

CONFORMED COPY

TF024100

Trust Fund Credit Agreement

(Microenterprise Project)

between

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

and

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

Dated April 14, 1997

TF024100

TRUST FUND CREDIT AGREEMENT

AGREEMENT, dated, April 14, 1997, between PALESTINE LIBERATION ORGANIZATION (for the benefit of the Palestinian Authority) (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION acting as administrator (the Administrator) of the Trust Fund for Gaza and West Bank, established on October 19, 1993, by Resolution No. 93-11 and IDA 93-7, as amended by Resolution No. 95-6 and IDA 95-3, 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) 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) under the Interim Agreement, the parties thereto agreed to the establishment of a Palestinian Interim Self-Governing Authority (the Palestinian Authority) consisting of an elected council (the Palestinian Council) and the Ra'ees of the Executive Authority of the Palestinian Council;

(D) Section 5 (b) of Article IX of the Interim Agreement authorizes the Palestinian 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 (PA).

(E) the PA has requested the Administrator to assist in financing the project described in Schedule 2 to this Agreement (the Project);

(F) Parts A (i) and B (i) of the Project will be carried out by the Arab Bank PLC (AB), Parts A (ii) and B (ii) of the Project will be carried out by the Commercial Bank of Palestine (CBP) and Parts A (iii) and B (iii) of the Project will be carried out by the Jordan National Bank (JNB), all with the assistance of the Borrower and, as part of such assistance, the Borrower will make available to AB, CBP and JNB the proceeds of the Credit as provided in this Agreement;

(G) the International Finance Corporation (IFC) intends to provide loans in an amount equivalent to (i) \$3,000,000 to AB, (ii) \$1,500,000 to CBP, and (iii) \$3,000,000 to JNB, to assist in financing the Project on terms and conditions set forth in Segregated Account Agreements (the IFC Agreements) to be entered into between IFC and each of AB, CBP and JNB respectively; 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 PA, upon the terms and conditions set forth in this Agreement and in the Respective Project Agreements (as this term is hereafter defined);

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:

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."

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) "Arab Bank PLC" or "AB" means the branches of the Arab Bank PLC in the West Bank and Gaza which have been licensed to operate therein on May 31, 1930;

(b) "Commercial Bank of Palestine" or "CBP" means the Commercial Bank of Palestine which has been licensed to operate in the West Bank and Gaza on June 20, 1994;

(c) "Jordan National Bank" or "JNB" means the branches of the Jordan National Bank in the West Bank and Gaza which have been licensed to operate therein on October 22, 1992;

(d) "Respective Part of the Project" means, in respect of AB, Parts A (i) and B (i) of the Project, in respect of CBP, Parts A (ii) and B (ii) of the Project and in respect of JNB, Parts A (iii) and B (iii) of the Project;

(e) "Respective Charter" means (i) in respect of AB, the charter of AB dated May 21, 1930; (ii) in respect of CBP, the charter of CBP dated October 22, 1992; and (iii) in respect of JNB, the charter of JNB dated August 31, 1955, all as amended to the date of this Agreement;

(f) "Respective Statement of Policy" means: (i) in respect of AB, the statement of lending policy as adopted by AB's Board of Directors; (ii) in respect of CBP, the statement of lending policy as adopted by CBP's Board of Directors on July 4, 1996; and (iii) in respect of JNB, the statement of lending policy as adopted by JNB's Board of Directors on July 6, 1995;

(g) "Participating Bank" means each of AB, CBP and JNB, and "Participating Banks" means, collectively, AB, CBP and JNB;

(h) "Microenterprise" means a privately owned enterprise established and operating in the West Bank and/or Gaza which employs less than ten (10) workers and to which a Participating Bank proposes to make or has made a Sub-loan;

(i) "Sub-loan" means a loan made or proposed to be made by a Participating Bank in part out of the proceeds of the Credit to a Microenterprise for an Investment Project;

(j) "Investment Project" means a specific development project to be carried out by a Microenterprise utilizing the proceeds of a Sub-loan;

(k) "Special Accounts" means the accounts referred to in Section 2.02 (b) of this Agreement;

(l) "Subsidiary Agreement" means the agreement to be entered into between the Borrower and the PA 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;

(m) "Subsidiary Loan Agreement" means any agreement to be entered into between the PA (on behalf of the Borrower) and a Participating Bank 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 Loan Agreement;

(n) "AB Project Agreement" means the agreement to be entered into between the Administrator and AB, of even date herewith, as the same may be amended from time to time, and such term shall include all schedules and agreements supplemental to the AB Project Agreement;

(o) "CBP Project Agreement" means the agreement to be entered into between the Administrator and CBP, of even date herewith, as the same may be amended from time to time, and such term shall include all schedules and agreements supplemental to the CBP Project Agreement;

(p) "JNB Project Agreement" means the agreement to be entered into between the Administrator and JNB, of even date herewith, as the same may be amended from time to time, and such term shall include all schedules and agreements supplemental to the JNB Project Agreement; and

(q) "Respective Project Agreement" means, in respect of AB, the AB Project Agreement, in respect of CBP, the CBP Project Agreement and, in respect of JNB, the JNB Project 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 five million dollars (\$5,000,000).

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 amounts paid (or, if the Administrator shall so agree, to be paid) by a Participating Bank on account of withdrawals made by a Microenterprise under a Sub-loan to meet the reasonable cost of goods and services required for the Investment Project in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a separate special deposit account in each of the Participating Banks on terms and conditions satisfactory to the Administrator, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, each respective Special Account shall be made in accordance with the provisions of Schedule 2 to each of the Respective Project Agreements.

Section 2.03. The Closing Date shall be July 31, 2002, or such later date as the Administrator shall establish. The Administrator shall promptly notify the Borrower of such later date.

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

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

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

Section 2.05. The Borrower shall cause the PA 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 February 1 and August 1 in each year.

Section 2.07. The Borrower shall cause the PA to repay the principal amount of the Credit in semi-annual installments payable on each February 1 and August 1 commencing February 1, 2001, and ending August 1, 2036. Each installment to and including the installment payable on August 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. AB, CBP and JNB are designated as representatives of the Borrower for the purpose 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 with respect to Categories (1), (2) and (3), respectively, set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

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: (i) ensure that each Participating Bank shall perform in accordance with its Respective Project Agreement all of the obligations of the Participating Bank therein set forth; (ii) take all action necessary or appropriate to enable the Participating Bank to perform such obligations; and (iii) not take any action which would prevent or interfere with such performance.

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

(c) The Borrower shall cause the PA to make the proceeds of the Credit available to Participating Banks under subsidiary loan agreements to be entered into between the PA (on behalf of the Borrower) and each of said Participating Banks, under terms and conditions which shall have been approved by the Administrator, including the following:

(i) the Borrower shall lend to the respective Participating Bank the amount in _____ dollars allocated from time to time to such Participating Bank in the table _____ set forth in paragraph 1 of Schedule 1 to this Agreement and the Participating _____ Bank shall repay such amount in dollars pursuant to the terms and conditions _____ set forth in its respective Subsidiary Loan Agreement, including those set forth here below;

(ii) the Subsidiary Loan shall be charged on the principal amount thereof (A) _____ withdrawn and outstanding from time to time, interest at the rate of 1.25% per _____ annum, and (B) not withdrawn from time to time at the same rate applicable to _____ the Credit pursuant to Section 2.04 (a) of this Agreement; and

(iii) the Subsidiary Loan shall be repaid over a period of twenty (20) years, _____ including a grace period of ten (10) years.

(d) The Borrower shall cause the PA to perform, in accordance with the provisions of the Subsidiary Loan Agreements, all of the obligations of the PA therein set forth.

(e) The Borrower shall cause the PA to exercise its rights under each Subsidiary Loan 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 cause the PA not to assign, amend, abrogate or waive any Subsidiary Loan Agreement or any provision thereof.

Section 3.02. The Borrower and the Administrator hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, and maintenance, respectively) shall be carried out, respectively, by AB, CBP and JNB, each pursuant to Section 2.03 of its Respective Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. The Borrower shall maintain suitable arrangements pursuant to which each Participating Bank shall, for all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure: (a) maintain records and accounts; and (b) have said records and accounts, together with those for its respective Special Account, audited, all in accordance with the provisions of Article III of the Respective Project Agreement.

ARTICLE V

Remedies of the Administrator

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

(a) AB, CBP or JNB shall have failed to perform any of its obligations under its Respective Project Agreement.

(b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall make it improbable that AB, CBP or JNB will be able to perform its obligations under its Respective Project Agreement.

(c) Any Respective Charter or Respective Statement of Policy shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial condition of any Participating Bank or its ability to carry out its Respective Part of the Project.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of any of the Participating Banks or for the suspension of its operations.

(e) The right of any Participating Bank to utilize the proceeds of the financing provided for under its respective IFC Agreement shall have been suspended, cancelled or terminated, in whole or in part, pursuant to the terms of said Agreement, or the financing provided for under such IFC Agreement shall have become due and payable prior to the agreed maturity thereof.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Administrator to the Borrower and the respective Participating Bank; and

(b) any event specified in paragraphs (c), (d) or (e) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as an additional condition to the effectiveness of the Trust Fund Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Subsidiary Agreement has been executed on behalf of the Borrower and the PEA;

(b) the Subsidiary Loan Agreements have been executed by the PA and the Participating Banks; and

(c) all conditions precedent to the effectiveness of the IFC Agreements have been fulfilled, other than those related to the effectiveness of this Agreement.

Section 6.02. 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 Respective Project Agreements, the Subsidiary Agreement and the Subsidiary Loan Agreements have been duly authorized and ratified by, and executed and delivered on behalf of, the parties thereof and are legally binding upon said parties in accordance with the terms thereof.

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

Section 6.04. The obligations of the Borrower under Section 4.01 of this Agreement shall cease and determine on the date on which this Agreement shall terminate or on the date twenty (20) years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. Except as provided for in Section 2.09 of this Agreement, Minister of Finance of the PA is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

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

For the Administrator:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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

PALESTINE LIBERATION ORGANIZATION

By /s/ Abdelrahman Hamad

Authorized Representative

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

By /s/ Odin K. 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:

Amount of the

Category	Credit Allocated (Expressed in U.S. Dollar Equivalent)	% of Expenditures to be Financed
(1) Sub-loans by AB	2,000,000	25% of amounts paid
(2) Sub-loans by CBP	1,000,000	25% of amounts paid
(3) Sub-loans by JNB	2,000,000	25% of amounts paid
TOTAL	5,000,000	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made by Participating Banks prior to the date of this Agreement.

3. The Administrator may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for payments made by the Participating Banks on account of Sub-loans, under such terms and conditions as the Administrator shall specify by notice to each of the Participating Banks.

SCHEDULE 2

Description of the Project

The objective of the Project is to develop a sustainable source of credit to Microenterprises in the West Bank and Gaza.

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 objective:

Part A:

Provision of loans to Microenterprises, by each of (i) AB; (ii) CBP; and (iii) JNB, for the furtherance of income generating activities.

Part B:

Strengthening the institutional capabilities of (i) AB; (ii) CBP; and (iii) JNB to expand their lending to Microenterprises.

* * *

The Project is expected to be completed by January 31, 2002.

