

CONFORMED COPY

TF 026052

Trust Fund Credit Agreement

(Housing 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 April 14, 1997

TF 026052

TRUST FUND CREDIT AGREEMENT

AGREEMENT, dated April 14, 1997, 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 as 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 February 3, 1997, 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 the Gaza Strip (Gaza) and the West Bank (the West Bank);

(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) under the Interim Agreement, the parties thereto agreed to the establishment of a Palestinian Interim Self-Governing Authority (the Palestinian

Authority or PA);

(D) 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;

(E) the PA has requested the Administrator to assist in financing the project described in Schedule 2 to this Agreement (the Project);

(F) Part A of the Project will be carried out by the SMF (as this term is defined in Section 1.02 (t) of this Agreement), with the assistance of the Borrower and the PA, as part of such assistance, the Borrower, through the PA, will make available to the SMF a portion of the proceeds of the Credit as provided in this Agreement;

WHEREAS the Administrator has agreed, on the basis, inter alia, of the foregoing to extend the Credit to the Borrower, for the benefit of the PA, 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), 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) A new Section, to be numbered "9.08", shall be inserted after Section 9.07 and shall read as follows:

"The Borrower shall take, or cause to be taken, all such action as shall be necessary to acquire, as and when needed, all such land and rights in respect of land as shall be required for the carrying out of the Project and shall furnish to the Administrator, promptly upon its request, evidence satisfactory to the Administrator that such land and rights in respect of land are available for purposes 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 an individual or a household to whom a Participating Bank (as this term is hereinafter defined) proposes to make or has made a Mortgage Sub-loan (as this term is hereinafter defined) under Part A of the Project;

(b) "Business Strategy" means the business strategy of the SMF to be furnished annually to the Administrator pursuant to the provisions of paragraph B (a) of Schedule 4 to this Agreement;

(c) "Construction Sub-loan" means a loan made or proposed to be made out of the proceeds of the Credit by the PA, through MOH (as this term is hereinafter

defined), to a Developer (as this term is hereinafter defined) for a Construction Sub-project (as this term is hereinafter defined) under Part B.1 of the Project;

(d) "Construction Sub-project" means a specific project, consisting of the construction of one or more dwellings, to be carried out by a Developer (as this term is hereinafter defined) under Part B.1 of the Project utilizing the proceeds of a Construction Sub-loan;

(e) "Decree" means the decree establishing the SMF (as this term is hereinafter defined) dated March 10, 1997, as the same may be amended from time to time;

(f) "Demonstration Site" means the site located in the Tal El-Hawa area in Gaza City which shall serve as the initial site for private housing development in Gaza and the West Bank;

(g) "Developer" means an individual to whom, or an entity to which, the PA, through MOH, proposes to make or has made a Construction Sub-loan;

(h) "Developers' Prospectus" means the developers' prospectus pertaining to the Demonstration Site, whose content has been agreed upon between the Borrower and the Administrator, which sets out the terms, conditions, procedures and eligibility criteria pursuant to which the PA, through MOH (as this term is hereinafter defined), shall carry out Part B.1 of the Project, as the same may be amended from time to time by agreement of the Borrower and the Administrator;

(i) "HAF" means the housing assistance fund to be established within MOH whose purposes include the provision of grant funds to low-income Beneficiaries;

(j) "MOH" means the Ministry of Housing of the PA;

(k) "Mortgage Financing Agreement" means any agreement entered into between the SMF (as this term is hereinafter defined) and a Participating Bank (as this term is hereinafter defined) in accordance with the provisions of paragraphs 2, 3, 4 and 5 of the Annex to Schedule 4 to this Agreement for the purpose of financing Mortgage Sub-loans (as this term is hereinafter defined) under Part A of the Project;

(l) "Mortgage Loan" means a loan made or proposed to be made by a Participating Bank (as this term is hereinafter defined) to a Beneficiary, for the purpose of financing a Mortgage Sub-project (as this term is hereinafter defined), consisting of a Mortgage Sub-loan (as this term is hereinafter defined) and funds provided by a Participating Bank, out of its own resources, pursuant to the provisions of paragraph 4 (c) of the Annex to Schedule 4 to this Agreement;

(m) "Mortgage Sub-loan" means the portion of a Mortgage Loan made or proposed to be made by a Participating Bank (as this term is hereinafter defined), and to be financed out of the proceeds of the Credit, to a Beneficiary pursuant to a Mortgage Agreement (as this term is hereinafter defined);

(n) "Mortgage Agreement" means an agreement between a Participating Bank (as this term is hereinafter defined) and a Beneficiary providing, inter alia, for the financing by the Participating Bank (as this term is hereinafter defined) of a Mortgage Sub-project (as this term is hereinafter defined);

(o) "Mortgage Sub-project" means a specific purchase by a Beneficiary under Part A of the Project of a dwelling whose construction was completed after June 30, 1996, utilizing the proceeds of a Mortgage Loan;

(p) "On-lending Agreement" means the agreement to be entered into between the PA (on behalf of the Borrower) and the SMF (as this term is hereinafter defined) pursuant to Section 3.01 (d) of this Agreement, as the same may be amended from time to time, and such term shall include any schedules to the On-lending Agreement;

(q) "Participating Bank" means any banking or financial institution duly established and/or operating in Gaza or the West Bank which meets the eligibility criteria set out in paragraph 1 of the Annex to Schedule 4 to this Agreement, and with which the SMF (as this term is hereinafter defined) has entered into a Mortgage

Financing Agreement;

(r) "PU" means the Project unit to be maintained in accordance with the provisions of paragraph A of Schedule 4 to this Agreement;

(s) "respective Parts of the Project" means, in relation to the PA, Parts B.1, B.2 and C of the Project, and, in relation to the SMF (as this term is hereinafter defined), Part A of the Project;

(t) "SMF" means the Secondary Mortgage Facility, a financial institution organized under the laws in effect in the West Bank and Gaza pursuant to the Decree for the purpose of providing a source of medium- and long-term housing finance;

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

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

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

(x) "Special Accounts" means, collectively, Special Account A, Special Account B and Special Account C; and "Special Account" means any one of Special Account A, Special Account B or Special Account C; and

(y) "Subsidiary Agreement" means the agreement to be entered into between the Borrower and the PA 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.

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 twenty-five million dollars (\$25,000,000).

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 Participating Banks on account of withdrawals made by the Beneficiaries under Mortgage Agreements; (ii) amounts paid (or if the Administrator shall so agree, to be paid) by the PA, through MOH, on account of withdrawals made by Developers under Construction Sub-loans to meet the reasonable cost of goods and services required for Construction Sub-projects in respect of which withdrawals from the Credit Account are requested; and (iii) expenditures made (or, if the Administrator shall so agree, to be made) in respect of the reasonable cost of works required for Part B.2 of the Project, and of goods and services required for Part C of the Project, and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars three (3) separate special deposit accounts in one or more commercial banks on terms and conditions satisfactory to the Administrator, including appropriate protection against set-off, seizure or attachment. Special Account A shall be used exclusively to finance expenditures under Category (1); Special Account B shall be used exclusively to finance expenditures under Category (2) and Special Account C shall be used exclusively to finance expenditures under Categories (3), (4), (5) and (6). Deposits into, and payments out of, each respective Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2001, 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 PA 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 cancelled; 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 PA 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 PA to repay the principal amount of the Credit in semi-annual installments payable on each January 15 and July 15 commencing July 15, 2007, and ending January 15, 2037. Each installment to and including the installment payable on January 15, 2017, 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, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause the PA to carry out Parts B.1, B.2 and C of the Project and shall, through the PA, cause the SMF to carry out Part A of the Project, all with due diligence and efficiency and in accordance with the provisions of Schedule 4 to this Agreement, including the Annex thereto, as the same may be amended from time to time by mutual agreement of the Borrower and the Administrator.

(b) The Borrower shall make the proceeds of the Credit available to the PA under a subsidiary agreement to be entered into between the Borrower and the PA, under terms and conditions which shall have been approved by the Administrator.

(c) The Borrower shall cause the PA to perform in accordance with the provisions of the Subsidiary Agreement all of the obligations of the PA therein set forth, and shall cause the PA to: (i) take all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to carry out Parts B.1, B.2 and C of the Project and to enable the SMF to carry out Part A of the Project; and (ii) not to take, or permit to be taken, any action which would prevent or interfere with its ability to carry out Parts B.1, B.2 and C of the Project and with the SMF's ability to carry out Part A of the Project.

(d) Without prejudice to the provisions of paragraphs (b) and (c) above, the Borrower shall cause the PA to make the proceeds of the Credit allocated from time to time to Category (1), set forth in the table in paragraph 1 of Schedule 1 to this Agreement, available to the SMF under an on-lending agreement to be entered into between the PA (on behalf of the Borrower) and the SMF, under terms and conditions

which shall have been approved by the Administrator, including, inter alia: (i) a maturity of forty (40) years, including a grace period of ten (10) years; (ii) a commitment charge, on the principal amount on-lent by the PA to the SMF and not withdrawn from time to time, at a rate per annum equivalent to the rate referred under the provisions of Section 2.04 (a) of this Agreement; and (iii) a service charge, on the principal amount on-lent by the PA to the SMF and withdrawn and outstanding from time to time, at a rate per annum equivalent to the rate referred to under the provisions of Sections 2.05 of this Agreement.

(e) The Borrower shall exercise its rights under the Subsidiary Agreement, and shall cause the PA to exercise its rights under the On-lending Agreement, in such manner as to protect the interests of the Borrower, the PA and the Administrator and to accomplish the purposes of the Credit, and, except as the Administrator shall otherwise agree, the Borrower shall not, and shall cause the PA not to, assign, amend, abrogate or waive the Subsidiary Agreement or the On-lending Agreement, or any provision of either of said Agreements.

(f) The Borrower, through the PA, shall cause the SMF to exercise its right under each Mortgage Financing Agreement in such a manner as to: (i) protect the interests of the Borrower, the PA and the Administrator; (ii) comply with its obligations under the On-lending Agreement; and (iii) achieve the purposes of the Project.

Section 3.02. The Borrower undertakes that, unless the Administrator shall otherwise agree, procurement of the works to be carried out under Part B.2 of the Project and to be financed out of the proceeds of the Credit, and of the goods and services required for Part C of 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 PA 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 Borrower and the Administrator, a plan designed to ensure the continued achievement of the objectives of the Project; and

(b) afford the Administrator reasonable opportunity to exchange views with the PA on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause the PA and, through the PA, shall cause the SMF to maintain, each in respect of its respective Parts of the Project, records and accounts adequate to reflect, in accordance with sound accounting practices, the operations and financial condition of the PA and the SMF.

(b) The Borrower shall cause the PA, and shall, through the PA, cause the SMF to: (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles 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 copy of the 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, 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 PA to: (i) maintain in accordance with paragraph (a) of this Section, records and 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 disbursement 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 all 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.

ARTICLE V

Remedies of the Administrator

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely, that the Decree shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial condition of the SMF or its ability to carry out Part A of the Project.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, that the event specified in Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Trust Fund Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

- (a) the Subsidiary Agreement has been executed on behalf of the Borrower and the PA;
- (b) the On-lending Agreement has been executed on behalf of the PA and the SMF;
- (c) at least one Mortgage Financing Agreement has been executed on behalf of the SMF and a Participating Bank;
- (d) an individual, with qualifications and experience acceptable to the Administrator, has been employed as the managing director of the SMF; and
- (e) an invitation to bid for the development of the Demonstration Site has been issued pursuant to the Developers' Prospectus.

Section 6.02. 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 and the On-lending Agreement have been duly authorized and ratified by, and executed and delivered on behalf of, the parties thereto and are legally binding upon said parties in accordance with the terms thereof.

Section 6.03. 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 VII

Representatives of the Borrower; Addresses

Section 7.01. The Minister of Finance of the PA is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Palestine Liberation Organization
c/o The Palestinian Authority
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 El-Ram as of the day and year first above written.

PALESTINE LIBERATION ORGANIZATION

By /s/ Abdelrahman Hamad

Authorized Representative

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

By /s/ Odin K. Knudsen

Authorized Representative

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. Dollar Equivalent)	% of Expenditures to be Financed
(1) Mortgage Sub-loans under Part A of the Project	16,000,000	100% of amounts disbursed by the Participating Banks
(2) Construction Sub-loans under Part B.1 of the	1,500,000	100% of amounts paid by MOH

Project		
(3)	Works under Part B.2 of the Project	3,500,000 100%
(4)	Goods under Part C of the Project	250,000 100%
(5)	Consultants' Services and training under Part C of the Project	500,000 100%
(6)	Incremental Operating Expenditures	250,000 100%
(7)	Unallocated	3,000,000
	TOTAL	25,000,000

2. For the purposes of this Schedule, the term "Incremental Operating Expenditures" means expenditures incurred in respect of Part C of the Project on account of utility charges, fuel and the rental of office space for the PU.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made (a) prior to the date of this Agreement; and (b) in respect of payments made for expenditures under Category (3) unless the Borrower, through the PA, has furnished to the Administrator a plan, satisfactory to the Administrator, for the provision of infrastructure to the Demonstration Site and the subsequent development thereof.

4. The Administrator may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (i) goods, works and services under contracts not exceeding \$250,000 equivalent for goods and works, \$100,000 equivalent for services of firms and \$50,000 equivalent for services of individuals; (ii) payments made by the Participating Banks on account of Mortgage Sub-loans and Construction Sub-loans; and (iii) for Incremental 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 assist the PA in removing impediments to the efficient functioning of the housing market and enhancing the affordability of housing through: (i) the establishment of a financial system for mortgage lending; (ii) supporting land development and the construction of lower-cost housing by private developers; (iii) the provision of infrastructure for the development of new housing; and (iv) the strengthening of the housing sector's institutions and their policy-making capabilities.

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: Housing Finance

Provision by the Participating Banks of Mortgage loans including Mortgage Sub-loans to finance Mortgage Sub-projects.

Part B: Housing Development

1. Provision of Construction Sub-loans by the PA, through MOH, to finance Construction Sub-Projects.

2. Development of the Demonstration Site, as well as additional sites in the West Bank and Gaza, including, inter alia, the construction of roads, the construction of water, drainage, sewerage, electricity and street lighting facilities, on-site and

off-site, and the construction of basic community facilities including, inter alia, parks, playgrounds, day care and community centers, and primary schools.

Part C: Institutional and Policy Development

Carrying out a program, including the provision of expert services, training and equipment, to strengthen the capabilities of MOH, the SMF, the HAF, the Participating Banks and other commercial banks in the areas of housing policy analysis and formulation, and the development of appropriate housing sector regulations.

* * *

The Project is expected to be completed by June 30, 2001.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works under Parts B.2 and C of the Project

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 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: Procurement Procedures

1. National Competitive Bidding

Works estimated to cost \$2,000,000 equivalent or less per contract 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/or Gaza; (iv) interested foreign contractors and suppliers shall be allowed to bid; (v) bids shall be submitted in sealed envelopes and shall be accepted whether mailed or hand-carried; (vi) all bids shall be opened at the same time in public; (vii) contracts shall be awarded to the lowest evaluated bidder; (viii) no bidder shall be requested or permitted to modify his, her or its bid after the bid closing date shall have elapsed; (ix) price negotiations with the lowest evaluated bidder shall be limited to cases provided for under the Guidelines; and (x) postqualification criteria shall, in the absence of a prequalification process, be explicitly stated in the bidding documents.

2. International Shopping

Goods estimated to cost less than \$250,000 equivalent per contract, and not to exceed \$1,000,000 equivalent in the aggregate, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost \$25,000 equivalent or less per contract, and not to exceed \$500,000 equivalent in the aggregate, may be procured under contracts awarded on the basis of 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

With respect to each contract for goods and works estimated to cost the equivalent of \$250,000 or more, the first two contracts for goods under Part C of the Project and the first two contracts for works under Part B.2 of the Project, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Administrator in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Administrator, with such modifications thereto as shall have been agreed by the Administrator. Where no relevant standard contract documents have been issued by the Administrator, other standard forms acceptable to the Administrator shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Administrator review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Administrator review shall not apply to: (a) the terms of reference for such contracts; (b) single-source selection of consulting firms; (c) assignments of a critical nature, as reasonably determined by the Administrator; (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Implementation Program

A. Overall Project Implementation

The Borrower shall cause the PA to vest the responsibility for the implementation of Part A of the Project in the SMF, and Parts B.1, B.2 and C of the Project in MOH. To that end, the Borrower shall cause the PA to maintain PU, within MOH, with qualified staff in adequate numbers whose functions and responsibilities shall be acceptable to the Administrator.

B. Part A of the Project

The Borrower, through the PA, shall cause the SMF:

(a) to prepare and furnish to the Administrator, for its review and comments, not later than September 30 of each year until completion of the Project, commencing September 30, 1997, a report, satisfactory to the Administrator, setting out the Business Strategy for a period commencing on the date of the report and ending twelve

(12) calendar months thereafter, and, following an exchange of views between the SMF and the Administrator, cause the SMF to implement such strategy taking into account the Administrator's comments thereon. The Business Strategy shall include, inter alia: (i) financial forecasts for the SMF, including its projected retained earnings and the use thereof; (ii) the terms, conditions and procedures according to which funds shall be made available by the SMF to the Participating Banks; (iii) the terms, conditions and procedures according to which the Participating Banks shall make Mortgage Sub-loans; (iv) procedures for obtaining and recording mortgages; and (v) general documentation requirements with respect to Mortgage Agreements;

(b) to carry out its responsibilities regarding the execution of Part A of the Project with due diligence and efficiency and in accordance with established banking and financial practices; and

(c) to enter into Mortgage Financing Agreements with Participating Banks, acceptable to the Administrator, in accordance with the provisions of the Annex to this Schedule.

C. Part B.1 of the Project

1. In carrying out Part B.1 of the Project, the Borrower shall cause the PA to maintain arrangements satisfactory to the Administrator pursuant to which MOH shall: (a) select Developers, approve Construction Sub-projects, make Construction Sub-loans and otherwise carry out its activities under Part B.1 of the Project in accordance with the eligibility criteria, requirements and other details contained in the Developers' Prospectus; and (b) adopt procedures satisfactory to the Administrator to: (i) monitor, against specific outcome indicators agreed with the Administrator, the carrying out by Developers of Construction Sub-projects and the achievement of the objectives of Part B.1 of the Project; and (ii) prepare and furnish to the Borrower, for inclusion in the report referred to under paragraph F (b) of this Schedule, all information required to assess the progress made in the carrying out of Part B.1 of the Project and the accomplishment of the objectives thereof.

2. Without limitation to the provisions of sub-paragraph 1 above, the Borrower shall cause the PA to ensure that the principal amount of a Construction Sub-loan shall, in all cases, not exceed the equivalent of fifty percent (50%) of the estimated cost of the Construction Sub-project in respect of which the Construction Sub-loan shall be made, exclusive of the price of land.

3. The Borrower shall cause the PA to ensure that Construction Sub-loans shall be made on terms whereby MOH shall obtain, by written contract with the Developer, rights adequate to protect the interests of the Administrator and the Borrower, including, the right to: (a) require the Developer to carry out the Construction Sub-project with due diligence and efficiency and in accordance with sound technical, financial, architectural, engineering, environmental and urban planning standards, to provide promptly, as needed, the funds, facilities and other resources required for the purpose, and to maintain adequate records; (b) require that (i) the goods and services to be financed from the proceeds of the Credit be purchased at a reasonable price, account being taken of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and, in the case of services, of their quality and the competence of the parties rendering them; and (ii) such goods and services be used exclusively in the carrying out of the Construction Sub-project; (c) inspect, by itself or jointly with representatives of the Administrator if the Administrator shall so request, such goods, works and construction included in the Construction Sub-project, the operation thereof and any relevant records and documents; (d) obtain all such information as the Administrator, the Borrower or the PA shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Developer and to the benefits to be derived from the Construction Sub-project; and (e) suspend or terminate the right of the Developer to the use of the proceeds of the Credit upon failure by such Developer to perform its obligations under its contract with MOH providing for the carrying out of the Construction Sub-project.

D. Part B.2 of the Project

The Borrower shall ensure that the development of any site under Part B.2 of the

Project, other than the Demonstration Site: (i) shall be preceded by a detailed analysis of any potential adverse environmental effects or resettlement of local population arising out of the development of such site; (ii) that, in the event of the existence of any such potential adverse effects or resettlement, said development shall not commence unless an environmental action plan or a resettlement action plan, as the case may be, shall have been prepared pursuant to guidelines acceptable to the Administrator; and (iii) that implementation of said action plan or plans shall commence without delay and shall be monitored on a regular basis by the PA, on behalf of the Borrower, and the Administrator.

E. Part C of the Project

In order to achieve the objectives of Part C of the Project, the Borrower shall cause the PA, not later than July 1, 1997, to prepare and furnish to the Administrator, for its review and comments, a plan setting out, inter alia, a methodology to implement Part C of the Project and shall, after exchanging views with the Administrator with respect to such plan, carry out said plan taking into account the Administrator's comments thereon.

F. Mid-Term Review

The Borrower shall cause the PA to:

(a) maintain policies and procedures adequate to enable the PA 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, not later than June 30, 1999, a mid-term report integrating the results of the monitoring and evaluation activities; and

(c) review with the Administrator, not later than September 30, 1999, the mid-term report referred to under sub-paragraph (b) above, and, thereafter, take all measures required to ensure the efficient implementation of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of said report and the Administrator's views on the matter.

G. Annual Work Program

The Borrower, through the PA, shall cause MOH to: (i) prepare and furnish to the Administrator, not later than January 31 of every year until completion of the Project, commencing January 31, 1998, a report setting out the annual work program for MOH with respect to Parts B.1, B.2 and C of the Project; (ii) exchange views with the Administrator with regard to such report; and (iii) carry out the said program taking into account the Administrator's comments thereon.

Annex to Schedule 4

Mortgage Financing Agreements: Criteria and
Principal Terms and Conditions

The provisions of this Annex shall apply for the purposes of paragraph B (c) of Schedule 4 to this Agreement.

1. A Mortgage Financing Agreement may be entered into with a banking or financial institution which the SMF has determined:

(a) that the majority of the outstanding voting stock or other proprietary interest of which is owned or controlled by an entity or entities other than the Borrower, the PA or any entity owned or controlled by the Borrower, the PA or any of their agencies;

(b) is in compliance with the legal and regulatory requirements applicable to its operations, including all applicable company, banking and financial laws, capital adequacy requirements and monetary regulations;

(c) has had its financial statements, for its fiscal year preceding the year within which its respective Mortgage Financing Agreement shall be entered into, audited by independent auditors with the report thereof unqualified;

(d) has a sound financial structure and satisfactory financial performance, and the organization, management, staff and other resources required for the efficient carrying out of its operations; and

(e) has adequate technical and administrative capacity, and satisfactory operating policies and procedures, for appraisal and monitoring of Mortgage Sub-Projects and for carrying out the activities that it shall undertake under the Project.

2. A Mortgage Financing Agreement shall contain provisions pursuant to which each Participating Bank shall:

(a) carry out its operations in accordance with the relevant provisions of all company, banking and financial laws applicable in Gaza and/or the West Bank, as the case may be;

(b) conduct its operations and affairs in accordance with sound financial principles and practices and in accordance with its constitutional instruments and statement of policy, if applicable;

(c) maintain a financial and operating policy acceptable to the SMF and the Administrator and an adequate number of suitably qualified staff to enable it to effectively appraise the financial and economic feasibility of Mortgage Sub-Projects and to make Mortgage Loans to Beneficiaries in accordance with said financial and operating policy and on the basis of the criteria, procedures and principal terms and conditions provided for under the Business Strategy;

(d) supervise and monitor Sub-Projects in accordance with procedures satisfactory to the SMF, the PA and the Administrator;

(e) exchange views with, and furnish all such information and documentation as may be reasonably requested by, the SMF with regard to the performance of its obligations under its respective Mortgage Financing Agreement, and in connection with the Mortgage Loans;

(f) promptly inform SMF of any condition which interferes or threatens to interfere with the progress of its activities under its respective Mortgage Financing Agreement; and

(g) not assign, amend, abrogate or waive any of its agreements providing for Mortgage Loans, or any provision thereof, without the prior approval of the SMF.

3. Without limitation to any of the provisions of paragraph 2 of this Annex, a Mortgage Financing Agreement shall contain provisions pursuant to which a Participating Bank shall undertake to: (i) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition, including records and separate accounts regarding its activities under Part A of the Project; (ii) have such records and accounts, together with its financial statements (balance sheets, statements of income and expenses and related statements), for each fiscal year audited, in accordance with generally accepted auditing standards and procedures consistently applied, by independent and qualified auditors acceptable to the SMF; (iii) furnish to the SMF, not later than six (6) months after the end of each such year: (A) certified copies of its financial statements for such year as so audited; and (B) the report of such audit by said auditors of such scope and in such detail as the SMF shall have reasonably requested; and (iv) furnish to the SMF and the PA such information and documentation as the PA or SMF shall reasonably request.

4. A Mortgage Financing Agreement shall contain provisions pursuant to which a Participating Bank shall undertake to make Mortgage Loans to Beneficiaries in accordance with criteria, procedures, terms and conditions including, inter alia: (a) obtaining, by written contract with the Beneficiary or by other appropriate legal means, a real property mortgage, as security for the Mortgage Loan, including the right to foreclose on the dwelling in respect of the purchase of which the Mortgage

Loan shall have been made, in case of noncompliance by the Beneficiary with the terms of said loan; (b) obligating the Participating Bank to exercise, in relation to each Beneficiary, its rights under the Mortgage Loan in such manner as to protect its interests and the interests of the SMF and to accomplish the purposes of the Project; (c) obligating the Participating Bank, in respect of the financing of each Mortgage Sub-project, to provide funds from its own resources at such a percentage of the total cost of the Mortgage Sub-project as shall be agreed upon between the SMF and the Participating Bank; (d) obligating the Participating Bank to ensure that the principal amount of a Mortgage Sub-loan shall, in all cases, not finance the purchase price of land; and (e) obligating the Participating Bank to make Mortgage Sub-loans only to finance Mortgage Sub-projects whose construction shall have been completed after June 30, 1996.

5. Except as the Administrator shall otherwise agree, each Mortgage Financing Agreement shall include a provision to the effect that the right of a Participating Bank to use the proceeds of the Credit extended to it by the SMF shall be: (a) suspended upon failure by such Participating Bank to perform any of its obligations under its respective Mortgage Financing Agreement; and (b) terminated if such right shall have been suspended for a period of thirty (30) continuous days.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4), (5) and (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(b) the term "eligible expenditures" means, in connection with Part A of the Project, expenditures in respect of payments made or to be made by the Participating Banks on account of Mortgage Sub-loans, in respect of Part B.1 of the Project, expenditures in respect of payments made or to be made by the PA, through MOH, on account of Construction Sub-loans, and in respect of Parts B.2 and C of the Project, expenditures made or to be made in respect of the reasonable cost of works, goods and services required for Parts B.2 and C of the Project, and to be financed out of the proceeds of the Credit allocated from time to time to Categories (3), (4), (5) and (6) in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1,200,000 in respect of Special Account A, an amount equivalent to \$300,000 in respect of Special Account B, and an amount equivalent to \$100,000 in respect of Special Account C, to be withdrawn from the Credit Account and deposited into the respective Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Administrator shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$600,000 in respect of Special Account A, an amount equivalent to \$150,000 in respect of Special Account B, and an amount equivalent to \$50,000 in respect of Special Account C, until (i) in respect of Special Account A, the aggregate amount of withdrawals from the Credit Account allocated to Category (1) shall be equal to or exceed the equivalent of \$1,800,000, (ii) in respect of Special Account B, the aggregate amount of withdrawals from the Credit Account allocated to Category (2) shall be equal to or exceed the equivalent of \$450,000, and (iii) in respect of Special Account C, the aggregate amount of withdrawals from the Credit Account allocated to Categories (3), (4), (5) and (6) plus the total amount of all outstanding special commitments entered into by the Administrator pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$150,000. 2. Payments out of the respective Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Administrator a request or requests for deposit into the respective Special Account of an amount or amounts 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 into the respective Special Account such amount or amounts as the Borrower shall have requested.

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

(ii) Prior to or at the time of each such request, the 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 respective 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 respective Special Account for eligible expenditures. All such deposits shall be withdrawn by the Administrator from the Credit Account under the respective eligible Category, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the respective 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 any 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 Accounts;

(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 for the respective Special Accounts, minus the total amount of all outstanding special commitments entered into by the Administrator pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the 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 respective Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Administrator shall have determined at any time that any payment out of any Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Administrator, the Borrower shall, promptly upon notice from the Administrator: (A) provide such additional evidence as the Administrator may request; or (B) deposit into the respective Special Account (or, if the Administrator shall so request, refund to the Administrator) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Administrator

shall otherwise agree, no further deposit by the Administrator into any Special Account shall be made until the 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 any 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 Accounts.

(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.

