

CONFORMED COPY

TF 022443

Trust Fund Credit Agreement

(Southern Area Water and Sanitation Improvement Project)

between

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

and

INTERNATIONAL DEVELOPMENT ASSOCIATION (Acting as Administrator
of the Trust Fund for Gaza and West Bank)

Dated June 5, 1999

TF 022443

TRUST FUND CREDIT AGREEMENT

AGREEMENT, dated June 5, 1999, 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;

(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 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, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Administrator to assist in financing the Project; 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) "PWA" means the Palestinian Water Authority, a public authority established and operating in Gaza and the West Bank pursuant to Decree No. 90 of the

Chairman of the Palestinian Authority, dated April 26, 1995, and Law No. 2 of January 18, 1996, as the same may be amended from time to time;

(b) "Management Contract" means a management contract entered into between the PWA, on the one part, and a reputable private sector management contract operator, on the other part, in accordance with terms and conditions satisfactory to the Administrator, pursuant to which said operator shall undertake to improve the management and delivery of water and wastewater services in the Bethlehem and Hebron Governorates;

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

(d) "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;

(e) "Environmental Management Plan" means the plan submitted by PWA to the Administrator, dated November 16, 1998, as the same may be amended from time to time by agreement among the Palestinian Authority, PWA and the Administrator; and

(f) "Project Implementation Plan" means the plan submitted by PWA to the Administrator, dated November 26, 1998, setting forth the managerial, financial, administrative and technical policies and procedures for the execution of the Project, as the same may be amended from time to time by agreement among the Palestinian Authority, PWA and the Administrator.

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-one million US Dollars (\$21,000,000).

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, for the purposes of the Project, open and maintain in dollars a separate special deposit account in a commercial bank on terms and conditions satisfactory to the Administrator, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2003, 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 cancelled; 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 April 1 and October 1 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 April 1 and October 1 commencing October 1, 2009 and ending April 1, 2039. Each installment to and including the installment payable on April 1, 2019 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.

Section 2.09. PWA is designated as the representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V 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, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause the Palestinian Authority to carry out the Project through PWA with due diligence and efficiency, in conformity with the Project Implementation Plan and appropriate administrative, financial, engineering and environmental practices, and in accordance with the provisions of 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 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 to perform in accordance with the provisions of the Subsidiary Agreement all of the obligations of the Palestinian Authority therein set forth, shall cause the Palestinian Authority: (i) to take all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable PWA to carry out the Project; and (ii) not to take or permit to be taken any action which would prevent or interfere with its ability to carry out the Project.

(d) The Borrower shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Borrower 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 the 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, through the Palestinian Authority, shall cause PWA 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 for the future operation of the Project; and

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

Section 3.04. The Borrower, through the Palestinian Authority, shall cause PWA to: (a) retain, until completion of the Project, the management contract operator under the Management Contract; and (b) promptly inform the Administrator of any condition, act, omission or potential dispute which shall interfere, or threaten to interfere, with the performance by either party of its obligations under the Management Contract.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower, through the Palestinian Authority, shall cause PWA to maintain a financial management system, including records and accounts, and to prepare financial statements, all in accordance with accounting standards acceptable to the Administrator, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) The Borrower, through the Palestinian Authority, shall cause PWA to:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Administrator, 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, (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year as so audited, and (B) an opinion on such statements and 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 such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Administrator may 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, through the Palestinian Authority, shall cause PWA to:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one (1) 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.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower, shall through the Palestinian Authority, shall cause PWA to carry out a time-bound action plan acceptable to the Administrator for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the PWA, not later than July 1, 2000 or such later date as the Administrator shall agree, to prepare quarterly Project management reports, acceptable to the Administrator, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower, through the Palestinian Authority, shall cause PWA to prepare, in accordance with guidelines acceptable to the Administrator, and furnish to the Administrator not later than forty-five (45) days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 12.01 of the General Conditions, namely, that the Subsidiary Agreement has been executed on behalf of the Borrower and the Palestinian Authority.

Section 5.02. The following are 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:

(a) that the Subsidiary Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and the Palestinian Authority and is legally binding upon the Borrower and the Palestinian Authority in accordance with its terms; and

(b) that the Management Contract has been duly authorized or ratified by, and executed and delivered on behalf of, the PWA and the management contract operator, and is legally binding upon the PWA and the management contract operator in accordance with its terms.

Section 5.03. 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 VI

Representatives of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.09 of this Agreement, 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 6.02. 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 Gaza as of the day and year first above written.

PALESTINE LIBERATION ORGANIZATION
for the Benefit of the Palestinian Authority

By /s/ Mohammed Z. 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
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(1)	Civil works	2,000,000	100% of foreign expenditures and 85% of local expenditures
(2)	Goods	6,700,000	100% of foreign expenditures and 85% of local expenditures
(3)	Management Contract Fee	10,000,000	100%
(4)	Consultants' services and training	500,000	100%
(5)	Incremental Operating Expenditures	300,000	100% of foreign expenditures and 85% of local expenditures
(6)	Unallocated	1,500,000	
	TOTAL	21,000,000	

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";

(c) the term "Management Contract Fee" means the payments to be made to the management contract operator under the terms of the Management Contract; and

(d) the term "Incremental Operating Expenditures" means expenditures incurred under the Management Contract or by PWA on account of utility charges, maintenance of vehicles, fuel, chlorine, office supplies, banking charges, communication services, labor costs and other consumables.

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.

4. The Administrator may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (a) goods and works under contracts not exceeding \$250,000 equivalent per contract; (b) contracts costing less than \$100,000 equivalent for services with firms; (c) contracts costing less than \$50,000 equivalent for services with individuals; and (d) Incremental operating Expenditures, under such terms and conditions as the Administrator shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (i) to improve the efficiency, management, operation and delivery of water and wastewater services in the Bethlehem and Hebron Governorates; and (ii) to prepare and implement an appropriate institutional framework for waste and wastewater services, including the strengthening of the regulatory and

institutional capacity of PWA.

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

Part A: Management Contract

Improvement of the operation of the water supply and wastewater systems in the Bethlehem and Hebron Governorates area through a performance-based management contract that would inter alia; introduce a maintenance and repair program for equipment for the water and wastewater systems; improve quality of the water supply; protect the integrity of surface and groundwater water sources; improve the inspection and functioning of the wastewater collection system; improve management information systems, including asset and customer databases and a computerized mapping system; improve customer service, including reading of meters and the billing and collection system; improve public relations, including development of a public information program; establish an occupational health and safety program and an emergency response plan; and develop management and technical training programs.

Part B: Operating Investments

Improvements to rehabilitate the water and wastewater systems, including purchase of operating and construction equipment to rehabilitate the piping network and pumping system; purchase and installation of materials and parts to rehabilitate piping network and pumping systems, bulk and retail metering systems and control systems; carrying out a leak detection survey program for the majority of the distribution network; provision of computer hardware and software for administration and management of the water and wastewater systems; and purchase and use of operating supplies including treatment chemicals.

Part C: Capital Investments

Design, implementation and supervision of the restructuring and rehabilitation of the water supply system, including upgrading and extension of service coverage, provision of equipment, installation of materials and parts to rehabilitate the piping network and pumping, metering and control systems, construction of distribution zone storage facilities and local district storage, construction of terminal bulk storage facilities, and strengthening or installing new primary mains and appurtenances.

Part D: Institutional Strengthening of PWA

Strengthening of the Project Management Unit, through provision of technical assistance, training, information technology and telecommunications equipment, office equipment supplies and vehicles; improving the managerial and financial capacities of PWA through provision of technical assistance; and provision of assistance for monitoring the private sector operator's performance under the Management Contract, including technical and financial auditing, and carrying out of studies, related to the development of a regulatory and institutional framework and the participation of the private sector in water and wastewater services.

* * *

The Project is expected to be completed by June 30, 2003.

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 \$1,000,000 equivalent or less per contract up to an aggregate amount not to exceed \$1,500,000 equivalent, and goods estimated to cost \$250,000 equivalent or less per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, 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 Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, and not to exceed \$4,000,000 equivalent in the aggregate, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost \$50,000 equivalent or less per contract, and not to exceed \$1,000,000 equivalent in the aggregate, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

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 each contract for goods and works estimated to cost the

equivalent of \$250,000 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 Bank 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

1. 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. Least-cost Selection

Services for engineering design and implementation supervision under Part C of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants Qualifications

Services for surveys and studies related to the ability of consumers to pay under Part D of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services for training and specialist studies under Part D of the Project may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

Services for short term advisory and legal services under Part D of the Project shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Administrator 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 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 each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, 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 estimated to cost the equivalent of \$50,000 or more, 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.

3. Post Review

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

SCHEDULE 4

Implementation Program

1 Mid-Term Review

The Borrower, through the Palestinian Authority, shall cause PWA to:

(a) maintain policies and procedures adequate to enable PWA to evaluate on an on-going basis, in accordance with indicators agreed with 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, not later than August 31, 2001, a report, integrating the results of the monitoring and evaluation activities, performed pursuant to the provisions of paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said mid-term report and setting out the measures recommended to ensure the efficient carrying out of the Project, and the achievement of the objectives thereof, in the course of the twelve (12) months immediately following such date; and

(c) review with the Administrator, not later than December 30, 2001, the report referred to under paragraph (b) of this Section and any proposals developed by the Palestinian Authority for the continued management of the water and sanitation services in the southern area of the West Bank, following the completion of the Management Contract, including the various options of public sector management and private sector participation, and, thereafter, take all measures required to ensure the efficient implementation of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of said report and the Administrator's views on the matter.

2. Progress Reports

Without prejudice to the provisions of Section 9.06 of the General Conditions and to those of Paragraph 1 of this Schedule, the Borrower, through the Palestinian Authority, shall cause PWA, not later than February 28, and August 31 of each year until completion of the Project, commencing February 28, 2000, 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.

3. Environmental Mitigation and Management

The Borrower, through the Palestinian Authority, shall cause PWA to carry out the Environmental Management Plan in accordance with its terms.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4) and (5) 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 the Special Account pursuant to paragraph 3 (a) of this Schedule equivalent to \$1,700,000, provided, however, that unless the Administrator shall otherwise agree the Authorized Allocation shall be limited to an amount equivalent to \$1,000,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Administrator pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$5,000,000.

2. Payments out of the 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 the Special Account has been duly opened, withdrawals of the Authorized Allocation, 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 into the Special Account of an amount or amounts 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 the 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 the 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 the 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 Account;

(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 minus the amount of any outstanding special commitments entered into by the Administrator pursuant to Section 5.02 of the General Conditions with respect to the Project shall equal the equivalent of twice the aggregate amount of the Authorized Allocation. 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 the 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 the 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 (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 the 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 the 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 the 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.

