

CONFORMED COPY

TF 026046

Trust Fund Credit Agreement

(Bethlehem 2000 Project)

between

PALESTINE LIBERATION ORGANIZATION (for the Benefit of the Palestinian Authority)

and

INTERNATIONAL DEVELOPMENT ASSOCIATION As Administrator of
the Trust Fund for Gaza and West Bank

Dated November 2, 1998

TF 026046

TRUST FUND CREDIT AGREEMENT

AGREEMENT, dated November 2, 1998, between PALESTINE LIBERATION ORGANIZATION (for the benefit of the Palestinian Authority) (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION, acting as administrator (the Administrator) of the Trust Fund for Gaza and West Bank, established on October 19, 1993, by Resolution No. 93-11 and IDA 93-7, as amended by Resolution No. 95-6 and IDA 95-3 and further amended by Resolution No. 96-11 and IDA 96-7, of the Executive Directors of the International Bank for Reconstruction and Development and the International Development Association (the Trust Fund).

WHEREAS (A) the Board of Governors of the International Bank for Reconstruction and Development and the International Development Association has resolved, on July 13, 1998, to, inter alia, replenish the Trust Fund in the amount of ninety million dollars (\$90,000,000), such amount to be transferred from the surplus of the International Bank for Reconstruction and Development and to be used for financing rehabilitation projects in parts of the Gaza Strip (Gaza) and the West Bank (the West Bank) which are under the jurisdiction of the Palestinian Authority (as this term is hereinafter defined);

(B) the Palestine Liberation Organization and the Government of the State of Israel have entered, on September 28, 1995, into an agreement which, inter alia, sets out certain interim self-government arrangements in Gaza and the West Bank (the Interim Agreement);

(C) Section 1 of Article II of the Interim Agreement envisages the election in Gaza and the West Bank of a council with legislative and executive authorities which shall, upon inauguration thereof, assume all powers, responsibilities, rights, liabilities and obligations of the Palestinian Authority (the Palestinian Council); Section 1 of Article V of the Interim Agreement provides that the executive authority of the Palestinian Council shall be bestowed upon a committee to be formed in accordance with the provisions of Section 4 of Article V of the Interim Agreement (the Palestinian Authority); and Section 5 (b) of Article IX of the Interim Agreement authorizes the Palestine Liberation Organization to conduct negotiations and, in certain cases described thereunder, sign agreements with states and international organizations for the benefit of the Palestinian Authority;

(D) the Palestinian Authority, on behalf of the Borrower, has requested the Administrator to assist in financing the Project described in Schedule 2 to this Agreement; and

WHEREAS the Administrator has agreed, on the basis, inter alia, of the foregoing to extend the Credit to the Palestine Liberation Organization, for the benefit of the Palestinian Authority, upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions" set forth in Schedule 1 to the Trust Fund Credit Agreement between the Administrator and the Palestinian Economic Council for Development and Reconstruction, dated September 7, 1994, relating to the Emergency Rehabilitation Project (TF 026066 GZ), as amended, with the following modifications thereto (the General Conditions), constitute an integral part of this Agreement.

(a) The second sentence of Section 5.01 is modified to read:

"Except as the Administrator and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Administrator, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(b) Paragraph (g) of Section 6.02 is re-lettered as paragraph (k) and the following new paragraphs (g) through (j) are added in said Section 6.02:

"(g) The Borrower or any Project implementation entity shall, without the consent of the Administrator, have (i) assigned or transferred, in whole or in part, any of its obligations arising under the Trust Fund Credit Agreement; or (ii) sold, leased, transferred, assigned, or otherwise disposed of any property or assets financed wholly or in part out of the proceeds of the Credit, except with respect to transactions in the ordinary course of business which, in the opinion of the Administrator, (A) do not materially and adversely affect the ability of the Borrower to perform any of its obligations under the Trust Fund Credit Agreement or to achieve the objectives of the Project, or the ability of the Project implementation entity to perform any of its obligations arising under, or entered into pursuant to, the Trust Fund Credit Agreement, or to achieve the objectives of the Project; and (B) do not materially and adversely affect the financial condition or operation of the Project implementation entity.

(h) Any Project implementation entity shall have ceased to exist in the same legal form as that prevailing as of the date of the Trust Fund Credit Agreement.

(i) Any action shall have been taken for the dissolution, disestablishment or suspension of operations of any Project implementation entity.

(j) In the opinion of the Administrator, the legal character, ownership or control of any Project implementation entity shall have changed from that prevailing as of the date of the Trust Fund Credit Agreement so as to materially and adversely affect (i) the ability of the Borrower to perform any of its obligations under the Trust Fund Credit Agreement or to achieve the objectives of the Project; or (ii) the ability of the Project implementation entity to perform any of its obligations arising under, or entered into pursuant to, the Trust Fund Credit Agreement, or to achieve the objectives of the Project."

(c) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Administrator. If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty days, or (b) at any time, the Administrator determines, after consultation with the Borrower, that an amount of the Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Credit, or (c) at any time, the Administrator determines, with respect to any contract to be financed out of the proceeds of the Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Administrator to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (d) at any time, the Administrator determines that the procurement of any contract to be financed out of the proceeds of the Credit is inconsistent with the procedures set forth or referred to in the Trust Fund Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (e) after the Closing Date, an amount of the Credit shall remain unwithdrawn from the Credit Account, the Administrator may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals to such amount. Upon the giving of such notice, such amount of the Credit shall be canceled."

(d) Paragraph (d) of Section 7.01 is re-lettered as paragraph (h) and the following are added as new paragraphs (d) through (g) of said Section:

"(d) The Borrower or any Project implementation entity shall, without the consent of the Administrator, have (i) assigned or transferred, in whole or in part, any of its obligations arising under the Trust Fund Credit Agreement; or (ii) sold, leased, transferred, assigned, or otherwise disposed of any property or assets financed wholly or in part out of the proceeds of the Credit, except with respect to transactions in the ordinary course of business which, in the opinion of the Administrator, (A) do not materially and adversely affect the ability of the Borrower to perform any of its obligations under the Trust Fund Credit Agreement or to achieve the objectives of the Project, or the ability of the Project implementation entity to perform any of its obligations arising under, or entered into pursuant to, the Trust Fund Credit Agreement, or to achieve the objectives of the Project; and (B) do not materially and adversely affect the financial condition or operation of the Project implementation entity.

(e) Any Project implementation entity shall have ceased to exist in the same legal form as that prevailing as of the date of the Trust Fund Credit Agreement.

(f) Any action shall have been taken for the dissolution, disestablishment or suspension of operations of any Project implementation entity.

(g) In the opinion of the Administrator, the legal character, ownership or control of any Project implementation entity shall have changed from that prevailing as of the date of the Trust Fund Credit Agreement so as to materially and adversely affect (i) the ability of the Borrower to perform any of its obligations under the Trust Fund Credit Agreement or to achieve the objectives of the Project; or (ii) the ability of the Project implementation entity to perform any of its obligations arising under, or entered into pursuant to, the Trust Fund Credit Agreement, or to achieve the objectives of the Project."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "B-2000 Authority" means The Bethlehem 2000 Project Authority, a public authority established under the laws in effect in the parts of the West Bank and Gaza under the jurisdiction of the Palestinian Authority pursuant to Presidential Decree No. 9 dated March 20, 1998, for purposes of planning and managing the Celebrations (as this term is hereinafter defined);

(b) "CBU" means the Capacity Building Unit within MLG (as this term is hereinafter defined);

(c) "Celebrations" means the cultural, social, religious and international media events scheduled to take place in the West Bank city of Bethlehem over the period commencing December 1999 and ending March 2001 to celebrate the 2000th anniversary of the birth of Christ;

(d) "DOA" means the Department of Antiquities within MOTA (as this term is hereinafter defined);

(e) "Implementation Agreements" means, collectively, the agreement to be entered into by MLG and each of the Participating Municipalities pursuant to paragraph A.1. of Schedule 4 to this Agreement, as the same may be amended from time to time, and such term shall include all schedules to the Implementation Agreement;

(f) "MLG" means the Ministry of Local Government of the Palestinian Authority;

(g) "MOC" means the Ministry of Culture of the Palestinian Authority;

(h) "MOTA" means the Ministry of Tourism and Antiquities of the Palestinian Authority;

(i) "Participating Municipalities" means the municipalities of the cities of Bethlehem, Beit Jala, Beit Sahour and Doha;

(j) "Project" as described in Schedule 2 to this Agreement forms part of, or is related to, the B-2000 Authority's program of activities.

(k) "Special Account A" means the account referred to in Section 2.02 (b) of this Agreement;

(l) "Special Account B" means the account referred to in Section 2.02 (b) of this Agreement;

(m) "Special Account C" means the account referred to in Section 2.02 (b) of this Agreement;

(n) "Special Accounts" means, collectively, Special Account A, Special Account B and Special Account C; and

(o) "Subsidiary Agreement" means the agreement to be entered into between the Borrower and the Palestinian Authority pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term shall include all schedules to the Subsidiary Agreement.

ARTICLE II

The Credit

Section 2.01. The Administrator agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to twenty five million dollars (\$25,000,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Administrator shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may open and maintain, in dollars, three (3) separate special deposit accounts (Special Account A, Special Account B and Special Account C) in one or more commercial banks on terms and conditions satisfactory to the Administrator, including appropriate protection against set-off, seizure or attachment. Special Account A shall be used exclusively to finance expenditures under Categories (1), (2) (a), (3) (a) and (4) (a) set forth in the table in paragraph 1 of Schedule 1 to this Agreement; Special Account B shall be used exclusively to finance expenditures under Categories (2) (b), (3) (b) and (4) (b) set forth in the table in paragraph 1 of Schedule 1 to this Agreement; and Special Account C shall be used exclusively to finance expenditures under Categories (2) (c), (3) (c) and (4) (c) set forth in the table in paragraph 1 of Schedule 1 to this Agreement. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2002, or such later date as the Administrator shall establish. The Administrator shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Administrator shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall cause the Palestinian Authority to pay to the Administrator a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semi-annually on June 15 and December 15 in each year.

Section 2.07. The Borrower shall cause the Palestinian Authority to repay the principal amount of the Credit in semi-annual installments payable on each June 15 and December 15 commencing December 15, 2008 and ending June 15, 2038 Each installment to and including the installment payable on June 15, 2018, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through the Palestinian Authority with due diligence and efficiency, in conformity with appropriate administrative, economic, financial and environmental practices and in accordance with the Implementation Program set forth in Schedule 4 to this Agreement, as the same may be amended from time to time by mutual agreement of the Borrower and the Administrator, and shall cause the Palestinian Authority to provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall make the proceeds of the Credit available to the Palestinian Authority under a subsidiary agreement to be entered into between the Borrower and the Palestinian Authority under terms and conditions which shall have been approved by the Administrator.

(c) The Borrower shall cause the Palestinian Authority (i) to perform in accordance with the provisions of the Subsidiary Agreement all of the obligations of the Palestinian Authority therein set forth; (ii) to take all action, including the provision of funds, facilities, services and other resources, necessary or appropriate for the carrying out of the Project; and (iii) not to take or permit to be taken any action which would prevent or interfere with the carrying out of the Project.

(d) The Borrower shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Borrower, the Palestinian Authority and the Administrator and to accomplish the purposes of the Credit, and, except as the Administrator shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreement or any provision thereof.

Section 3.02. Except as the Administrator shall otherwise agree, procurement of goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall cause the Palestinian Authority to:

(a) prepare, on the basis of guidelines acceptable to the Administrator, and furnish to the Administrator not later than six (6) months after the Closing Date, or such later date as may be agreed for this purpose between the Palestinian Authority and the Administrator, a plan to ensure the continued achievement of the Project's objectives; and

(b) afford the Administrator a reasonable opportunity to exchange views with the Palestinian Authority on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause the Palestinian Authority to maintain, in respect of the Project, records and accounts adequate to reflect, in accordance with sound accounting practices, the operations, resources and expenditures of the agencies and departments of the Palestinian Authority, including the B-2000 Authority, responsible for carrying out the Project.

(b) The Borrower shall cause the Palestinian Authority to: (i) have the records and accounts referred to in paragraph (a) of this Section (including those for the Special Accounts) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Administrator; (ii) furnish to the Administrator, as soon as available, but in any case not later than six (6) months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Administrator shall have reasonably requested; and (iii) furnish to the Administrator such other information concerning said records and accounts and the audit thereof as the Administrator shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit

Account were made on the basis of statements of expenditure, the Borrower shall cause the Palestinian Authority to: (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures; (ii) retain, until at least one year after the Administrator has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures; (iii) enable the Administrator's representatives to examine such records; and (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Administrator

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional event is specified, namely, that the Palestinian Authority shall have taken any action for the dissolution or disestablishment of the B-2000 Authority or for the suspension of its operations.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, the event specified in Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 of the General Conditions:

- (a) that the Subsidiary Agreement has been executed on behalf of the Borrower and the Palestinian Authority;
- (b) that the B-2000 Authority has employed a finance director and a marketing director;
- (c) that the B-2000 Authority has put in place, at its headquarters, suitable computerized accounting, project planning, control and monitoring systems;
- (d) that MLG has put in place, at its headquarters, suitable computerized accounting, project planning, control and monitoring systems; and
- (e) that the Implementation Agreements have been executed on behalf of MLG and each of the Participating Municipalities.

Section 6.02. The following is specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Administrator, namely, that the Subsidiary Agreement has been duly authorized or ratified by and is legally binding upon the Borrower and the Palestinian Authority in accordance with its terms and that the Implementation Agreements have been duly authorized or ratified by, and executed and delivered on behalf of, MLG and each of the Participating Municipalities, and are legally binding upon MLG and each of the Participating Municipalities in accordance with their respective terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Palestinian Authority is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

c/o Ministry of Finance of the Palestinian Authority
Beirut Street, Rimal,
Gaza City, Gaza

For the Administrator:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Ramallah as of the day, month and year first above written.

PALESTINE LIBERATION ORGANIZATION
For the Benefit of the Palestinian Authority

By /s/ Mohammed Nashashibi

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION
As Administrator of the Trust Fund for Gaza and West Bank

By /s/ Joseph P. Saba

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in U.S. Dollar Equivalent	% of Eligible Expenditures to be Financed
(1) Civil works	13,700,000	100% of foreign expenditures and 85% of local expenditures

(2)	Goods:		100% of foreign expenditures and 85% of local expenditures
	(a)	under Parts A, B and D (ii) of the Project	100,000
	(b)	under Parts C.1 and D (i) of the Project	900,000
	(c)	under Part C.2 of the Project	100,000
(3)	Consultants' services, training and studies:		100%
	(a)	under Parts A, B and D (ii) of the Project	4,000,000
	(b)	under Parts C.1 and D (i) of the Project	1,100,000
	(c)	under Part C.2 of the Project	800,000
(4)	Incremental Operating Expenditures:		100% of foreign expenditures and 85% pf local expenditures
	(a)	under Parts A, B and D (ii) of the Project	1,000,000
	(b)	under Parts C.1 and D (i) of the Project	300,000
	(c)	under Part C.2 of the Project	100,000
(5)	Unallocated		2,500,000
	TOTAL		25,000,000

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures for goods or services supplied from the territory of any country other than the parts of the West Bank and Gaza under the jurisdiction of the Palestinian Authority;

(b) the term "local expenditures" means expenditures in the currency used in the parts of the West Bank and Gaza under the jurisdiction of the Palestinian Authority or for goods or services supplied from the parts of the West Bank and Gaza under the jurisdiction of the Palestinian Authority, provided, however, that if the currency used in the parts of the West Bank and Gaza under the jurisdiction of the Palestinian Authority is also that of a country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures"; and

(c) the term "Incremental Operating Expenditures" means expenditures incurred on account of the Project for payments for salaries, rental of office space, utility charges, maintenance of vehicles, fuel, office supplies, translation services, printing, publications, communication services and travel expenses.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement,

except that withdrawals, in an aggregate amount not to exceed five million dollars (\$5,000,000) may be made in respect of Categories (1), (2), (3) and (4) on account of payments made before that date but after July 15, 1998.

4. The Administrator may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (i) works costing less than the equivalent of \$100,000 per contract; (ii) goods costing less than the equivalent of \$100,000 per contract; (iii) contracts costing less than \$100,000 equivalent for services with firms; (iv) contracts costing less than \$50,000 equivalent for services with individuals; (v) contracts for training, studies, seminars and workshops; and (vi) Incremental Operating Expenditures.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to support the B-2000 Authority for the preparation, launching and management of the Celebrations; (b) to strengthen the economic and cultural base of the Participating Municipalities and foster their sustainable development through the promotion of tourism; (c) to upgrade the infrastructure of the Participating Municipalities and strengthen their financial and managerial capabilities; and (d) to commence the process of preserving cultural assets in the West Bank and Gaza through policy and institutional reforms and capacity building.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Administrator may agree from time to time to achieve such objectives:

Part A: Celebrations Support

Support to the B-2000 Authority, through the provision of goods and consultants' services, for purposes, inter alia, of staging the Celebrations, developing and implementing suitable marketing and public relations programs in support of the Celebrations, and planning, coordinating, monitoring and managing the infrastructure construction activities required to stage the Celebrations.

Part B: Infrastructure and Cultural Heritage Rehabilitation

Carrying out a program to: (i) rehabilitate infrastructure and services in the central and southern parts of the West Bank, including roads, water systems, sewerage systems, drainage systems, historic buildings and historic municipal cores; and (ii) protect archeological chance finds.

Part C: Capacity Building Support

1. Carrying out a program to strengthen the capabilities of the Participating Municipalities to plan, finance, manage and maintain municipal infrastructure and services.

2. Carrying out a program to strengthen the capabilities of DOA and MOC, inter alia, to: (a) review the existing legal and institutional framework governing cultural heritage preservation and management; (b) disseminate, through the holding of seminars, cultural heritage preservation policies and practices with a view to sharing regional experiences; and (c) carry out a study to identify sustainable commercial options for adaptive re-use of cultural heritage assets in the Bethlehem area. ~

Part D: Project Monitoring and Reporting

Support, through the provision of goods and expert services: (i) to MLG to monitor progress in Project implementation and carry out its financial reporting obligations under the Project; and (ii) to the B-2000 Authority to carry out environmental advisory, training and monitoring functions under the Project.

* * * * *

The Project is expected to be completed by December 31, 2001.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Administrator in January 1995 and revised in January and August 1996 and September 1997 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. Goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B shall be subject to the following provision, namely, that the provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in, and works to be carried out by domestic contractors from, the West Bank or Gaza.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$3,000,000 equivalent per contract, and not to exceed \$9,000,000 equivalent in the aggregate, and goods estimated to cost less than \$200,000 equivalent per contract, and not to exceed \$300,000 equivalent in the aggregate, may be procured under contracts awarded on the basis of national competitive bidding in accordance with procedures acceptable to the Administrator. Said procedures shall ensure, inter alia, that: (i) tenders shall be advertised for at least two (2) consecutive days in a local newspaper of wide circulation; (ii) prospective bidders shall be allowed a minimum of thirty (30) days between the date upon which the notification appears in the newspaper for the first time and the date upon which the bid is submitted; (iii) the format of the bidding documents shall be consistent with that of the Administrator's standard bidding documents, or with the format of bidding documents used by United Nations Agencies operating in the West Bank and Gaza; (iv) interested foreign contractors and suppliers shall be allowed to bid; (v) bids shall be submitted in sealed envelopes and shall be accepted whether mailed or hand-carried; (vi) all bids shall be opened at the same time in public; (vii) contracts shall be awarded to the lowest evaluated bidder; (viii) no bidder shall be requested or permitted to modify his, her or its bid after the bid closing date shall have elapsed; (ix) price negotiations with the lowest evaluated bidder shall be limited to cases provided for under the Guidelines; and (x) postqualification criteria shall, in the absence of a prequalification process, be explicitly stated in the bidding documents.

2. International/National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, and not to exceed \$200,000 equivalent in the aggregate, may be procured under contracts awarded on the basis of international/national shopping procedures in accordance with provisions 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods estimated to cost less than \$5,000 equivalent per contract, and not to exceed \$100,000 equivalent in the aggregate, and works estimated to cost less than \$50,000 equivalent per contract, may, with the Administrator's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Force Account

Small works which meet the requirements of paragraph 3.8 of the Guidelines and cost less than \$50,000 equivalent per contract, may, with the Administrator's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

5. Works procured pursuant to paragraphs 3 and 4 above shall not exceed \$500,000 equivalent in the aggregate.

Part D: Review by the Administrator of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Administrator for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Administrator, and with the provisions of said paragraph 1.

2. Prior Review

With respect to: (a) the first two contracts each for works and goods; (b) any contracts for goods or works procured in accordance with the provisions of Part B.1 of this Schedule; and (c) each contract for works and goods estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Administrator in January 1997 and revised in September 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Quality-Based Selection

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Least-cost Selection

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$50,000 equivalent per contract may be

procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

4. Single Source Contracts

Services estimated to cost less than \$50,000 equivalent per contract, may, with the Administrator's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Administrator for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Administrator, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to any other contract for the employment of consulting firms, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Administrator for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

SCHEDULE 4

Implementation Program

A. Project Implementation and Coordination

1. The Borrower shall cause the Palestinian Authority to vest the responsibility for implementation of Parts A, B and D (ii) of the Project in the B-2000 Authority, Part C.1 of the Project in the Participating Municipalities pursuant to the Implementation Agreements, Part D (i) of the Project in MLG and Part C.2 of the Project in DOA and MOC.

2. Without prejudice to the provisions of sub-paragraph 1 above, the Borrower shall cause the Palestinian Authority to vest in: (a) the B-2000 Authority the responsibility for environmental monitoring under the Project; and (b) MLG the responsibilities for the consolidation of the Project's accounts, monitoring progress in the implementation of the Project and preparing the reports referred to under paragraph C of this Schedule. MLG shall carry out such responsibilities through CBU.

B. Mid-Term Review

The Borrower, through the Palestinian Authority, shall: (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Administrator, the carrying out of the Project and the achievement of the objectives thereof; (b) prepare, under terms of reference satisfactory to the Administrator, and furnish to the Administrator, on or about October 1999, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying

out of the Project and the achievement of the objectives thereof during the period following such date; and (c) review with the Administrator, by February 2000, or such later date as the Administrator shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Administrator's views on the matter.

C. Progress Reports

Without prejudice to the provisions of Section 9.06 of the General Conditions and to those of Paragraph B of this Schedule, the Borrower shall cause the Palestinian Authority, commencing January 15, 1999, and quarterly thereafter until completion of the Project, to prepare and furnish to the Administrator a report, of such scope and in such detail as the Administrator shall reasonably request describing the progress achieved in the implementation of the Project.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) (a), (3) (a) and (4) (a) in respect of Special Account A, Categories (2) (b), (3) (b) and (4) (b), in respect of Special Account B, and Categories (2) (c), (3) (c) and (4) (c), in respect of Special Account C, all as set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount to be withdrawn from the Credit Account and deposited into a Special Account pursuant to paragraph 3 (a) of this Schedule, in case of Special Account A equivalent to \$3,000,000, in case of Special Account B equivalent to \$200,000, and in case of Special Account C equivalent to \$100,000.

2. Payments out of a Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Administrator has received evidence satisfactory to it that a Special Account has been duly opened, withdrawals of the Authorized Allocation relative to said Special Account, and subsequent withdrawals to replenish the Special Account, shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Administrator a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Administrator shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of a Special Account, the Borrower shall furnish to the Administrator requests for deposits into the Special Account at such intervals as the Administrator shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Administrator the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Administrator shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall

have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Administrator from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of a Special Account, the Borrower shall, at such time as the Administrator shall reasonably request, furnish to the Administrator such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Administrator shall not be required to make further deposits into either Special Account:

(a) if, at any time, the Administrator shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Administrator, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Administrator pursuant to said Section in respect of the audit of the records and accounts for the Special Accounts;

(c) if, at any time, the Administrator shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Administrator pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the aggregate amount of the Authorized Allocation for Special Account A , Special Account B and Special Account C.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Administrator shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Administrator shall have been satisfied that all such amounts remaining on deposit in a Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Administrator shall have determined at any time that any payment out of a Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Administrator, the Borrower shall, promptly upon notice from the Administrator: (A) provide such additional evidence as the Administrator may request; or (B) deposit into the Special Account in question (or, if the Administrator shall so request, refund to the Administrator) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Administrator shall otherwise agree, no further deposit by the Administrator into either Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Administrator shall have determined at any time that any amount outstanding in a Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Administrator, refund to the Administrator such outstanding amount.

(c) The Borrower may, upon notice to the Administrator, refund to the Administrator all or any portion of the funds on deposit in either Special Account.

(d) Refunds to the Administrator made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal

or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

