

CONFORMED COPY

TF 026044

Trust Fund Credit Agreement

(Second Community 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 May 6, 1999

TF 026044

TRUST FUND CREDIT AGREEMENT

AGREEMENT, dated May 6, 1999, between PALESTINE LIBERATION ORGANIZATION (for the benefit of the Palestinian Authority) (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION, acting as administrator (the Administrator) of the Trust Fund for Gaza and West Bank, established on October 19, 1993, by Resolution No. 93-11 and IDA 93-7, as amended by Resolution No. 95-6 and IDA 95-3 and further amended by Resolution No. 96-11 and IDA 96-7, of the Executive Directors of the International Bank for Reconstruction and Development and the International Development Association (the Trust Fund).

WHEREAS (A) the Board of Governors of the International Bank for Reconstruction and Development and the International Development Association has resolved, on July 13, 1998, to, inter alia, replenish the Trust Fund in the amount of ninety million dollars (\$90,000,000), 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) The second sentence of Section 5.01 is modified to read:

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

(b) 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."

(c) 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."

(d) 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."

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) "Beneficiary" means any community in the West Bank or Gaza to which the Borrower proposes to make, or has made, a Sub-project Grant (as this term is

hereinafter defined);

(b) "LGC" means local government communities and such term shall include municipalities, village councils, camp service committees, local project committees and bedouin sites in the West Bank and Gaza;

(c) "Operational Manual" means the Borrower's revised manual, whose content has been agreed upon with the Administrator, which sets out the terms, conditions, procedures and eligibility criteria pursuant to which the Borrower shall carry out Part A of the Project, as the same may be amended from time to time with the agreement of the Administrator;

(d) "PECDAR" means Palestinian Economic Council for Development and Reconstruction, an agency established and operating under a Basic Regulation issued on May 14, 1994, under a Decree from Chairman of the Executive Committee of the Palestine Liberation Organization;

(e) "Project management report" means each report prepared in accordance with Section 4.02 of this Agreement;

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

(g) "Subsidiary Agreement" means the agreement to be entered into between the Borrower and the Palestinian Authority pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term shall include all schedules to the Subsidiary Agreement;

(h) "Sub-project" means a specific project to rehabilitate or upgrade, inter alia, the water supply system, the sanitation system, medical clinics, primary schools or feeder roads in the West Bank or Gaza, or to improve solid waste management therein;

(i) "Sub-project Grant" means a grant made or proposed to be made by the Borrower out of the proceeds of the Credit to a Beneficiary for a Sub-project;

(j) "MOLG" means the Ministry of Local Government of the Palestinian Authority;

(k) "DORA" means the Department of Refugee Affairs of PLO; and

(l) "Implementation Agreement" means the agreement, dated February 22, 1999, among MOLG, PECDAR and DORA setting forth the tasks and responsibilities of the parties to this agreement, as the same may be amended from time to time with the agreement of the Administrator.

## 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 eight million dollars (\$8,000,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for amounts paid (or if the Administrator shall so agree, to be paid) by the Borrower on account of expenditures under a Sub-project Grant to meet the reasonable cost of goods and services required for the Sub-project; and (ii) expenditures made (or, if the Administrator shall so agree, to be made) in respect of the reasonable cost of goods and services required for Parts B and C of the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for purposes of the Project, open and maintain, in dollars, a special deposit account in a commercial bank on terms and conditions satisfactory to the Administrator, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall

be made in accordance with the provisions of Schedule 5 to this Agreement.

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

Section 2.04. (a) The Borrower shall cause the 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.

(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 January 15 and July 15 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 January 15 and July 15 commencing July 15, 2009 and ending January 15, 2039. Each installment to and including the installment payable on January 15, 2019, 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, financial and environmental practices and in accordance with the Implementation Program set forth in Schedule 4 to this Agreement, as the same may be amended from time to time by mutual agreement of the Borrower and the Administrator, and shall cause the Palestinian Authority to provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall make the proceeds of the Credit available to the 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.

(c) 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.

(d) 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 the 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 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 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 January 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 event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 12.01 of the General Conditions, namely, that the Subsidiary Agreement has been executed on behalf of the Borrower and the Palestinian Authority.

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  
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:

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  
Middle East and North Africa Region

#### SCHEDULE 1

#### Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in U.S. Dollars Equivalent)	% of Eligible Expenditures to be Financed
(1) Sub-project Grants under Part A of the Project	7,000,000	100%
(2) Goods under Parts B and C of the Project	100,000	100% of foreign expenditures and 85% of local expenditures
(3) Consultants' services and training under	200,000	100%



Parts B and C of  
the Project

(4)	Operating Expenditures	500,000	100%
(5)	Unallocated	200,000	
	TOTAL	8,000,000	

2. For the purposes of this Schedule:

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

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

(c) the term "Operating Expenditures" means expenditures incurred by the Borrower, in respect of Part C of the Project, on account of salaries, rental of office space, maintenance of vehicles, fuel, telephone charges, and domestic travel and other related expenditures.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Administrator may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (i) payments made under Sub-project Grants; (ii) goods under contracts not exceeding \$100,000 equivalent; (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 training, studies, seminars and workshops; and (vi) Operating Expenditures, all under such terms and conditions as the Administrator shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to rehabilitate and restore basic economic and social infrastructure in poor and marginalized communities in the West Bank and Gaza, and increase temporary job opportunities for unskilled and semi-skilled laborers therein.

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: Community Development

Provision by the Borrower of Sub-project Grants to Beneficiaries to carry out Sub-projects.

Part B: Institutional Strengthening

Carrying out a program consisting of the provision of goods, staff training and expert services to: (i) LGC to enhance the quality of Sub-project proposals and upgrade LGC's capacity to plan, manage and carry out infrastructure operations and maintenance activities; (ii) MOLG, PECDAR and DORA to enhance their capacity to manage and coordinate the implementation of Sub-projects; and (iii) small local contractors to increase their ability to participate in competitive bidding procedures and provide

supporting documentation for payment.

Part C: Project Management Support

Support to MOLG and PECRAR through, inter alia, the provision of goods, expert services and training, and the preparation of studies, to ensure the effective carrying out of the Project and the supervision of its execution.

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The Project is expected to be completed by April 30, 2002.

### 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: Procurement Procedures

1. Procurement under Sub-projects

Goods and works under Part A of the Project shall be procured in accordance with procedures set forth in the Operational Manual, which have been found acceptable to the Administrator.

2. National Shopping

Goods under Parts B and C of the Project shall be procured under contracts awarded on the basis of national shopping procedures in accordance with provisions 3.5 and 3.6 of the Guidelines.

Part C: Review by the Administrator of Procurement Decisions

1. Prior Review

(a) With respect to contracts for goods and works under the first three (3) Sub-projects which shall be financed out of the proceeds of the Credit allocated to Part A of the Project; the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract procured under direct contracting procedures, the Borrower shall provide to the Administrator a copy of the specifications and the draft contract, and the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

2. 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: Other 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 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.

3. Single Source Contracts

Services estimated to cost less than \$100,000 equivalent per contract, may, with the Administrator's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Administrator for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Administrator, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$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 each contract for the employment of individual consultants estimated to cost \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Administrator for its prior review and approval. The contract shall be awarded only after said approval shall have been given. ~SCHEDULE 4

Implementation Program

A. Overall Project Implementation

1. The Borrower shall: (a) maintain arrangements, satisfactory to the Administrator, for the overall coordination and supervision of Project execution in accordance with the Implementation Agreement; (b) employ, in accordance with the provisions of Section II of Schedule 3 to this Agreement, consultants, with qualifications and terms of reference satisfactory to the Administrator, to assist in

the carrying out of Parts B and C of the Project; and (c) ensure that training activities under Parts B and C of the Project shall be carried out in accordance with programs, including time-schedules for the implementation thereof and criteria for the selection of candidates thereunder, agreed between the Borrower and the Administrator.

2. The Borrower shall: (a) maintain procedures adequate to enable it to monitor and evaluate on an on-going basis, in accordance with indicators agreed with the Administrator, the carrying out of the Project and the achievement of the objectives thereof; (b) prepare, under terms of reference satisfactory to the Administrator, and furnish to the Administrator: (i) by March 1 of each year until completion of the Project, a report, integrating the results of the monitoring and evaluation activities performed pursuant of subparagraph (a) above, on the progress achieved in the carrying out of the Project during the period of twelve (12) months preceding the date of such report, and (ii) on or about January 31, 2001, a mid-term report, integrating the data and other information contained in the reports prepared pursuant to subparagraph (b) (i) above, on the progress achieved in carrying out the Project during the period preceding the date thereof and setting out the measures recommended to ensure the efficient carrying out of the Project during the period following such date; and (c) review with the Administrator each such report, and, thereafter, take all measures required to ensure the efficient carrying out of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of such report and the Administrator's views on the matter.

#### B. Part A of the Project

The Borrower shall maintain arrangements, satisfactory to the Administrator, pursuant to which the Borrower shall: (a) select Beneficiaries, approve Sub-projects, make Sub-project Grants and otherwise carry out its activities under Part A of the Project in accordance with the terms, conditions, procedures, criteria and other details set forth in the Operational Manual; and (b) adopt procedures, satisfactory to the Administrator, to (i) monitor against specific outcome indicators agreed with the Administrator, the carrying out by Beneficiaries of Sub-projects and the achievement of the objectives of Part A of the Project; and (ii) prepare for inclusion in the reports referred to in paragraph A.2 (b) of this Schedule, all information required to assess the progress of Part A of the Project and the achievement of its objectives.

#### SCHEDULE 5

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4), set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule equivalent to \$1,500,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Administrator has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation relative to said Special Account, and subsequent withdrawals to replenish the Special Account, shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Administrator a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Administrator shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the Special Account such amount or amounts as the

Borrower shall have requested.

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Administrator the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Administrator shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

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

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Administrator shall reasonably request, furnish to the Administrator such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Administrator shall not be required to make further deposits into the Special Account:

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

(b) if the Borrower shall have failed to furnish to the Administrator, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Administrator pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Administrator shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, 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 aggregate amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Administrator shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Administrator shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Administrator shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Administrator, the Borrower shall, promptly upon notice from the Administrator: (A) provide such additional evidence as the Administrator may request; or (B) deposit into the Special Account (or, if the Administrator shall so request, refund to the Administrator) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Administrator shall otherwise agree, no further deposit by the Administrator into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or

refund, as the case may be.

(b) If the Administrator shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Administrator, refund to the Administrator such outstanding amount.

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

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

