

CONFORMED COPY

TF023961

Trust Fund Credit Agreement

(Second Municipal Infrastructure Development 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 September 2, 2000

TF 023961

TRUST FUND CREDIT AGREEMENT

AGREEMENT, dated September 2, 2000, 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) "CBU" means the Capacity Building Unit within MLG;

(b) "Eligible Categories" means categories (1) (a), (1) (b), (2) (a), (2) (b), (3) (a), (3) (b), (4), (5) (a) and (5) (b) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

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

(d) "Environmental Assessment Report" means a report to be prepared by the PWA identifying and assessing the potential environmental impacts of a proposed Sub-project, evaluating alternatives, and designing appropriate mitigation, management, and monitoring measures in accordance with terms and conditions acceptable to the Administrator;

(e) "Environmental Management Plan" means the Palestinian Authority's plan, dated February 2, 2000, as such plan may be updated from time to time by agreement of the Palestinian Authority and the Administrator, for implementation of the Project in accordance with appropriate environmental standards and guidelines, and includes an environmental mitigation plan, an environmental monitoring plan and certain institutional strengthening measures;

(f) "Implementation Agreements" means, collectively, the agreement to be entered into by the Palestinian Authority, through MLG,

and each of the Selected Municipalities pursuant to Paragraph A.5 of Schedule 4 to this Agreement, as the same may be amended from time to time; and such term shall include all schedules to the Implementation Agreements;

(g) "MLG" means the Ministry of Local Government of the Palestinian Authority;

(h) "MPW" means the Ministry of Public Works of the Palestinian Authority;

(i) "PAU" means the Project Accounting Unit within MLG;

(j) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(k) "PWA" means the Palestinian Water Authority, a public authority established and operating in Gaza and the West Bank pursuant to a Decree of the Chairman of the Palestinian Authority, dated April 26, 1995, as the same may be amended from time to time;

(l) "Selected Municipalities" means the municipalities of Jabalia, Khan Younis, Tulkarem, Al-Ram, Jericho and Tarquimia;

(m) "Special Account A" means the account referred to in Part B of Schedule 1 to this Agreement;

(n) "Special Account B" means the account referred to in Part B of Schedule 1 to this Agreement;

(o) "Special Account C" means the account referred to in Part B of Schedule 1 to this Agreement;

(p) "Special Accounts" means, collectively, Special Account A, Special Account B and Special Account C;

(q) "Sub-project" means a specific development project to be carried out under Part A.2 of the Project, which the Bank shall consider eligible for financing under the Project; and

(r) "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 seven million five hundred thousand United States dollars (US\$7,500,000).

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 December 31, 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. Any waiver of commitment charges with respect to credits granted by the International Development Association shall apply to the Credit provided for under this Agreement.

(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.

Section 2.06. Commitment charges and service charges shall be payable semi-annually on May 1 and November 1 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 May 1 and November 1 commencing November 1, 2010 and ending May 1, 2040. Each installment to and including the installment payable on May 1, 2020, 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, 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 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 and the Environmental Management Plan.

(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 its 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, 2001 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;

(b) that the MLG has employed two accountants or an accounting firm, all with qualifications and experience acceptable to the Administrator, to manage the Project's accounts;

(c) that the PAU is effectively operating in accordance with

terms and conditions acceptable to the Administrator; and

(d) that the MLG has employed the auditors referred to in Section 4.01 (b) of this Agreement.

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
P.O. Box 4007
Beirut Street, Rimal,
Gaza City, Gaza

Facsimile

072825255

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 Gaza of the day, month 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/ Joseph P. Saba

Authorized Representative

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:

Category Financed	Amount of the Credit Allocated (Expressed in U.S. Dollar Equivalent	% of Eligible Expenditures to be
(1) Civil works		85%
(a) under Part A.1 of the Project	1,800,000	
(b) under Part A.2 of the Project	450,000	
(2) Goods foreign and		100% of expenditures 85% of local expenditures
(a) under Parts B.1 and C.1 of the Project	540,000	
(b) under Parts B.2 and C.2 of the Project	540,000	
(3) Consultants' services and foreign training and		100% of expenditures 85% of local expenditures
(a) under Parts A.1, B.1 and C.1 of the Project	1,620,000	
(b) under Parts B.2 and C.2 of the Project	1,350,000	
(4) Consultants' services under foreign Part A.2 of the Project	180,000	100% of expenditures

and

85% of local
expenditures

(5)	Incremental Operating Costs		85%
	(a) under Part C.1 of the Project	90,000	
	(b) under Part C.2 of the Project	180,000	
(6)	Unallocated	750,000	
	TOTAL	7,500,000	

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 "Incremental Operating Costs" means expenditures incurred by the Borrower, in respect of the Project, on account of salaries, office rent, utilities, bank charges, audit expenses vehicle operating costs, stationery, consumables, printing, translation services, publications, communication services, travel expenses, maintenance and acquisition of office equipment, and other related expenditures.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made: (a) in respect of payments made for expenditures prior to the date of this Agreement; (b) under Categories (2) (b) and (3) (b), unless (i) MLG has provided satisfactory evidence to the Administrator that MLG has employed a manager, a finance expert and a management expert whose qualifications and experience are acceptable to the Administrator to operate the CBU; (ii) the effective operation of the CBU by MLG in accordance with terms and conditions acceptable to the Administrator; and (iii) the execution by MLG of the Implementation Agreements with each of the Selected Municipalities in accordance with terms and conditions acceptable to the Administrator; and (c) under Category (1) (b) of the Project unless the PWA shall have first submitted to the Administrator, in connection with a Sub-project, an Environmental Assessment Report, procurement documents and contractual agreements in connection with such Sub-project, in form and substance satisfactory to the Administrator and in accordance with the Environmental Management Plan.

4. The Administrator may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (i) contracts costing less than the equivalent of \$500,000 for works; (ii) contracts costing less than the equivalent of \$100,000 for goods; (iii) contracts costing less than \$100,000 equivalent per contract for services with firms; (iv) contracts costing less than \$50,000 equivalent per contract for services with individuals; (v) contracts for local training and studies; (vi) contracts for seminars and workshops; and (vii) Incremental Operating Costs, all under such terms and conditions as the Administrator

shall specify by notice to the Borrower.

B. Special Accounts

1. The Borrower shall open and maintain in Dollars three (3) separate special deposit accounts (Special Account A for Parts A.1, B.1 and C.1 of the Project, Special Account B for Part A.2 of the Project and Special Account C for Parts B.2 and C.2 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 (1) (a), (2) (a), (3) (a) and (5) (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 (1) (b) and (4) set forth in the table in paragraph A.1 of Schedule 1 to this Agreement; and Special Account C shall be used exclusively to finance expenditures under Categories (2) (b), (3) (b) and (5) (b) 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 said 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 Accounts 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-paragraph (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 \$500,000 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 \$50,000 to be withdrawn from the Credit Account and deposited into Special Account B pursuant to paragraph 2 of this Annex; and (iii) in respect of Special Account C, an amount equivalent to \$100,000 to be withdrawn from the Credit Account and deposited into Special Account B 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 said 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 said Special Account's 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 \$600,000 in respect of Special Account A, \$100,000 in respect of Special Account B and \$200,000 in respect of the Special Account C.

SCHEDULE 2

Description of the Project

The objectives of the Project are to rehabilitate and improve basic, high priority infrastructure and services in Gaza and the West Bank and build management capacity at the municipal and central level.

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: Infrastructure Rehabilitation and Improvement

1. Carrying out a program, consisting of the provision of goods and consultants' services, and the execution of works, to rehabilitate and improve the regional road network.

2. Carrying out a program, consisting of the provision of goods and consultants' services, and the execution of works, to rehabilitate and improve village and municipal water, waste water and sewage systems networks, including the development of new systems networks.

Part B: Capacity Building Support

1. Carrying out a program, consisting of the provision of goods, training and consultants' services, to strengthen the institutional capacity of the MPW to enable it to develop and implement a systematic approach to road maintenance and establish an environmental monitoring unit within the MPW.

2. Carrying out a program, consisting of the provision of goods, training and consultants' services, to strengthen the institutional capacity of the MLG and Selected Municipalities, such program to support the reform of MLG's accounting system and the Selected Municipalities' investment and development programming capacity.

Part C: Project Management Support

1. Support to the MPW through, inter alia, the provision of consultant services and goods, including computer hardware and software, training, essential office equipment, materials, supplies and spare parts to ensure effective management and coordination for the parts of the Project to be carried out by MPW.

2. Support to the MLG through, inter alia, the provision of consultant services and goods, including computer hardware and software, training, equipment, materials, essential office supplies and spare parts to ensure effective management and coordination for the parts of the Project to be carried out by MLG.

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The Project is expected to be completed by June 30, 2004.

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 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 less than US\$1,000,000 equivalent per contract, up to an aggregate amount not to exceed US\$2,900,000 equivalent, and goods estimated to cost less than US\$500,000 equivalent per contract, up to an aggregate amount not to exceed US\$1,000,000 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 Shopping

Goods estimated to cost less than US\$50,000 equivalent per contract, and not to exceed US\$300,000 equivalent in the aggregate, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost less than US\$50,000 equivalent per contract, and not to exceed US\$300,000 equivalent in the aggregate, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions 3.5 and 3.6 of the Guidelines.

4. Direct Contracting

Goods estimated to cost US\$5,000 equivalent or less per contract, up to an aggregate amount not to exceed US\$100,000 equivalent, and works estimated to cost US\$50,000 equivalent or less per contract, up to an aggregate amount not to exceed US\$1,000,000, may, with the Administrator's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

5. Force Account

Small works which meet the requirements of paragraph 3.8 of the Guidelines and costing US\$50,000 equivalent or less per contract, may, with the Administrator's prior agreement, be carried out by force account

in accordance with the provisions of said paragraph of the Guidelines.

Part D: Review by the Administrator of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Administrator for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Administrator, and with the provisions of said paragraph 1.

2. Prior Review

With respect to: (i) contracts procured in accordance with direct contracting; (ii) contracts procured in accordance with international and national shopping procedures; (iii) contracts procured in accordance with force account procedures; (iv) the first two (2) contracts procured in accordance with national competitive bidding procedures; (v) contracts for works estimated to cost the equivalent of US\$500,000 or more per contract; and (vi) contracts for goods estimated to cost the equivalent of US\$100,000 or more per contract, 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 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. Quality-Based 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 through 3.4 of the Consultant Guidelines.

2. Selection Under a Fixed Budget

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 3.5 of the Consultant Guidelines.

3. 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 Consultant Guidelines.

4. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$50,000 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.

5. Single Source Contracts

Services estimated to cost less than \$50,000 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) contracts for the employment of individual consultants procured in accordance with single source procedures; and (iii) the first three (3) contracts for services, 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 2 of this part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

SCHEDULE 4

Implementation Program

A. Project Implementation

1. The Borrower shall cause the Palestinian Authority to vest the responsibility for Project implementation in MLG, MPW and PWA.
2. MPW shall be responsible for the carrying out of Parts A.1, B.1 and C.1 of the Project.
3. (a) PWA shall be responsible for the carrying out of Part A.2 of the Project.

(b) Without any limitations or restrictions upon Section 3.01 to this Agreement, the PWA shall submit to the Administrator in connection with each Sub-project, under Part A.2 of the Project, an Environmental Assessment Report.
4. MLG shall be responsible for: (i) overall Project coordination including, accounting, auditing, financial monitoring and reporting; (ii) carrying out Part B.2 through the CBU and PAU; and (iii) carrying out part C.2 of the Project.
5. In order to achieve the objectives of the Project and to ensure effective capacity building and Project implementation, the Borrower shall cause MLG to enter into an Implementation Agreement with each of the Selected Municipalities pursuant to which, inter alia, the Selected Municipalities shall assume certain obligations with respect to Parts B.2 and C.2 of the Project, all in accordance with terms and conditions that shall have been approved by the Administrator.

B. Reports and Review

1. 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 quarterly progress reports, acceptable to the Administrator regarding the implementation of the Project during the preceding quarter, and a work plan for the subsequent quarter;
 - (c) prepare, under terms of reference satisfactory to the Administrator, and furnish to the Administrator, on or about July 1, 2002, a 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 1, 2002 or such later date as the Administrator shall request, the report referred to in subparagraph (b) 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 recommendations of the said report and the Administrator views on the matter.
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