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**TF050591**

# **Trust Fund Credit Agreement**

**(Integrated 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 August 6, 2002**



**TRUST FUND CREDIT AGREEMENT**

AGREEMENT, dated August 6, 2002, 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) “Beneficiary” means an LGU (as this term is hereinafter defined) to which MOLG (as this term is hereinafter defined) proposes to make, or has made, a Micro-project Grant (as this term is hereinafter defined) under Part A of the Project, or an MCT (as this term is hereinafter defined) to which MOLG (as this term is hereinafter defined) proposes to make, or has made, a Micro-project Grant (as this term is defined hereafter) under Part B of the Project;

(b) “DORA” means the Department of Refugee Affairs within the Palestine Liberation Organization;

(c) “Environmental Management Plan” means MOLG’s plan, dated January 2, 2002, as such plan may be updated from time to time by agreement of the Palestinian Authority and the Administrator, such plan: (i) setting forth the measures to be taken during the implementation and operation of the Project to offset and/or reduce the adverse environmental impacts to levels acceptable to the Administrator, and (ii) consisting of an institutional strengthening component, an environmental mitigation plan and an environmental monitoring plan;

(d) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 of this Agreement;

(e) “Implementation Agreement” means the agreement, dated February 18, 2002, among MOLG (as this term is hereinafter defined), MOA (as this term is hereinafter defined), PECDAR (as this term is hereinafter defined) and DORA setting forth the tasks and responsibilities of the parties thereto in connection with the carrying out of the Project, as the same may be amended from time to time with the prior agreement of the Administrator;

(f) “LGU” means a local government unit, and such term shall include a municipality, village council and/or a refugee camp service committee;

(g) “MOA” means the Ministry of Agriculture of the Palestinian Authority;

(h) “MOF” means the Ministry of Finance of the Palestinian Authority;

(i) “MCT” means a multi-purpose community telecenter whose objective is to support community development by providing access to information and communication technology and services;

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

(k) “Operations Manual” means the manual referred to under the Trust Fund Credit Agreement between the Borrower and the Administrator, dated May 6, 1999 (TF026044), as revised in accordance with the provisions of Section 5.01

(b) of this Agreement, which sets out the terms, conditions, procedures and eligibility criteria pursuant to which MOLG shall carry out Parts A and B of the Project, under the auspices of the Steering Committee (as this term is hereinafter defined), as the same may be amended from time to time with the agreement of the Administrator;

(l) “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;

(m) “Special Account” means the account referred to in Schedule 5 to this Agreement;

(n) “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;

(o) “Micro-project” means a specific project under Part A or Part B of the Project set forth in Schedule 2 to this Agreement;

(p) “Micro-project Grant” means a grant made or proposed to be made by MOLG out of the proceeds of the Credit to a Beneficiary for a Micro-project under either Part A or Part B of the Project; and

(q) “Steering Committee” means the steering committee vested by the Palestinian Authority with the responsibility to oversee the implementation of the Project, and consisting of representatives from MOF, MOLG, MOA, PECDAR and DORA.

## ARTICLE II

### The Credit

Section 2.01. The Administrator agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to ten million United States dollars (US\$10,000,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) amounts paid (or if the Administrator shall so agree, to be paid) by the Palestinian Authority on behalf of the Borrower on account of expenditures under a Micro-project Grant to meet the reasonable cost of goods, works and services required for the Micro-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 Part 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 June 30, 2006, 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 Palestinian Authority, on behalf of 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 fourth 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 March 15 and September 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 March 15 and September 15 commencing September 15, 2012 and ending March 15, 2042. Each installment to and including the installment payable on September 15, 2022, 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 Account, 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 Borrower's progress reporting obligations set out in Section 4.01 of this Agreement, the Borrower shall cause the Palestinian Authority to prepare and furnish to the Administrator a Financial Monitoring Report, in form and substance satisfactory to the Administrator, which:

(i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report,

showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;

- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Administrator not later than forty five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Administrator not later than forty five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

## **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 the Palestinian Authority; and

(b) that the Borrower, through the Palestinian Authority, has submitted to the Administrator a revised version of the manual referred to under the Trust Fund Credit Agreement between the Borrower and the Administrator, dated May 6, 1999 (TF026044), in form and substance satisfactory to the Administrator.

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

Facsimile:

072825255

For the Administrator:

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

Cable address:

Telex:

Facsimile:

INDEVAS  
Washington, D.C.

248423 (MCI) or  
64145 (MCI)

(1-202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Gaza, as of the day, month 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 Trust Fund for Gaza and West Bank

By /s/ Nigel Roberts

Vice President  
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:

<b>Category</b>	<b>Amount of the Credit Allocated (Expressed in <u>U.S. Dollar Equivalent</u>)</b>	<b>% of Eligible Expenditures <u>to be Financed</u></b>
(1) Micro-project Grants under Parts A and B of the Project	8,500,000	100%
(2) Goods under Part C of the Project	600,000	100%
(3) Consultants' services, training, studies, seminars and workshops	400,000	100%
(4) Operating Expenditures	300,000	100% until 2004; 90% until 2005; and 85% thereafter
(5) Unallocated	200,000	
<b>TOTAL</b>	<u><b>10,000,000</b></u>	

2. For the purposes of this Schedule, the term "Operating Expenditures" means expenditures incurred by MOLG, MOA, PECDAR and DORA, 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 Micro-project Grants; (ii) goods under contracts not exceeding \$50,000 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.

5. 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 Minister 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.



## SCHEDULE 2

### Description of the Project

The objective of the Project is to improve the quality and availability of basic economic and social services in poor and marginalized communities in the parts of the West Bank and Gaza under the jurisdiction of the Palestinian Authority.

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

#### Part A: Community Development

Carrying out, through the provision of goods and services and the execution of works, specific projects to rehabilitate or upgrade, *inter alia*, the water supply system, the sanitation system, the solid waste management system, health clinics, primary and secondary schools, feeder roads, internal roads, irrigation networks, terraces and wells.

#### Part B: Community Telecenters

Carrying out, through the provision of goods and services, specific projects to develop sustainable, replicable models for multi-purpose community telecenters in pre-selected locations, and evaluate the developmental impact of such centers on social, economic and cultural development therein.

#### Part C: Project Management Support

Support to MOLG, MOA, PECDAR and DORA through the provision of goods, consultants' services and training, and the preparation of studies, to ensure the effective carrying out of the Project and the supervision of its execution.

\* \* \* \* \*

The Project is expected to be completed by December 31, 2005.

### 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 Micro-projects

(a) Works under Part A of the Project estimated to cost less than \$150,000 equivalent per contract, up to an aggregate amount not to exceed \$5,000,000 equivalent, and goods estimated to cost \$50,000 or more per contract, up to an aggregate amount not to exceed \$600,000 may be procured under contracts awarded on the basis of national competitive bidding in accordance with procedures acceptable to the Administrator. Said procedures shall ensure, *inter alia*, that: (i) tenders shall be advertised for at least two (2) consecutive days in a local newspaper of wide circulation; (ii) prospective bidders shall be allowed a minimum of thirty (30) days between the date upon which the notification appears in the newspaper for the first time and the date upon which the bid is submitted; (iii) the format of the bidding documents shall be consistent with that of the Administrator's standard bidding documents, or with the format of bidding documents used by United Nations Agencies operating in the West Bank and Gaza; (iv) interested foreign contractors and suppliers shall be allowed to bid; (v) bids shall be submitted in sealed envelopes and shall be accepted whether mailed or hand-carried; (vi) all bids shall be opened at the same time in public; (vii) contracts shall be awarded to the lowest evaluated bidder; (viii) no bidder shall be requested or permitted to modify his, her or its bid after the bid closing date shall have elapsed; (ix) price negotiations with the lowest evaluated bidder shall be limited to cases provided for under the Guidelines; and (x) postqualification criteria shall, in the absence of a prequalification process, be explicitly stated in the bidding documents.

(b) Works estimated to cost less than US\$50,000 equivalent per contract, up to an aggregate amount not to exceed US\$3,045,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Administrator, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

(c) Works which should be procured as an extension of an existing contract and goods which must be purchased from the original supplier to be compatible with existing equipment may, with the Administrator's prior agreement, be procured in accordance with provisions of paragraph 3.7 of the Guidelines.

2. International or National Shopping

Goods under Part C of the Project estimated to cost the equivalent of less than \$50,000 per contract shall 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.

Part C: 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

(a) The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply to: (i) each contract for goods and works under the first batch of Micro-projects; and (ii) each contract for goods estimated to cost the equivalent of \$50,000 or more.

(b) With respect to contracts procured in accordance with direct contracting procedures, the following procedures shall apply:

- (i) prior to the selection of any supplier under direct contracting procedures, the Borrower, 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 procedures, the Borrower, 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 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. 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.

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 the Project; and (c) ensure that training activities under Part C of the Project shall be carried out in accordance with programs, including time-schedules for the implementation thereof and criteria for the selection of candidates thereunder, agreed between the Borrower and the Administrator. Without prejudice to the foregoing, the Borrower, through the Palestinian Authority, shall vest in MOLG the overall responsibility for carrying out the Project and cause MOLG to carry out the Project in accordance with the provisions of the Environmental Management Plan which are integrated into the Operations Manual. In turn, MOLG shall be guided by the Steering Committee in carrying out its Project implementation activities.

2. The Borrower shall cause the Palestinian Authority to: (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 May 31, 2004, 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. Parts A and B of the Project**

The Borrower shall cause the Palestinian Authority to maintain arrangements, satisfactory to the Administrator, pursuant to which MOLG shall: (a) select Beneficiaries, approve Micro-projects, make Micro-project Grants and otherwise carry out activities under Parts A and B of the Project in accordance with the terms, conditions, procedures, criteria and other details set forth in the Operations 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 Micro-projects and the achievement of the objectives of Parts A and B 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 Parts A and B of the Project and the achievement of their 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 \$1,000,000; provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$3,000,000.

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

3. After the Administrator has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation 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.

