

CONFORMED COPY

TF 050473

Trust Fund Credit Agreement

(Emergency Services Support Project)

between

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

and

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

Dated March 1, 2002

TRUST FUND CREDIT AGREEMENT

AGREEMENT, dated March 1, 2002 between the PALESTINE LIBERATION ORGANIZATION (for the benefit of the Palestinian Authority) (the Borrower) and the 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 Resolution No. 96-11 and IDA 96-7 and further amended by Resolution No. 99-3 and IDA 99-2, 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 29, 1999, to, inter alia, replenish the Trust Fund in the amount of sixty million dollars (\$60,000,000), 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, has requested the Administrator to assist in financing the Project described in Schedule 2 to this Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

- (a) A new paragraph (c) is added to Section 3.04 to read:

“If the Administrator shall at any time receive less than the full amount then due and payable to it under the Trust Fund Credit Agreement, the Administrator shall have the right to allocate and apply the amount so received in any manner and for such purposes under the Trust Fund Credit Agreement as the Administrator shall in its sole discretion determine.”;

- (b) 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.”;

- (c) 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.”;

(d) 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.”

(e) 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.”; and

(f) Section 11.01 is modified by replacing, in the second sentence, the word “radiogram” with the word “facsimile” and adding a new sentence at the end of the said Section to read:

“Deliveries made by facsimile transmission shall also be confirmed by mail.”

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) “Eligible Categories” means categories (1) (a), (1) (b), (2) (a), (2) (b), (2) (c), (2) (d), (2) (e), (3) (a), (3) (b), (3) (c), (3) (d), (4) (a), (4) (b), (4) (c), (4) (d) and (4) (e) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(b) “Eligible Expenditures” means the expenditures for goods, works and services referred to in Section 2.02 of this Agreement;

(c) “MOE” means the Ministry of Education of the Palestinian Authority;

(d) “MOF” means the Ministry of Finance of the Palestinian Authority;

(e) “MOH” means the Ministry of Health of the Palestinian Authority;

(f) “MOLG” means the Ministry of Local Government of the Palestinian Authority;

(g) “MOSA” means the Ministry of Social Affairs of the Palestinian Authority;

(h) “Project Management Report” means each report prepared in accordance with Section 4.02 of this Agreement;

(i) “Special Account A” means the account referred to in Part B of Schedule 1 to this Agreement;

(j) “Special Account B” means the account referred to in Part B of Schedule 1 to this Agreement;

(k) “Special Account C” means the account referred to in Part B of Schedule 1 to this Agreement;

(l) “Special Account D” means the account referred to in Part B of Schedule 1 to this Agreement;

(m) “Special Account E” means the account referred to in Part B of Schedule 1 to this Agreement;

(n) “Special Accounts” means, collectively, Special Account A, Special Account B, Special Account C, Special Account D and Special Account E; and

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

ARTICLE II

The Credit

Section 2.01. The Administrator agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to twenty million United States dollars (US\$20,000,000).

Section 2.02. 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.

Section 2.03. The Closing Date shall be June 30, 2004, 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.¹

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

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

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

¹ Any waiver of the commitment charges with respect to credits granted by the International Development Association shall apply to the Credit provided for under this Agreement.

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

Section 2.07. The Borrower shall cause the Palestinian Authority to repay the principal amount of the Credit in semi-annual installments payable on each January 15 and July 15 commencing July 15, 2012, and ending January 15, 2042. Each installment to and including the installment payable on January 15, 2022, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through the Palestinian Authority with due diligence and efficiency, in conformity with appropriate administrative, economic, engineering, educational, financial and environmental practices and shall cause the Palestinian Authority to provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Administrator shall otherwise agree, the Borrower, through the Palestinian Authority, shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(c) 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.

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

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

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

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

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

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause the Palestinian Authority to maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Administrator, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall cause the Palestinian Authority: (i) to have the records, accounts and financial statements referred to in paragraph (a) of this Section, and the records and accounts for the Special Accounts, 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, records and accounts 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 said records and accounts, and the audit thereof, as the Administrator shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of Project Management Reports or statements of expenditure, the Borrower shall cause the Palestinian Authority to: (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures; (ii) retain, until at least one year after the Administrator has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Administrator's representatives to examine such records; and
(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Project Management Reports or 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 cause the Palestinian Authority 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 Palestinian Authority, not later than July 1, 2002, 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 shall cause the Palestinian Authority 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 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 Palestinian Authority; and
- (b) that the financial management system referred to under Section 4.01 (a) of this Agreement has been established.

Section 5.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Administrator, namely that the Subsidiary Agreement has been duly authorized or ratified by, and 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.

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 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
P.O. Box 400

Facsimile: 072825255

For the Administrator:

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

Cable address:

Telex:

INDEVAS
Washington, D.C.

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 Nashashibi

Authorized Representative

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

By /s/ Nigel Roberts

Acting Vice President
Middle East and North Africa Region

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in U.S. Dollar Equivalent)</u>	<u>% of Eligible Expenditures to be Financed</u>
(1) Civil works		
(a) under Part C of the Project	2,524,000	100%
(b) under Part D of the Project	500,000	100%
(2) Goods		
(a) under Part A of the Project	1,500,000	100%
(b) under Part B.1 of the Project	5,800,000	100%
(c) under Part C of the Project	1,921,000	100%
(d) under Part D of the Project	229,000	100%
(e) under Part E of the Project	200,000	100%
(3) Consultants' services and training		
(a) under Part B.2 of the Project	1,300,000	100%

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in U.S. Dollar Equivalent)</u>	<u>% of Eligible Expenditures to be Financed</u>
(b) under Part C of the Project	65,000	100%
(c) under Part D of the Project	25,000	100%
(d) under Part E of the Project	300,000	100%
(4) Incremental Operating Costs		
(a) under Part A of the Project	1,800,000	100% until December 31, 2002, and 75% thereafter
(b) under Part B.1 of the Project	1,650,000	100% until December 31, 2002, and 75% thereafter
(c) under Part C of the Project	690,000	100% until December 31, 2002, and 75% thereafter
(d) under Part D of the Project	543,000	100% until December 31, 2002, and 75% thereafter
(e) under Part E of the Project	100,000	100% until December 31, 2002, and 75% thereafter
(5) Unallocated	853,000	
TOTAL	<u>20,000,000</u>	

2. For the purposes of this Schedule, the term “Incremental Operating Costs” means expenditures incurred by the Palestinian Authority on account of utility

charges, maintenance, fuel, office supplies, banking charges, communication services, translation charges, audit costs, domestic travel costs (including transport and per diem), labor costs, solid waste dumping fees, hospital cleaning services, vehicle insurance, hospital hazard insurance, office rent, school rent, health facility rent and rent of facilities for MOE, MOH and MOSA, and other related expenditures.

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 four million dollars (\$4,000,000) equivalent, may be made in respect of Categories (2) (b), (4) (a), (4) (b), (4) (c), (4) (d) and (4) (e) on account of payments made before that date but after October 31, 2001.

4. The Administrator may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (i) contracts for goods or works costing less than the equivalent of \$100,000; (ii) contracts costing less than the equivalent of \$100,000 for services of consulting firms; (iii) contracts costing less than the equivalent of \$50,000 for services of individual consultants; (iv) training; and (v) Incremental Operating Costs, all under such terms and conditions as the Administrator shall specify by notice to the Borrower.

5. It is understood that the percentages of expenditures to be financed under the table set forth in paragraph 1 of this Schedule have been calculated on the basis of an undertaking by the Ministry of Finance of the Palestinian Authority to exclude taxes and custom duties from the sum total of any and all amounts requested to be withdrawn from the Credit Account for the purpose of financing works, goods and services under the Project. It is further understood that the levying of taxes and/or customs duties on works, goods and services financed under the Project shall lead to the decrease of the percentages referred to above in accordance with the provisions of Section 5.08 of the General Conditions.

B. Special Accounts

1. The Borrower shall open and maintain in United States dollars five (5) separate special deposit accounts (Special Account A for Part A of the Project, Special Account B for Part B of the Project, Special Account C for Part C of the Project, Special Account D for Part D of the Project and Special Account E for Part E of the Project) in one or more commercial banks, on terms and conditions satisfactory to the Administrator, including appropriate protection against set-off, seizure and attachment. Special Account A shall be used exclusively to finance expenditures under Categories (2) (a) and (4) (a) set forth in the table in paragraph A.1 of Schedule 1 to this Agreement; Special Account B shall be used exclusively to finance expenditures under Categories (2) (b), (3) (a) and (4) (b) set forth in the table in paragraph A.1 of Schedule 1 to this Agreement; Special Account C shall be used exclusively to finance expenditures under Categories (1) (a), (2) (c), (3) (b) and (4) (c) set forth in the table in paragraph A.1 of Schedule 1 to this Agreement; Special Account D shall be used exclusively to finance expenditures under Categories (1) (b), (2) (d), (3) (c) and (4) (d); and Special Account E shall be used exclusively to finance

expenditures under Categories (2) (e), (3) (d) and (4) (e) set forth in the table in paragraph A.1 of Schedule 1 to this Agreement.

2. After the Administrator has received evidence satisfactory to it that a Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Administrator shall have received: (i) the first Project Management Report referred to in Section 4.02(b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Administrator of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

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

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Administrator shall not be required to make further deposits into any Special Account:

(a) if the Administrator determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Administrator determines at any time that all further withdrawals should be made by the Borrower directly from the Credit Account; or

(c) 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: (A) the records and accounts for any Special Account or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Administrator shall not be required to make further deposits into any Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such

notification, the Administrator shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Administrator determines at any time that any payment out of any Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Administrator, the Borrower shall, promptly upon notice from the Administrator, provide such additional evidence as the Administrator may request, or deposit into said Special Account (or, if the Administrator shall so request, refund to the Administrator) an amount equal to the amount of such payment. Unless the Administrator shall otherwise agree, no further deposit by the Administrator into any 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 determines at any time that any amount outstanding in any Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 a Special Account.

(d) Refunds to the Administrator made pursuant to sub-paragraphs (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Trust Fund Credit Agreement.

**Annex A
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Not Made
On the Basis of Project Management Reports**

1. For the purposes of this Annex:

(a) the term “Authorized Allocation” means: (i) in respect of Special Account A, an amount equivalent to \$400,000 to be withdrawn from the Credit Account and deposited into Special Account A pursuant to paragraph 2 of this Annex; (ii) in respect of Special Account B, an amount equivalent to \$600,000 to be withdrawn from the Credit Account and deposited into Special Account B pursuant to paragraph 2 of this Annex; (iii) in respect of Special Account C, an amount equivalent to \$400,000 to be withdrawn from the Credit Account and deposited into Special Account C pursuant to paragraph 2 of this Annex; (iv) in respect of Special Account D, an amount equivalent to \$300,000 to be withdrawn from the Credit Account and deposited into Special Account D pursuant to paragraph 2 of this Annex; and (v) in respect of Special Account E, an amount equivalent to \$300,000 to be withdrawn from the Credit Account and deposited into Special Account E pursuant to paragraph 2 of this Annex.

2. Withdrawals of a Special Account’s Authorized Allocation and subsequent withdrawals to replenish said Special Account shall be made as follows:

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

(b) For replenishment of said Special Account, the Borrower shall furnish to the Administrator requests for deposit into said Special Account at such intervals as the Administrator shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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 said 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 said Special Account for Eligible Expenditures. Each such deposit into said Special Account shall be withdrawn by the Administrator from the Credit Account under one or more of the Eligible Categories.

3. The Administrator shall not be required to make further deposits into a Special Account, once the total unwithdrawn amount of the Credit allocated to said

Special Account's Eligible Categories minus the total amount of all outstanding special commitments entered into by the Administrator pursuant to Section 5.02 of the General Conditions in respect of expenditures to be financed out of the proceeds of the Credit allocated to said Categories, shall equal the equivalent of twice the amount of said Special Account's Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to said 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 said Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Made
On the Basis of Project Management Reports**

1. Except as the Administrator may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Administrator into the respective Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into a Special Account shall be withdrawn by the Administrator from the Credit Account under one or more of said Special Account's Eligible Categories.
2. Each application for withdrawal from the Credit Account for deposit into a Special Account shall be supported by a Project Management Report.
3. Upon receipt of each application for withdrawal of an amount of the Credit, the Administrator shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the respective Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Administrator has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in said Special Account, shall not exceed the equivalent of \$800,000 in respect of Special Account A, \$1,200,000 in respect of Special Account B, \$800,000 in respect of Special Account C, \$600,000 in respect of Special Account D; and \$600,000 in respect of Special Account E.

SCHEDULE 2

Description of the Project

The objective of the Project is to mitigate the deterioration of basic social and municipal services brought about by the conflict situation currently prevailing in the parts of the West Bank and Gaza under the jurisdiction of the Palestinian Authority, and its negative impact on economic activity and revenue generation.

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

Part A: Education Services

Carrying out, through the provision of goods, training and consultants' services, a program to maintain school premises, print scientific and technical textbooks, replace school furniture and equipment, provide schools with furniture, learning materials and laboratory equipment, and train school teachers in the newly-approved curriculum.

Part B: Health Services

1. Provision of medical consumables and essential drugs from among those featured in the list of drugs approved by MOH.
2. Carrying out a program, consisting of the provision of goods and consultants' services, to provide tertiary health care services not offered by the facilities of MOH.

Part C: Municipal Services

1. Carrying out, through the provision of goods and the execution of works, of a program to maintain land fills, maintain solid waste vehicles, including the provision of spare parts therefor, and furnish municipalities with new garbage containers and solid waste vehicles.
2. Carrying out, through the provision of goods and the execution of works, of a program to maintain main water and wastewater lines and well heads, and to rehabilitate sections of the water network with significant water losses.
3. Carrying out, through the provision of goods and the execution of works, of a program to maintain the power network and generators.
4. Carrying out, through the provision of goods and the execution of works, of a program to maintain the electric network and power generators.

Part D: Social Welfare Services

Carrying out, through the provision of goods, including vehicles, and consultants' services, of a program to operate and maintain social welfare shelters, and training and rehabilitation centers.

Part E: Capacity Building and Project Management and Monitoring

1. Support, through the provision of goods and consultants' services, to MOE, MOH, MOLG, MOSA and selected municipalities to strengthen their budgeting and financial management processes.

2. Support, through the provision of goods and consultants' services, to MOF in the area of project implementation and supervision.

* * *

The Project is expected to be completed by December 31, 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, September 1997 and January 1999 (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 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 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 the West Bank or Gaza.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Locally-manufactured drugs estimated to cost less than \$300,000 equivalent per contract, goods, except for the aforementioned drugs, estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$3,830,000 equivalent, and works estimated to cost more than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$1,170,000 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 and National Shopping

Goods estimated to cost less than \$100,000 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 or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods and works which should be procured as an extension of an existing contract, and office furniture, computer equipment and software which must be purchased from the original supplier to be compatible with existing equipment may, with the Administrator's prior agreement, be procured in accordance with provisions of paragraph 3.7 of the Guidelines.

4. Procurement from UN Agencies

Drugs under Part B.1 of the Project may be procured from UNICEF in accordance with the provisions of paragraph 3.9 of the Guidelines.

5. Procurement of Small Works

Works, including incidental materials and tools required therefor, estimated to cost less than US\$50,000 equivalent per contract, up to an aggregate amount not to exceed US\$1,720,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Administrator, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

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

(a) With respect to: (i) all contracts for works and goods estimated to cost \$100,000 equivalent or more; (ii) the first three (3) contracts for works estimated to cost less than \$50,000 equivalent; and (iii) the first three (3) contracts for goods to be procured under the provisions of paragraph B.1 of this Schedule, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to contracts procured in accordance with international and national shopping and direct contracting procedures, and contracts procured from UNICEF, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping or direct contracting procedures, the Borrower shall provide to the Administrator a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping or direct contracting procedures, or procured from UNICEF, the Borrower shall provide to the Administrator a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers," published by the Administrator in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

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

Part C: Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services under Parts D and E 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.

2. Least-cost Selection

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

3. Single Source Selection

Services estimated to cost less than \$10,000 equivalent per contract may, with the Administrator's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

Part D: Review by the 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 its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Administrator, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

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

(c) With respect to: (i) each contract for the employment of individual consultants estimated to cost \$50,000 or more; (ii) each contract with an individual consultant procured under the provisions paragraph C.3 of Section II of this Schedule; (iii) each contract for training estimated to cost \$30,000 or more; (iv) each contract for training procured under the provisions of paragraph C.3 of Section II of this Schedule; and (v) the first contract procured under the provisions of each of paragraphs C.1 and C.2 of Section II of this Schedule, the qualifications, experience, terms of reference and terms of employment of the consultants, and the cost estimates for the consulting services and training programs, as the case may be, 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 2 of this part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. The Borrower, through the Palestinian Authority, shall cause MOF to have the overall responsibility for the coordination of the implementation of the Project. The Borrower, through the Palestinian Authority, shall cause responsibility for implementation of: (a) Part A of the Project to be vested in MOE; (b) Part B of the Project to be vested in MOH; (c) Part C of the Project to be vested in MOLG; (d) Part D of the Project to be vested in MOSA; and (e) Part E of the Project to be vested in MOF. MOF shall be assisted in discharging its functions by a coordination unit consisting of a Project coordinator, an external auditor and other key staff. To that end, the PLO, through the Palestinian Authority, shall cause MOF to employ, not later than February 28, 2002, and pursuant to the provisions of Section II of Schedule 3 to this Agreement, a qualified individual to assume the responsibilities of Project Coordinator.

2. The Borrower, through the Palestinian Authority, shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators agreed upon between the Borrower and the Administrator, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference acceptable to the Administrator, and furnish to the Administrator, not later than August 1 and February 1 of every calendar year until completion of the Project, commencing August 1, 2002, semi-annual progress reports, acceptable to the Administrator, regarding the implementation of the Project during the preceding semester, each such report to include, inter alia, a detailed break-down of expenditures incurred under the Project during the preceding semester;

(c) prepare, under terms of reference satisfactory to the Administrator, and furnish to the Administrator, on or about August 15, 2002, a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(d) review with the Administrator, by September 15, 2002, or such later date as the Administrator shall request, the report referred to in subparagraph (c) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and agreed recommendations of the Borrower and the Administrator, and their views on the matter.

