relatives					
Non-relatives					
Type/Function					
		1 st Year	2 nd Year	3rd Year	
A Income expected:					
Cost of goods sold/produced:					
Personnel costs:					
B Supplies and services of third parties:					
Other costs or charges:					
C Cash flow: (A-B)					
D Instalment of the loan:					
E Funds available:(C-D)					

7. Technical File of Company/Individual Entrepreneur

Partners:			
Description of activity:			
Date of incorporation:			
Assets:		Liabilities:	
Cash + Deposits:		Suppliers:	
Stocks		Bank loans:	
Third parties debts:		Other debts to third parties:	
Net fixed assets:			
Results:		Share Capital: -	
Labour:	At present	In 1 year	in 2 years
Total number of workers			
Relatives			
Non relatives			
Type/Function	Commercial:		
	Industrial:		
	Administrative:		
	Management:		

Date: ____/____/____

Place _____

The Applicant(s)

THE UNDERSIGNED AGREE TO THE GRANTING OF A LOAN UNDER THE FOLLOWING CONDITIONS:

8. General Conditions

8.1 Purpose

The applicant(s) undertake/s to deliver to Banco Nacional Ultramarino (hereinafter named the "Bank") a document giving evidence of the utilisation of the funds borrowed, in accordance with the purpose mentioned in point 6. "Technical File of the Project".

8.2 Utilisation of the loan

8.2.1. The Bank agrees in with the applicant to give a loan of in US dollars _____
The funds are made available in accordance with what is mentioned in point 3., by crediting of the demand deposit account referred to in that point. No charges will be applied on the opening of this account.

The applicant declares that he is aware of the availability of the funds mentioned in point 3, and undertakes to advise the Bank, at least five days in advance, of the utilisation of each one of the trenches, with exception of the first one, which will be utilised at the time the credit is approved. Direct payment to the exporter will be done without any charge or commission from the Bank.

8.2.2. After the capital lent is credited, a 1.5% commission will be charged to cover administrative and credit management costs, which will be financed along with the loan.

8.3. Interest

8.3.1. The nominal interest rate to be applied will be 10% per annum.

8.3.2. The interest will be assessed on the principal due, as from the opening date of the loan account up to the full settlement of same.

8.3.3. Interest will be reckoned for the period of grace, if there is one, and such interest will be capitalised and included in the loan repayment scheme.

8.3.4. During the repayment period, interest will be assessed in accordance with the calculation method used for fixed incomes and will be paid with the repayments of principal mentioned in point 3 (regular repayments of principal and interest).

8.4. Repayment

8.4.1. The loan will be repaid under the conditions established in point 3, the first instalment maturing one month/quarter/half year (**) after the utilisation of the funds, and the following ones, respectively, on the same dates of the subsequent periods.

The applicant undertakes to maintain sufficient funds in the indicated demand deposit account for the repayment of interest and principal on the dates agreed upon.

8.5. Guarantees

8.5.1. In guarantee of the responsibilities referred to in/or arising from this contract, the applicant gives as security the goods and rights mentioned in point 4. These will be held by the debtor, who undertakes to hold them, free of charge, and is considered as holding them as another's property.

8.5.2. Penalties for theft will be imposed on the debtor(s) if he/they alienate(s), modify/modifies, destroy(s) or make(s) disappear, without the Bank's written authorisation, the good(s) or right(s) given as a guarantee, as well as if he/they give(s) them again as guarantee without expressly mentioning, in the new contract, the existence of previous guarantee(s), which, in any case, have preference rights by order of dates.

If the goods belong to a company, the provisions of the above-mentioned paragraph shall apply to the company's partners.

8.5.3. The goods given as a guarantee, the risks of which are undertaken by the debtor(s), may successively be transferred to a place different from the one where they are at present, and may be replaced by other goods of the same kind and value, but only through a previous written authorisation from the Bank, and the debtor(s) offering the guarantee must replace, under the same terms, the goods that for any reason have deteriorated or disappeared.

8.6. Default

8.6.1. In case of default in the punctual repayment of any instalment, the Bank may consider all its credit due, and on all debited amount can apply a penalty on interest rate up to its liquidation of 4%.

8.6.2. All costs that the Bank as to assume to secure or reimbursement of its credit, costs that must be paid against the document presented by the Bank and that for all effects will be as part of this contract.

8.6.3. The Applicants and the Guarantors besides being jointly and severally responsible for the payment of the loan, incur the penalty of not being eligible for any other credit contract established in East Timor.

8.6.4. The borrowers and the guarantors recognise that their names will be posted in district offices in case of default.

Date, _____/_____/_____

Applicants	Guarantors	Bank
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Testimonies

Notes: (*) If there is no period of grace, write zero.
(**) Cross out what does not apply.

Identification and Economic Data Other Applicants or Guarantors

Name:		Sex: F. M	
Address:		District:	Telephone:
Age: <input type="text"/>	Nationality: Timorese <input type="checkbox"/>	Other: <input type="checkbox"/>	Place of Birth: <input type="text"/>
Profession:		Identification Card: N° <input type="text"/>	Type: <input type="text"/>
Own goods: <input type="checkbox"/>	Own house: <input type="checkbox"/>	Vehicles: <input type="checkbox"/>	Land: <input type="checkbox"/>
		Others: <input type="checkbox"/>	Which ones: <input type="text"/>
Do you receive any fixed salary?	No: <input type="checkbox"/>	Yes: <input type="checkbox"/>	How much? <input type="text"/>
Do you receive any retirement pension?	No: <input type="checkbox"/>	Yes: <input type="checkbox"/>	Amount? <input type="text"/>
Have you some other income?	No: <input type="checkbox"/>	Yes: <input type="checkbox"/>	Which? <input type="text"/>
		Amount: -	
Monthly expenses with: Dwelling: <input type="text"/>	Vehicles: <input type="text"/>	Other expenses: <input type="text"/>	

Identification and Economic Data Other Applicants or Guarantors

Name:		Sex: F. M	
Address:		District:	Telephone:
Age: <input type="text"/>	Nationality: Timorese <input type="checkbox"/>	Other: <input type="checkbox"/>	Place of Birth: <input type="text"/>
Profession:		Identification Card: N° <input type="text"/>	Type: <input type="text"/>
Own goods: <input type="checkbox"/>	Own house: <input type="checkbox"/>	Vehicles: <input type="checkbox"/>	Land: <input type="checkbox"/>
		Others: <input type="checkbox"/>	Which ones: <input type="text"/>
Do you receive any fixed salary?	No: <input type="checkbox"/>	Yes: <input type="checkbox"/>	How much? <input type="text"/>
Do you receive any retirement pension?	No: <input type="checkbox"/>	Yes: <input type="checkbox"/>	Amount? <input type="text"/>
Have you some other income?	No: <input type="checkbox"/>	Yes: <input type="checkbox"/>	Which? <input type="text"/>
		Amount: <input type="text"/>	
Monthly expenses with: Dwelling: <input type="text"/>	Vehicles: <input type="text"/>	Other expenses: <input type="text"/>	

Identification and Economic Data Other Applicants or Guarantors

Name:		Sex: F. M	
Address:		District:	Telephone:
Age: <input type="text"/>	Nationality: Timorese <input type="checkbox"/>	Other: <input type="checkbox"/>	Place of Birth: <input type="text"/>
Profession:		Identification Card: N° <input type="text"/>	Type: <input type="text"/>
Own goods: <input type="checkbox"/>	Own house: <input type="checkbox"/>	Vehicles: <input type="checkbox"/>	Land: <input type="checkbox"/>
		Others: <input type="checkbox"/>	Which ones: <input type="text"/>
Do you receive any fixed salary?	No: <input type="checkbox"/>	Yes: <input type="checkbox"/>	How much? <input type="text"/>
Do you receive any retirement pension?	No: <input type="checkbox"/>	Yes: <input type="checkbox"/>	Amount? <input type="text"/>
Have you some other income?	No: <input type="checkbox"/>	Yes: <input type="checkbox"/>	Which? <input type="text"/>
		Amount: <input type="text"/>	
Monthly expenses with: Dwelling: <input type="text"/>	Vehicles: <input type="text"/>	Other expenses: <input type="text"/>	

Identification and Economic Data Other Applicants or Guarantors

Name:		Sex: F. M	
Address:		District:	Telephone:
Age: <input type="text"/>	Nationality: Timorese <input type="checkbox"/>	Other: <input type="checkbox"/>	Place of Birth: <input type="text"/>
Profession:		Identification Card: N° <input type="text"/>	Type: <input type="text"/>
Own goods: <input type="checkbox"/>	Own house: <input type="checkbox"/>	Vehicles: <input type="checkbox"/>	Land: <input type="checkbox"/>
		Others: <input type="checkbox"/>	Which ones: <input type="text"/>
Do you receive any fixed salary?	No: <input type="checkbox"/>	Yes: <input type="checkbox"/>	How much? <input type="text"/>
Do you receive any retirement pension?	No: <input type="checkbox"/>	Yes: <input type="checkbox"/>	Amount? <input type="text"/>
Have you some other income?	No: <input type="checkbox"/>	Yes: <input type="checkbox"/>	Which? <input type="text"/>
		Amount: <input type="text"/>	
Monthly expenses with: Dwelling: <input type="text"/>	Vehicles: <input type="text"/>	Other expenses: <input type="text"/>	

Identification and Economic Data Other Applicants or Guarantors

Name:		Sex: F. M	
Address:		District:	Telephone:
Age: <input type="text"/>	Nationality: Timorese <input type="checkbox"/>	Other: <input type="checkbox"/>	Place of Birth: <input type="text"/>
Profession:		Identification Card: N° <input type="text"/>	Type: <input type="text"/>
Own goods: <input type="checkbox"/>	Own house: <input type="checkbox"/>	Vehicles: <input type="checkbox"/>	Land: <input type="checkbox"/>
		Others: <input type="checkbox"/>	Which ones: <input type="text"/>
Do you receive any fixed salary?	No: <input type="checkbox"/>	Yes: <input type="checkbox"/>	How much? <input type="text"/>
Do you receive any retirement pension?	No: <input type="checkbox"/>	Yes: <input type="checkbox"/>	Amount? <input type="text"/>
Have you some other income?	No: <input type="checkbox"/>	Yes: <input type="checkbox"/>	Which? <input type="text"/>
		Amount: <input type="text"/>	
Monthly expenses with: Dwelling: <input type="text"/>	Vehicles: <input type="text"/>	Other expenses: <input type="text"/>	


 Banco Nacional Ultramarino

RECEIPT OF LOAN APPLICATION

We have received from _____ an application form:

Application number	
Entry date	
District Capital	

Banco Nacional Ultramarino

Signature _____

Name of BNU Representative _____ (write legibly)

Notices will be posted at the District Administration Office with the Application number being considered, and the numbers of applications approved or rejected.




 Banco Nacional Ultramarino

RECEIPT OF LOAN APPLICATION

We have received from _____ an application form:

Application number	
Entry date	
District Capital	

Banco Nacional Ultramarino

Signature _____

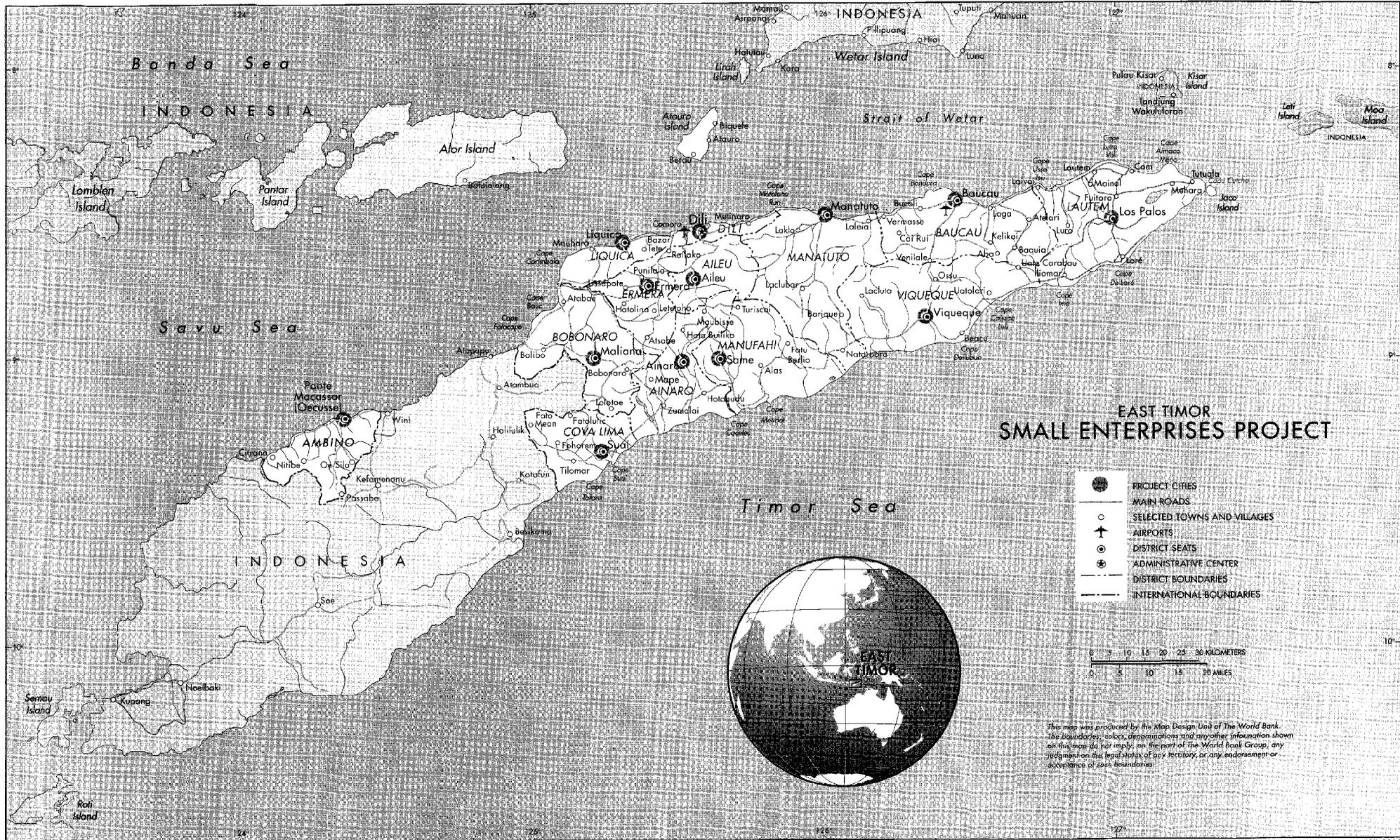
Name of BNU Representative _____ (write legibly)

Notices will be posted at the District Administration Office with the Application number being considered, and the numbers of applications approved or rejected.

Annex 10

Example of a Generic Environmental Review (ER) Checklist

<i>Type of Expected Impact</i>	<i>Description of Impact</i>	<i>Proposed Mitigation Measure</i>
PHYSICAL ENVIRONMENT		
Increased soil erosion?		
Increased sediment load into receiving waters?		
Likely contamination of surface or subsurface waters?		
Excessive dust or noise during construction?		
BIOLOGICAL ENVIRONMENT		
Removal or disturbance of natural vegetation?		
Subproject in core or buffer area of a protected area?		
Disruption or disturbance of animals or any locally important animal habitat?		
SOCIAL ENVIRONMENT		
Aesthetic degradation of a landscape?		
Degradation or disturbance of an historical or cultural site?		
Transport or use of toxic substances that poses a risk to human health?		
Involuntary displacement of individuals or families?		
Economic losses to individuals or families because of the subproject?		



EAST TIMOR SMALL ENTERPRISES PROJECT

- PROJECT CITIES
- MAIN ROADS
- SELECTED TOWNS AND VILLAGES
- AIRPORTS
- DISTRICT SEATS
- ADMINISTRATIVE CENTERS
- DISTRICT BOUNDARIES
- INTERNATIONAL BOUNDARIES

0 5 10 15 20 25 30 KILOMETERS
0 5 10 15 20 MILES

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