

CONFORMED COPY

TF050997

European Community Grant Agreement

**(Relating to the Second Emergency Services Support Project
in the West Bank and Gaza)**

between

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

and

**INTERNATIONAL DEVELOPMENT ASSOCIATION
(as Administrator of the Grant provided by the Commission of European
Communities, acting on behalf of the European Community)**

Dated August 2, 2003

**EUROPEAN COMMUNITY GRANT NUMBER
TF050997**

EUROPEAN COMMUNITY GRANT AGREEMENT

AGREEMENT dated August 2, 2003, between the PALESTINE LIBERATION ORGANIZATION (for the benefit of the Palestinian Authority) (the "Recipient") and the INTERNATIONAL DEVELOPMENT ASSOCIATION, acting as administrator (the "Administrator") of a grant (the "EC Grant") provided by the COMMISSION OF EUROPEAN COMMUNITIES (the "Commission"), acting on behalf of the European Community (the "Donor").

WHEREAS (A) under an agreement dated December 31, 2002, between the Administrator and the Recipient (the Trust Fund Grant Agreement or "TFGA"), the Administrator has agreed to provide the Recipient with a trust fund grant (the "IDA Grant") in an amount equivalent to twenty-five million United States dollars (US\$25,000,000) to assist in financing the carrying out in the West Bank and Gaza ("WBG") of the Second Emergency Services Support Project described in Schedule 2 to the TFGA;

(B) the Donor has agreed, under a administration agreement with the Administrator, dated June 9, 2003, (the "Administration Agreement"), to provide a Grant in the amount of Euro twenty one million four hundred sixty four thousand one hundred two and fifty-four cent (€21,464,102.54) to finance the activities described in Annex 1 to the Administration Agreement;

(C) the Donor and the Administrator have agreed, under the Administration Agreement, to assign the responsibility for administration of utilization of the proceeds of the EC Grant for purposes of assisting in financing the Project described in Schedule 2 to this Agreement (the "Project"); and

(D) the Administrator undertook under the Administration Agreement to carry out the procedures and conclude the agreements required to implement the Administration Agreement and to achieve the objectives of the EC Grant.

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The General Conditions, as amended, referred to and modified in Schedule 7 to the TFGA (the "General Conditions") shall apply *mutatis mutandis* to this Agreement.

Section 1.02. The several terms defined in the TFGA, the General Conditions referred to in the preceding Section and in the Preamble to this Agreement have the respective meanings therein set forth, and (a) the term "Grant Account" means the account maintained by the Administrator, in which the amount of the EC Grant is deposited, and (b) the term "Grant Special Account" means the account to be opened by the Recipient pursuant to the provisions of Section 2.02 (b) of this Agreement.

ARTICLE II

The Grant

Section 2.01. The Administrator agrees to extend to the Recipient, on the terms and conditions herein set forth or referred to, the EC Grant in an amount equivalent to Euro twenty one million four hundred sixty four thousand one hundred two and fifty-four cent (€21,464,102.54) equivalent.

Section 2.02. (a) The amount of the EC Grant may be withdrawn from the Grant 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, food, services approved for financing from the proceeds of the EC Grant in accordance with the provisions of this Agreement.

(b) The Recipient may, for purposes of the EC Grant, open and maintain in United States dollars two (2) special deposit accounts (Special Account A for Part A of the Project and Special account B for Part B of the Project) 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 Accounts shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. Except as the Administrator shall otherwise agree, goods, food and services to be financed from the proceeds of the EC Grant shall be procured in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.04. The Closing Date shall be November 30, 2003, or such later date as shall be determined by the Administrator in agreement with the Donor. The Administrator shall promptly notify the Recipient of such later date.

Section 2.05. Disbursement from the proceeds of the EC Grant (including deposits into the Special Account) shall be made only to the extent that resources adequate to meet such disbursement shall have been transferred from the Donor to the Administrator.

ARTICLE III

Execution of the Project

Section 3.01. Except as the context may otherwise require, Articles III and IV of, and Schedules 4 to, the TFGA are hereby incorporated into this Agreement with the same force and effect as if they are fully set forth herein. For this purpose all references in said Articles and Schedule to: (a) the "Administrator" shall be deemed to be references to the International Development Association as Administrator of the EC Grant; and (b) the "Grant" and "Grant Account" shall be deemed to be references to the EC Grant and the EC Grant Account respectively.

Section 3.02. Except as the Administrator shall otherwise agree, the Recipient shall ensure that the entire amount of the EC Grant shall be allocated for goods, food and services required for the carrying out of the Project.

ARTICLE IV

Effectiveness; Termination

Section 4.01. This Agreement shall become effective upon signature thereof by the parties hereto and shall continue in effect until termination of the Administration Agreement or until the EC Grant has been fully disbursed and the parties to this Agreement have fulfilled their obligations thereunder, whichever occurs first.

Section 4.02. In accordance with the Administration Agreement, the rights and obligations of the Administrator under this Agreement may be terminated under a notice from one party to the other. The Recipient accepts and agrees that, upon notice by the Administrator to the Recipient to that effect, the Donor shall, *ipso facto*, from the date specified in such notice, be substituted in all rights and obligations of the Administrator

under this Agreement as if the Donor had been an original party to this Agreement, without any further action or formality required on the part of any party, and from such date the Administrator shall cease to have any rights or obligations under this Agreement.

ARTICLE V

Representatives

Section 5.01. The Minister of Finance of the Palestinian Authority shall be the representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 5.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

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:

INDEVAS
Washington, D.C.

Telex:

MCI 248423
MCI 64145

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

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

By /s/ Salam Fayyad

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION
as Administrator of the Grant provided by
the Commission of European Communities, acting on
behalf of the European Community

By /s/ Nigel Roberts

Country Director
Middle East and North Africa Region

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

1. The table below sets forth the Category to be financed out of the proceeds of the Grant, the allocation of the amount of the Grant to such Category and the percentage of expenditures for items so to be financed in such Category:

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in Euro)</u>	<u>% of Eligible Expenditures to be Financed</u>
(1) Goods under:		
(a) Part A.1 of the Project	10,500,000	100%
(b) Part B of the Project	2,500,000	100%
(2) Consultants' services and Audit Costs under Part A.1 of the Project	1,900,000	95% excluding VAT, 81% including VAT
(3) Food under Part A.2 of the Project	500,000	100%
(4) Incremental Operating Costs under:		
(a) Part A.1 and A.2	2,100,000	100% of the Project
(b) Part B of the Project	2,500,000	100%
(5) Unallocated	<u>1,464,102.54</u>	
TOTAL	<u>21,464,102.54</u> =====	

2. For the purposes of this Schedule:

The term "Incremental Operating Costs" means expenditures incurred by the Palestinian Authority on account of rent, utility charges, transportation expenses, communication costs, maintenance, banking charges, mail costs, translation charges, advertisement costs relating solely to the procurement process under the Project, domestic travel costs (including transport and per diem), labor costs, hospital cleaning charges, vehicle insurance, hospital and hazard insurance, and rent other facilities for MOH and Higher Education Institutions.

3. Notwithstanding the provisions of paragraph 1 above, except as the Administrator shall otherwise agree, 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 five million Dollars (\$5,000,000) equivalent, may be made in respect of Categories (1)(a), (1)(b), (2), (3), (4)(a) and (4)(b) on account of payments made before that date but after January 1, 2003.

4. The Administrator may require withdrawals from the EC Grant Account to be made on the basis of statements of expenditure for: (i) except for the first three contracts under each of Parts A and B of the Project, contracts for goods or food under Part A.2 of the Project, costing less than the equivalent of \$100,000; (ii) contracts costing less than the equivalent of \$100,000 for services of consulting firms; (iii) contracts costing less than the equivalent of \$50,000 for services of individual consultants; and (iv) Incremental Operating Costs, all under such terms and conditions as the Administrator shall specify by notice to the Recipient.

SCHEDULE 2

Description of the Project

The objective of the Project is to mitigate the deterioration of basic social services resulting from the ongoing conflict prevailing in the parts of the West Bank and the Gaza Strip under the jurisdiction of the Palestinian Authority and its consequent economic crisis and fiscal impact by financing goods and services necessary to deliver these services.

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

Part A: Health Services

1. Provision of non-salary operating costs for primary health care, secondary and tertiary hospital care, including essential drugs and medical consumables, non-medical recurrent expenditures, treatment in private/non governmental clinics (providing services not available by public facilities).
2. Provision of food for hospital patients.

Part B: Higher Education Services

Provision of non-salary operating costs for the recurrent budgets of Higher Education Institutions and Universities, bridging the gap between the normative cost and the current tuition levels.

* * *

The Project is expected to be completed by March 31, 2004.

SCHEDULE 3

Procurement

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits,” published by the Administrator in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.
2. Goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B shall be subject to the following provision, namely, that the provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the West Bank or Gaza.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$7,000,000 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 and National Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, and not to exceed \$4,000,000 equivalent in the aggregate, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods which are of a proprietary nature may, with the Administrator's prior agreement, be procured in accordance with 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 shall be undertaken in accordance with such procurement plan as shall have been approved by the Administrator, and with the provisions of said paragraph 1.

2. Prior Review

(a) The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply with respect to: (i) all contracts for goods procured under the provisions of paragraph 1 of Part B of Section I of this Schedule; and (ii) each of the first three (3) contracts for goods, under each of Parts A and B of the Project, procured under the provisions of paragraph 1 of Part C of Section I of this Schedule.

(b) The following procedures shall apply with respect to all contracts for goods procured under the provisions of paragraph 3 of Part C of Section I of this Schedule:

- (i) prior to the selection of any supplier under direct contracting, the Recipient, through the Palestinian Authority, shall provide to the Administrator a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under direct contracting, the Recipient, through the Palestinian Authority, shall

provide to the Administrator a copy of the specifications and the draft contract; and

- (iii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Recipients," published by the Administrator in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines) and the following provisions of this Section II.

Part B: Quality- and Cost-based Selection

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

Part C: Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services of consulting firms estimated to cost less than \$100,000 equivalent per contract, up to the equivalent of \$500,000 in the aggregate, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Least-cost Selection

Services relating to the evaluation of financial proposals in connection with auditing, engineering and cleaning service contracts, to be awarded under the provisions of Part B of Section II of this Schedule, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultants Guidelines.

3. Service Delivery Contractors

Services to be provided by medical personnel under Part A.1 of the Project shall be procured in accordance with procedures acceptable to the Administrator.

4. Individual Consultants

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

5. Single Source Selection

In exceptional cases where narrow specialization and availability of providers shall not offer alternatives, services 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, and the contract for the provision of a consulting firm to perform audit services, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to: (i) each contract for the employment of individual consultants estimated to cost \$50,000 or more; and (ii) each contract with an individual consultant procured under the provisions of paragraph C.5 of Section II of this Schedule, 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

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1)(a), (1)(b), (2), (3), (4)(a) and (4)(b) 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, food under Part A.2 of the Project, and services required for the Project and to be financed out of the proceeds of the Grant allocated to the eligible Category in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means: (i) in respect of the Special Account for Part A of the Project, an amount equivalent to three million five hundred thousand United States dollar (\$3,500,000); and (ii) in respect of the Special Account for Part B of the Project, an amount equivalent to one million five hundred thousand United States dollar (\$1,500,000), to be withdrawn from the EC Grant Account and deposited into the Special Accounts pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the respective 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 respective Special Account have been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Administrator a request or requests for a deposit or deposits 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 Recipient, withdraw from the EC Grant Account and deposit in the respective Special Account such amount or amounts as the Recipient shall have requested.

(b) (i) For replenishment of the respective Special Account, the Recipient shall furnish to the Administrator requests for deposits into the respective Special Account at such intervals as the Administrator shall specify.

(ii) Prior to or at the time of each such request, the Recipient 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 Recipient, withdraw from the EC Grant Account and deposit into the respective Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the respective Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Administrator from the EC Grant Account under the respective eligible Category, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Recipient out of the respective Special Account, the Recipient 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 any Special Account:

(a) if, at any time, the Administrator shall have determined that all further withdrawals should be made by the Recipient directly from the EC Grant Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Grant allocated to the eligible Category, less the amount of any outstanding special commitment entered into by the Administrator pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the EC Grant Account of the remaining unwithdrawn amount of the Grant allocated to the eligible Category shall follow such procedures as the Administrator shall specify by notice to the Recipient. 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 respective 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 any 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 Recipient shall, promptly upon notice from the Administrator: (A) provide such additional evidence as the Administrator may request; or (B) deposit into the respective 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 any Special Account shall be made until the Recipient 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 any Special Account will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from the Administrator, refund to the Administrator such outstanding amount.

(c) The Recipient may, upon notice to the Administrator, refund to the Administrator all or any portion of the funds on deposit in the Special Accounts.

(d) Refunds to the Administrator made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the EC Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.