

March 6, 1998

H. E.. Mohammed Nashashibi
Minister of Finance
Palestinian Authority
Gaza City, Gaza

Re: Municipal Infrastructure Development Project - TF 026057
Amendment to the Trust Fund Credit Agreement

Excellency:

We refer to the Trust Fund Credit Agreement for the Municipal Infrastructure Development Project (TF026057) between the Palestine Liberation Organization (for the benefit of the Palestinian Executive Authority) (the "Borrower") and the International Development Association, acting as administrator of the Trust Fund for Gaza and West Bank (the "Administrator"), dated June 12, 1996, as amended (the "Credit Agreement"). We also refer to the understanding reached between the Administrator and the Borrower to take steps to accelerate the preparation of the Bethlehem 2000 Project by reallocating Project for that purpose and modifying, in a small part, the design of the Project. Accordingly, the Credit Agreement is hereby as follows:

1. Section 2.09 shall read as follows: "For the purposes of taking any action required to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions: (a) PECDAR is designated as representative of the Borrower in respect of the proceeds of the Credit allocated from time to time to Categories (1), (2), (3), (4) and (6); and (b) The Bethlehem 2000 Committee is designated as representative of the Borrower in respect of the proceeds of the Credit allocated from time to time to Categories (7), (8) and (9).

2. Section 4.01 (a) shall be amended to read as follows: "The Borrower, through PEA, shall cause PECDAR, in respect of Parts A, B and C of the Project, and The Bethlehem 2000 Committee, in respect of Part D of the Project, to maintain, each in respect of its respective part 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, PECDAR and The Bethlehem 2000 Committee.

3. In Section 4.01 (b), the words "and The Bethlehem 2000 Committee" shall be inserted between the words "PECDAR" and "to" in the first line and the term "Special Account" in the second line shall read "Special Accounts."

4. In Section 4.01 (c), the words "and The Bethlehem 2000 Committee" shall be inserted between the words "PECDAR" and "to" in the third line.

5. The Borrower shall open and maintain a new special account (Special Account C) under terms and conditions identical to those governing the opening and maintenance of Special Accounts A and B. Special Account C shall be used exclusively for eligible expenditures relating to the cost of goods, works and services required for the carrying out of Part D of the Project and to be financed out of the proceeds of the Credit allocated from time to time to Categories (7), (8) and (9) set forth in the table in paragraph 1 of Schedule 1 to the Credit Agreement. The authorized allocation for Special Account C shall be 300,000.

All the terms and conditions of the Credit Agreement, not amended hereby, shall remain in full force and effect.

Please confirm your agreement with the foregoing by signing the confirmation on the copy of this Letter Amendment and returning.

Sincerely,

INTERNATIONAL DEVELOPMENT ASSOCIATION

As Administrator of the Trust Fund for Gaza and West Bank

By /s/ Joseph Saba
Country Director
West Bank & Gaza

AGREED AND CONFIRMED:

PALESTINE LIBERATION ORGANIZATION

By /s/ Mohammed Nashashibi
Minister of Finance of the
Palestinian Authority

