

CONFORMED COPY

TF 026048

Trust Fund Credit Agreement

(Gaza Industrial Estate 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 24, 1998

TF 026048

TRUST FUND CREDIT AGREEMENT

AGREEMENT, dated March 24, 1998, between PALESTINE LIBERATION ORGANIZATION (for the benefit of the Palestinian Authority) (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION, acting as administrator (the Administrator) of the Trust Fund for Gaza and West Bank, established on October 19, 1993, by Resolution No. 93-11 and IDA 93-7, as amended by Resolution No. 95-6 and IDA 95-3 and further amended by Resolution 96-11 and IDA 96-7, of the Executive Directors of the International Bank for Reconstruction and Development and the International Development Association (the Trust Fund).

WHEREAS (A) the Board of Governors of the International Bank for Reconstruction and Development and the International Development Association has resolved, on February 3, 1997, 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 parts of the Gaza Strip (Gaza) and the West Bank (the West Bank) which are under the jurisdiction of the Palestinian Authority (as this term is hereinafter defined);

(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 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 powers, responsibilities, rights, liabilities and obligations of the Palestinian Authority; Section 1 of Article V of the Interim Agreement provides that the executive authority shall be bestowed upon a committee to be formed in accordance with the provisions of Section 4 of Article V of the Interim Agreement (the Palestinian Authority); and 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 (the PA);

(D) the PA has contracted from the United States Agency for International Development (USAID) a grant (the USAID Grant) in an aggregate amount of five million two hundred thousand dollars (\$5,200,000) to assist in financing Parts A (i), A (iv) and C (i) of the Project, described in Schedule 2 of this Agreement, on the terms and conditions set forth in an agreement dated July 9, 1997 (the USAID Grant Agreement), entered into between the PA and USAID;

(E) Palestine Industrial Estate Company (PIECO) intends to contract from various sources (the PIECO Lenders) loans (the PIECO Lenders Loans) in an amount equivalent to thirty one million one hundred thousand dollars (\$31,100,000) to finance Part B of the Project on the terms and conditions set forth in agreements (the PIECO Lenders Loan Agreements) to be entered into between PIECO and the PIECO Lenders;

(F) the PA 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 PA, upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

(a) The second sentence of Section 5.01 is modified to read:

"Except as the Administrator and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Administrator, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(b) 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."

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) "Assignment Agreement" means the agreement dated January 6, 1998, entered into between PADICO (as this term is hereinafter defined) and PIECO (as this term is hereinafter defined) pursuant to which PADICO shall assign all of its rights and obligations under the Lease Agreement (as this term is hereinafter defined) to PIECO in accordance with the terms and conditions contained in the Assignment Agreement, as the same may be amended from time to time;

(b) "Environmental Manual" means the PA's manual, agreed with the Administrator, setting out the framework, criteria, requirements and other details for the carrying out of the Project, as the same may be amended from time to time with the agreement of the Administrator;

(c) "GIE" means the Gaza Industrial Estate located on public land in Gaza and leased by the PA, through MOI (as this term is hereinafter defined), to PADICO (as this term is hereinafter defined) under the agreement referred to under Section 1.02 (d) of this Agreement;

(d) "Lease Agreement" means the agreement dated August 7, 1996, entered into between the PA, through MOI (as this term is hereinafter defined), and PADICO (as this term is hereinafter defined) pursuant to which the PA shall lease to PADICO the public land referred to under Section 1.02 (c) of this Agreement in accordance with the terms and conditions contained in the Lease Agreement, as the same may be amended from time to time;

(e) "MOI" means the Ministry of Industry of the PA;

(f) "Other Assignment Agreements" means the agreements and understandings currently entered into, and those to be entered into in the future, between PADICO (as this term is hereinafter defined) and PIECO (as this term is hereinafter defined) pursuant to which PADICO shall assign to PIECO all of PADICO's rights and obligations under all of its agreements with the PA and other parties, other than the Lease Agreement, pertaining to the development and operation of the GIE, all in accordance with the terms and conditions contained in the Other Assignment Agreements, as the same may be amended from time to time;

(g) "PADICO" means the Palestine Development and Investment Company, a privately-owned company established and operating under the laws of Liberia and registered in the Company Registry in Monrovia, Liberia, on October 14, 1993, whose principal place of business is in Gaza;

(h) "PENA" means the Palestinian Environment Authority, a public authority established and operating in the West Bank and Gaza pursuant to a Presidential Decree dated December 10, 1996, as the same may be amended from time to time;

(i) "PIECO" means the Palestinian Industrial Estate Company, a privately-owned company established and operating under the laws in effect in the West Bank and Gaza and registered in the Company Registry in Gaza under number 563123124 on July 29, 1997, whose principal place of business is in Gaza;

(j) "PIFZA" means the Palestinian Industrial and Free Zones Authority, an

autonomous public authority established and operating in the West Bank and Gaza pursuant to a law dated November 15, 1997, as the same may be amended from time to time;

(k) "PCU" means the Project Coordination Unit to be maintained pursuant to the provisions of paragraph 2 (a) of Schedule 4 to this Agreement;

(l) "Project Preparation Advance" means the project preparation advance granted by the Administrator to the Borrower pursuant to a Letter Agreement signed by the Administrator on June 20, 1997, and countersigned by the Borrower on June 25, 1997;

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

(n) "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.

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 ten million dollars (\$10,000,000).

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 Parts A and C of the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of Parts A and C 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.

(c) Promptly after the Effective Date, the Administrator shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

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 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 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 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 June 15 and December 15 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 June 15 and December 15 commencing June 15, 2008, and ending December 15, 2037. Each installment to and including the installment payable on December 15, 2017, 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, without any limitation or restriction upon any of its other obligations under this Agreement, shall carry out Parts A and C of the Project, and shall cause PIECO to carry out Part B of the Project, all 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, and shall cause the PA to provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall make the proceeds of the Credit available to the 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 (i) to perform in accordance with the provisions of the Subsidiary Agreement all of the obligations of the PA 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 Parts A and C 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 Parts A and C of the Project.

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

Section 3.02. Except as the Administrator shall otherwise agree, procurement of the goods, works and consultants' services required for Parts A and C of 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 PA 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; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause the PA to maintain, in respect of Parts A and C of the Project, records and accounts adequate to reflect, in accordance with sound accounting practices, the operations and financial condition of the PA and of the agencies of the PA responsible for carrying out Parts A and C of the Project.

(b) The Borrower shall cause the PA 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 shall cause the PA 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

Remedies of the Administrator

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

(a) The Lease Agreement, the Assignment Agreement or any one of the Other Assignment Agreements shall have been amended, suspended, abrogated, assigned or waived so as to affect materially and adversely the ability of the PA to perform any of the Borrower's obligations under this Agreement.

(b) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of PIECO or any successor entity thereto, or for the suspension of PIECO's or said successor entity's operations.

(c) The PIECO Lenders Loan Agreements shall have failed to become effective by June 30, 1998, or such later date as the Administrator may agree, provided, however, that the provisions of this paragraph shall not apply if the PA, PIECO or any successor entity thereto, as the case may be, shall establish to the satisfaction of the Administrator that adequate funds are available to the Project from other sources on terms and conditions consistent with obligations of the Borrower under this Agreement or those of PIECO or any successor entity thereto under the PIECO Lenders Loan Agreements, as the case may be.

(d) (i) Subject to subparagraph (ii) of this paragraph: (A) the right of the PA to withdraw the proceeds of the USAID Grant, or the right of PIECO or any successor entity thereto to withdraw the proceeds of the PIECO Lenders Loans, shall have been suspended, canceled or terminated, in whole or in part, pursuant to the terms of

the agreement providing therefor; or (B) any of the PIECO Lenders Loans shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the PA, PIECO or any successor entity thereto, as the case may be, shall establish to the satisfaction of the Administrator that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the PA, PIECO or any successor entity thereto, as the case may be, to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the PA, PIECO or any successor entity thereto, as the case may be, from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement or those of PIECO, as the case may be, under the PIECO Lenders Loan Agreements.

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

(a) any event specified in paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur; and

(b) the event specified in paragraph (d) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the provisions of paragraph (d) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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 arrangements governing the movement of goods and access of people into, and out of, the GIE have been put in place so as not to impair the commercial viability of operations at the GIE; and

(b) that the Subsidiary Agreement has been executed on behalf of the Borrower and the PA.

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 Subsidiary Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and the PA and is legally binding upon the Borrower and the PA in accordance with its terms.

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.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The 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:

c/o Ministry of Finance of the Palestinian Authority
Beirut Street, Rimal,
Gaza City, Gaza

For the Administrator:

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

Cable address:

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 Gaza as of the day and year first above written.

PALESTINE LIBERATION ORGANIZATION
For the Benefit of the Palestinian Authority

By /s/ Mohammed Nashashibi

Member of Executive Committee, PLO
Minister of Finance, PNA

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

By /s/ Joseph P. Saba

Country Director and Resident Representative
West Bank/Gaza Program

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	4,900,000	100% of foreign expenditures and 85% of local expenditures
(2) Goods	3,800,000	100% of foreign expenditures and 85% of local expenditures
(3) Consultants' services and training	200,000	100%
(4) Operating Expenditures	100,000	100%
(5) Refunding of Project Preparation Advance	1,000,000	Amount due pursuant to Section 2.02 (c) of this Agreement

TOTAL 10,000,000

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures for goods or services supplied from the territory of any country other than the parts of the West Bank and Gaza under the jurisdiction of the Palestinian Authority;

(b) the term "local expenditures" means expenditures in the currency used in the parts of the West Bank and Gaza under the jurisdiction of the Palestinian Authority or for goods or services supplied from the parts of the West Bank and Gaza under the jurisdiction of the Palestinian Authority, provided, however, that if the currency used in the parts of the West Bank and Gaza under the jurisdiction of the Palestinian Authority is also that of a country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures"; and

(c) the term "Operating Expenditures" means expenditures, on account of Parts A and C of the Project, for the rental of office space for the PCU, utility charges, and charges relating to the operation, maintenance and insurance of vehicles. 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 two million three hundred forty thousand dollars (\$2,340,000) equivalent, may be made in respect of Categories (1) and (2) on account of payments made before that date but after July 25, 1997.

4. The Administrator may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for (i) goods, works and services under contracts not exceeding \$200,000 equivalent for goods, \$500,000 equivalent for works, \$100,000 equivalent for services with firms and \$50,000 equivalent for services with individuals; and (ii) Operating Expenditures, all under such terms and conditions as the Administrator shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to generate employment in Gaza through the creation of economic conditions conducive to industrial investment and the provision of appropriate physical infrastructure for industrial activities.

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

Part A: Off-Site Infrastructure

Carrying out a program consisting of the construction of suitable off-site facilities to provide the GIE with services in the following areas: (i) water treatment and supply; (ii) wastewater treatment and sewage disposal; (iii) stormwater management; (iv) power supply; and (v) access roads.

Part B: Site Development

Carrying out a program to develop the GIE site, consisting of the construction of factory buildings and an administration building, and the on-site distribution of infrastructure and services.

Part C: Institutional Strengthening

Carrying out a program, consisting of the provision of expert services and training, to (i) support the operation of PIFZA and MOI and upgrade their institutional capabilities; and (ii) strengthen the capabilities of PENA in the areas of environmental permitting, standards monitoring and enforcement for industry.

* * * * *

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 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. Goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B shall be subject to the following provision, namely, that the provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in, and works to be carried out by domestic contractors from, the West Bank or Gaza.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost \$1,000,000 equivalent or less per contract, up to an aggregate equivalent to \$1,800,000, 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 \$1,200,000 equivalent in the aggregate, may be procured under contracts awarded on the basis of international shopping procedures in accordance with provisions 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost less than \$50,000 equivalent 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 provisions 3.5 and 3.6 of the Guidelines.

4. Direct Contracting

Works which must be procured from a particular supplier as a condition of a performance guarantee and costing \$1,200,000 equivalent or less in the aggregate may, with the Administrator's prior agreement, be procured in accordance with the provisions of paragraph 3.7 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 works estimated to cost the equivalent of \$500,000 or more, and each contract for goods estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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

Part B: Quality- and Cost-based Selection

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

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services under Part C of the Project estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-Based Selection

Services to strengthen the institutional capabilities of PIFZA under Part C (i) of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Least-cost Selection

Services to strengthen the institutional capabilities of PIFZA under Part C (i) of the Project, estimated to cost less than \$200,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1

and 3.6 of the Consultant Guidelines.

3. Selection Based on Consultants' Qualifications

Services to strengthen the institutional capabilities of MOI under Part C (i) of the Project, 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 3.7 of the Consultant Guidelines.

4. Single Source Contracts

Services to strengthen the institutional capabilities of PENA under Part C (ii) of the Project, estimated to cost less than \$100,000 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.

5. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank 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 \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Administrator for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

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

SCHEDULE 4

Implementation Program

A. Overall Project Implementation

1. The Borrower shall cause the PA to vest the responsibility for implementing Parts A and C (i) of the Project in MOI and Part C (ii), as well as the environmental

aspects of the Project, in PENA. MOI shall be assisted in the carrying out of such responsibilities by PCU which shall be responsible, inter alia, for the coordination of the implementation of the Project and the supervision of the execution thereof.

2. In order to achieve the objectives of the Project, the Borrower shall cause the PA to: (a) maintain PCU, within MOI, with professional staff in adequate numbers, whose qualifications and experience shall be acceptable to the Administrator, to coordinate, supervise and report to the Administrator on the execution of Parts A and C of the Project and the procurement of goods and services thereunder; (b) employ consultants, in accordance with the provisions of Section II of Schedule 3 to this Agreement, with qualifications and experience, under terms of reference and in accordance with time schedules acceptable to the Administrator, to assist in the carrying out of Parts A and C of the Project; and (c) ensure that training activities under Part C of the Project shall be carried out in accordance with programs, including time-schedules for the implementation thereof, and criteria for the selection of candidates thereunder, agreed between the PA and the Administrator.

3. The Borrower shall cause the PA to establish, not later than September 30, 1997, and thereafter maintain, arrangements, satisfactory to the Administrator, pursuant to which PIECO shall implement Part B of the Project, such arrangements to include, inter alia, the obligation of PIECO to prepare and furnish to the PCU, for inclusion in the progress reports referred to in paragraph C of this Schedule, all information required to assess the progress in implementing Part B of the Project and the achievement of the objectives thereof.

4. The Borrower, through the PA, shall cause PENA to: (a) carry out Part C (ii) of the Project with due diligence and efficiency; (b) ensure implementation of all environmental aspects of the Project in accordance with the framework, criteria, requirements and other details set out in the Environmental Manual; and (c) prepare and furnish to the PCU, for inclusion in the progress reports referred to in paragraph C of this Schedule, all information required to assess the progress in implementing Part C (ii) and all environmental aspects of the Project, and the achievement of the objectives thereof.

5. The Borrower shall cause the PA, not later than December 31, 1998, to take all action necessary on its part to (a) transfer to PIFZA all of the responsibilities of MOI referred to under paragraph A.1 of this Schedule; and, thereafter (b) ensure that PIFZA shall carry out its operations and conduct its affairs in accordance with sound administrative, financial, engineering and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

B. Cost Recovery under Part A of the Project

The Borrower shall cause the PA to establish and collect, commencing not later than December 31, 2002, charges sufficient to recover from the beneficiaries of the services referred to under Part A of the Project the total amount of the recurrent costs of operating and maintaining the structures, systems and networks required to provide said services, all in accordance with guidelines agreed upon between the PA and the Administrator.

C. Progress Reports and Mid-Term Review

The Borrower shall cause PA to: (a) 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: (i) not later than March 31 and September 30 of each year until completion of the Project, commencing March 31, 1998, a report, integrating the results of the monitoring and evaluation activities performed pursuant to subparagraph (a) above, on the progress achieved in the carrying out of the Project during the period of six (6) months preceding the date of such report, and (ii) not later than December 31, 2000, a mid-term report, integrating the data and other information contained in the reports prepared pursuant to subparagraph (b) (i) 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 each such report, 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.

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 \$600,000 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 \$300,000 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 \$4,000,000.

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.

[Redacted]