

CONFORMED COPY

TF 026057

Trust Fund Credit Agreement

(Municipal Infrastructure Development Project)

between

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

and

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

Dated June 12, 1996

TF 026057

TRUST FUND CREDIT AGREEMENT

AGREEMENT, dated June 12, 1996, between PALESTINE LIBERATION ORGANIZATION (for the benefit of the Palestinian Executive 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, 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 October 12, 1995, to, inter alia, replenish the Trust Fund in the amount of ninety million dollars (\$90,000,000), such amount to be transferred from the net income of the International Bank for Reconstruction and Development and to be used for financing rehabilitation projects in the Gaza Strip (Gaza) and the West Bank (the West Bank);

(B) under the Agreement on the Gaza Strip and the Jericho Area between the Palestine Liberation Organization and the Government of the State of Israel, dated May 4, 1994 (the Cairo Agreement), the parties thereto agreed to the establishment by the Palestine Liberation Organization of a Palestinian Authority (the Palestinian Authority) to perform the powers and functions provided for in the Cairo Agreement;

(C) 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);

(D) the Interim Agreement restates certain provisions of the Cairo Agreement, including those pertaining to the respective powers of the Palestine Liberation Organization and the Palestinian Authority in the sphere of foreign relations and, in so doing, supersedes the Cairo Agreement, as well as the Agreement on Preparatory Transfer of Powers and Responsibilities, dated August 29, 1994, and the Protocol on Further Transfer of Powers and Responsibilities, dated August 27, 1995, both entered into between the Palestine Liberation Organization and the Government of the State of Israel;

(E) 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 the powers, responsibilities, rights, liabilities and obligations of the Palestinian Authority (the Palestinian Council);

(F) 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 the Interim Agreement (the Palestinian Executive Authority or PEA);

(G) 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, and, upon inauguration of the council referred to in Paragraph (E) above, for the benefit of PEA;

(H) the Palestinian Authority has requested the Administrator to assist in financing the project described in Schedule 2 to this Agreement (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 PEA, 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), 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) A new Section, to be numbered "9.08", shall be inserted after Section 9.07 and shall read as follows:

"The Borrower shall take, or cause to be taken, all such action as shall be necessary to acquire as and when needed all such land and right in respect of land as shall be required for the carrying out of the Project and shall furnish to the Administrator, promptly, upon its request, evidence satisfactory to the Administrator that such land and rights in respect of land are available for purposes 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) "MOF" means the Ministry of Finance of PEA;
- (b) "MLG" means the Ministry of Local Government of PEA;
- (c) "MOT" means the Ministry of Transport of PEA;
- (d) "MOW" means the Ministry of Works of PEA;
- (e) "Participating Municipalities" means the municipalities of the cities of Gaza, Rafah, Nablus, Jenin and Hebron;
- (f) "PECDAR" means the Palestinian Economic Council for Development and Reconstruction, an agency of the Borrower established under a Decree of the Chairman of the Executive Committee of the Borrower dated October 31, 1993, as the same may be amended from time to time, and operating under a Basic Regulation dated May 14, 1994, as the same may be amended from time to time;
- (g) "Infrastructure Sub-projects" means specific sub-projects to be carried out under the programs referred to under Parts A.1, A.2, A.3, A.4, A.5, A.6 and A.7 of the Project, located in either Gaza or the West Bank; and "Infrastructure Sub-project" means one such Sub-project;
- (h) "LGDP" means the Local Government Development Program of PEA;
- (i) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (j) "Subsidiary Agreement" means the agreement to be entered into between the Borrower and PEA 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; and
- (k) "Implementation Agreements" means, collectively, the agreement to be entered into between PEA (through MOF, MLG, MOT and MOW) and PECDAR pursuant to Paragraph A.2 of Schedule 4 to this Agreement and the agreement to be entered into by PEA (through MOF, MLG, MOT and MOW) and each of the Participating Municipalities pursuant to Paragraph A.2 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 Agreements.

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 forty million dollars (\$40,000,000).

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 shall, 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 December 31, 2000, 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 PEA 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 PEA 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 PEA to repay the principal amount of the Credit in semi-annual installments payable on each April 1 and October 1 commencing October 1, 2006, and ending April 1, 2036. Each installment to and including the installment payable on April 1, 2016 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. The Borrower shall cause PEA to designate PECDAR as PEA's representative 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 carry out the Project through PEA with due diligence and efficiency 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.

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

(c) The Borrower shall cause PEA to perform in accordance with the provisions of the Subsidiary Agreement all of the obligations of PEA therein set forth, shall cause to take all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable PEA to carry out the Project, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(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. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall cause PEA 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 Borrower and the Administrator, a plan for the future operation of the Project;

(b) afford the Administrator a reasonable opportunity to exchange views with PEA on said plan; and

(c) thereafter, carry out said plan with due diligence and efficiency, and in accordance with appropriate practices, taking into account the Administrator's comments thereon.

Section 3.04. The Borrower, through PEA, shall, on the basis of criteria acceptable to the Administrator including those set forth in Schedule 6 to this Agreement, select from LGDP, and furnish to the Administrator for its approval, Infrastructure Sub-projects to be financed out of the proceeds of the Credit allocated to Parts A.1, A.2, A.3, A.4, A.5, A.6 and A.7 of the Project.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower, through PEA, shall cause PEC DAR to maintain, in respect of the Project, records and accounts adequate to reflect, in accordance with sound accounting practices, the operations and financial condition of MLG, MOT, MOW, the Participating Municipalities and PEC DAR.

(b) The Borrower, through PEA, shall cause PEC DAR to: (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account 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, a certified copy of 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, 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, through PEA, shall cause PEC DAR to: (i) maintain 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 disbursement 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

Effective Date; Termination

Section 5.01. 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 PEA; and

(b) that the Implementation Agreements have been executed on behalf of PEA and PECDAR, and on behalf of PEA and each of the Participating Municipalities, respectively.

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 PEA and is legally binding upon the Borrower and PEA in accordance with its terms; and

(b) that the Implementation Agreements have been duly authorized or ratified by, and executed and delivered on behalf of, PEA, PECDAR and each of the Participating Municipalities, respectively, and are legally binding upon PEA, PECDAR and each of the Participating Municipalities in accordance with their respective 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. The Ministry of Finance of PEA 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:

Palestine Liberation Organization
c/o The Palestinian Executive Authority
Gaza City

For the Administrator:

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

Cable address:

INTBAFRAD
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 Nablus as of the day and year first above written.

PALESTINE LIBERATION ORGANIZATION

By /s/ Sa'eb Erakat

Authorized Representative

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

By /s/ Odin Knudsen

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	25,600,000	100% prior to July 1, 1998, and 75% thereafter
(2) Goods	1,300,000	100%
(3) Consultants' services, training and studies	8,800,000	100%
(4) Incremental Operating Expenditures	300,000	100% prior to July 1, 1998, and 75% thereafter
(5) Unallocated	4,000,000	
TOTAL	40,000,000	

2. For the purposes of this Schedule, the term "Incremental Operating Expenditures" means expenditures incurred on account of the Project for payments for salaries, rent, utility charges and fuel.

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 eight million dollars (\$8,000,000) equivalent, may be made in respect of Categories (1), (2), (3) and (4) on account of payments made before that date but after February 29, 1996.

4. The Administrator may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for goods, works and services under contracts not exceeding \$250,000 equivalent for goods and works, including works carried out under force account, \$100,000 equivalent for services with firms, and \$50,000 equivalent for services with individuals, 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 to rehabilitate basic, high priority infrastructure and services in Gaza and the West Bank, relieve critical infrastructure constraints and reduce unemployment therein, and provide wide-spread economic benefits to the population thereof.

Part A: Infrastructure Rehabilitation and Improvement

1. Carrying out a program of rehabilitation and improvement of village access and internal roads, water supply networks and systems, including water wells, and stormwater and sewerage networks, systems and plants located outside the territorial jurisdiction of the Participating Municipalities.
2. Carrying out a program of rehabilitation and improvement of roads, water supply networks and systems, including water wells, and stormwater and sewerage networks, systems and plants located within the territorial jurisdiction of the Participating Municipalities.
3. Carrying out a program of routine and periodic maintenance of roads, water, wastewater and sanitation systems, and other infrastructure assets located within the territorial jurisdiction of the Participating Municipalities.
4. Carrying out a program of rehabilitation and improvement of regional roads.
5. Carrying out a program of routine and periodic maintenance of regional roads.
6. Carrying out a neighborhood upgrading program in low-income communities located within the territorial jurisdiction of the Participating Municipalities, such program to consist of: (a) repairing and extending the water supply network; (b) repairing, resurfacing and paving sidewalks and streets; (c) providing bins and other refuse collection equipment; (d) repairing the sewer network; (e) upgrading the storm drainage and flood prevention systems; (f) repairing and installing street safety lighting equipment; and (g) upgrading existing playgrounds, parks and other community facilities, and constructing new communities facilities.
7. Carrying out a neighborhood upgrading program in low-income communities located outside the territorial jurisdiction of the Participating Municipalities, such program to consist of: (a) repairing and extending the water supply network; (b) repairing, resurfacing and paving sidewalks and streets; (c) providing bins and other refuse collection equipment; (d) repairing the sewer network; (e) upgrading the storm drainage and flood prevention systems; (f) repairing and installing street safety lighting equipment; and (g) upgrading existing playgrounds, parks and other community facilities, and constructing new communities facilities.
8. Support in the preparation of engineering design and other documents relative to the procurement process under the Project, the evaluation of bids and the supervision of Project implementation under: (a) Part A.1 of the Project; (b) Part A.2 of the Project; (c) Part A.3 of the Project; (d) Part A.4 of the Project; (e) Part A.5 of the Project; (f) Part A.6 of the Project; and (g) Part A.7 of the Project.

Part B: Capacity Building at Local Government Level

Carrying out a program to build the institutional capacity of MLG and the Participating Municipalities through: (a) the review of the existing legal and institutional framework governing local government; (b) the review of the present local government revenue system and the development of a suitable system and strategies to finance local government services; (c) the review of capital investment policies at the local government level; (d) the improvement of MLG and the Participating Municipalities' capacity to plan and manage infrastructure and service improvement projects; (e) the provision of support in the development of an infrastructure operation and maintenance program; and (f) the development of a public information program.

Part C: Project Management Support

Support to MOF, MLG, MOT, MOW, PEC DAR and the Participating Municipalities through, inter alia, the preparation of studies and the provision of expert services, training, seminars, workshops, vehicles, equipment, materials, supplies and spare parts to ensure effective Project management and coordination at the municipal and village levels.

* * * * *

The Project is expected to be completed by June 30, 2000.

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 1996 (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 \$3,000,000 equivalent or less per contract 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 \$250,000 equivalent per contract, and not to exceed \$1,000,000 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 \$25,000 equivalent or less per contract, and not to exceed \$500,000 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.

4. Direct Contracting

Goods which are of a proprietary nature may, with the Administrator's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

5. Force Account

Small works which meet the requirements of paragraph 3.8 of the Guidelines and costing \$3,000,000 or less in the aggregate may, with the Administrator's prior agreement, be carried out by force account in accordance with the provisions of said paragraph 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

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Administrator in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Administrator, with such modifications thereto as shall have been agreed by the Administrator. Where no relevant standard contract documents have been issued by the Administrator, other standard forms acceptable to the Administrator shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Administrator review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Administrator review shall not apply to: (a) the terms of reference for such contracts, (b) single-source selection of consulting firms; (c) assignments of a critical nature, as reasonably determined by the Administrator; (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the

contract value to \$50,000 equivalent or above.

SCHEDULE 4

Implementation Program

A. Project Implementation

1. The Borrower shall cause PEA to vest the responsibility for Project implementation in MLG, MOT and MOW. MLG shall be responsible for implementing the Project except for Parts A.4 and A.5 thereof which MOT and MOW shall jointly assume the implementation therefor.

2. In order to achieve the objectives of the Project and to ensure effective capacity building and Project implementation, the Borrower shall cause PEA to enter into an Implementation Agreement with PEC DAR pursuant to which, inter alia, PEC DAR shall assume certain obligations with respect to the implementation of Parts A.1, A.4, A.7, A.8 (a), A.8 (d), A.8 (e), A. 8 (g) and C of the Project, and another such Agreement with each of the Participating Municipalities pursuant to which, inter alia, the Participating Municipalities shall assume certain obligations with respect of Parts A.2, A.3, A.6, A.8 (b), A.8 (c), A.8 (f) and B of the Project, all in accordance with terms and conditions that shall have been approved by the Bank.

3. The Borrower shall, not later than July 31, 1996, cause PEA to establish, and thereafter maintain, an Inter-Ministerial Steering Committee, with membership acceptable to the Administrator, the main objective of which shall be to coordinate the implementation of the Project.

B. Semi-Annual and Mid-Term Review

The Borrower shall cause PEA to:

(a) maintain policies and procedures adequate to enable PEA to monitor and 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 September 30, 1998, a mid-term report integrating the results of the monitoring and evaluation activities, performed pursuant to Sub-paragraph (a) above, 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 during the period following such date; and

(c) review with the Administrator, not later than December 31, 1998, the mid-term report referred to under Sub-paragraph (b) above, 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.

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 PEA, commencing November 30, 1996, 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 Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) 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 equivalent to \$4,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Administrator shall otherwise agree the Authorized Allocation shall be limited to an amount equivalent to \$2,000,000 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 \$8,000,000.

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.

SCHEDULE 6

Infrastructure Sub-Projects

Selection Criteria

An Infrastructure Sub-project shall, inter alia: (a) have an economic rate of return of not less than 14%; (b) not have an adverse impact on the environment, such determination to be made on the basis of an environmental analysis to be carried out by PEA and the results of which to be furnished to the Administrator; (c) be consistent with the objectives of the LGDP; and (d) be deemed by the PEA and the Administrator to respond to a priority need in terms of its (i) economic and social impact; (ii) distributional equity; (iii) recurrent costs requirements; and (iv) responsiveness to community needs.