

CONFIRMED COPY

TF 026056-GZ

Agreement Amending
Trust Fund Credit Agreement

(Water and Sanitation Services Project in Gaza)

between

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

and

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

Dated November 6, 2001

TF 026056-GZ

AGREEMENT AMENDING
TRUST FUND CREDIT AGREEMENT

AGREEMENT, dated November 6, 2001 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 Borrower and the Administrator have entered into a Trust Fund Credit Agreement (Water and Sanitation Services Project in Gaza) dated July 5, 1996, as amended (the Trust Fund Credit Agreement) for the purpose of assisting in the financing of the project described in Schedule 2 to the Trust Fund Credit Agreement (the Project);

(B) the Borrower, through the Palestinian Authority, has requested the Administrator to provide additional financial assistance in support of the Project by increasing the amount made available under the Trust Fund Credit Agreement by an amount in various currencies equivalent to six million dollars (\$6,000,000); and

WHEREAS the Administrator has agreed, on the basis, inter alia, of the foregoing, to provide such additional assistance to the Borrower in accordance with the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Amendments to the Trust Fund Credit Agreement

Section 1.01. Section 1.01 of the Trust Fund Credit Agreement is amended to read as follows:

"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. Section 1.02 of the Trust Fund Credit Agreement is amended as follows: (i) by deleting the word "and" at the end of Subsection (e); (ii) replacing the full stop at the end of Subsection (f) by a semi-colon and the word "and"; and (iii) adding a new Subsection (g) which shall read as follows:

"(g) "Amending Agreement" means this Agreement Amending Trust Fund Credit Agreement (Water and Sanitation Services Project in Gaza) between the Borrower and the Association, dated July 5, 1996."

Section 1.03. Section 2.01 of the Trust Fund Credit Agreement is amended to read as follows:

"Section 2.01. The Administrator agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Trust Fund Credit Agreement, an amount in various currencies equivalent to thirty one million dollars (\$31,000,000) (the Trust Fund Credit) which consists of: (a) an initial amount in various currencies equivalent to twenty-five million dollars (\$25,000,000) (the Initial Financing); and (b) a supplemental amount in various currencies equivalent to six million dollars (\$6,000,000) (the Supplemental Financing)."

Section 1.04. The Closing Date set forth in Section 2.03 of the Trust Fund Credit Agreement is amended to read: "June 30, 2002".

Section 1.05. A proviso is added at the end of Section 2.04 (b) (i) of the Trust Fund Credit Agreement reading as follows: "; provided, however, that any commitment charge on the Supplemental Financing shall accrue from a date sixty (60) days after the date of this Amending Agreement."

Section 1.06. All references in the Trust Fund Credit Agreement to the Palestinian Executive Authority and PEA shall be deemed to refer to the Palestinian Authority.

Section 1.07. The table in paragraph 1 of Schedule 1 to the Trust Fund Credit Agreement (Withdrawal of the Proceeds of the Credit) is amended to read as set forth in Schedule 1 to this Amending Agreement. The percentage of expenditures to be financed as set forth in Schedule 1 to this Amending Agreement shall be applicable in respect of payments made for expenditures incurred on or after June 1, 2001.

Section 1.08. A new paragraph 5 is added at the end of Schedule 1 to the Trust Fund Credit Agreement reading as follows: "It is understood that the percentages of expenditures to be financed under the table set forth in paragraph 1 of this Schedule have been calculated on the basis of an undertaking by the Ministry of Finance of the Palestinian Authority to exclude taxes and custom duties from the sum total of any and all amounts requested to be withdrawn from the Credit Account for the purpose of financing works, goods and services under the Project. It is further understood that the levying of taxes and/or customs duties on works, goods and services financed under the Project shall lead to the decrease of the percentages referred to above in accordance with the provisions of Section 5.08 of the General Conditions."

Section 1.09. The Authorized Allocation stated in paragraph 1 (c) of Schedule 5 is amended to read: "\$3,100,000."

ARTICLE II

Effective Date; Termination

Section 2.01. This Amending Agreement shall not become effective until evidence satisfactory to the Administrator shall have been furnished to the Administrator that the execution and delivery of this Amending Agreement on behalf of the Borrower have been duly authorized or ratified by all necessary action.

Section 2.02. As part of the evidence to be furnished pursuant to Section 2.01 of this Amending Agreement, there shall be furnished to the Administrator an opinion or opinions, satisfactory to the Administrator, of counsel acceptable to the Administrator, showing, on behalf of the Borrower, that this Amending 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 2.03. This Amending Agreement shall come into force and effect on the date upon which the Administrator dispatches to the Palestinian Authority, on behalf of the Borrower, notice of its acceptance of the evidence required by Section 2.01 of this Amending Agreement.

Section 2.04. If this Amending Agreement shall not have come into force and effect by a date ninety (90) days after the date of this Amending Agreement, this

Amending Agreement and all obligations of the parties hereunder shall terminate, unless the Administrator establishes a later date for the purposes of this Section. If this Amending Agreement shall terminate under the provisions of this Section, the Trust Fund Credit Agreement shall continue in full force and effect, as if this Amending Agreement had not been executed.

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

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

By /s/ Mohammed Nashashibi
Authorized Representative

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

By /s/ Nigel Roberts
Authorized Representative

SCHEDULE I

Withdrawal of the Proceeds of the Credit

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	7,360,000	100%
(2) Goods	7,450,000	100%
(3) Management Firm's fee under Part A of the Project	10,540,000	100%
(4) Consultants' services under Part C of the Project	3,370,000	100%
(5) Incremental Operating Expenditures	2,280,000	100%
(6) Unallocated	0	
TOTAL	31,000,000	