

TF 026066 GZ

Trust Fund Credit Agreement

(Emergency Rehabilitation Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

PALESTINIAN ECONOMIC COUNCIL FOR DEVELOPMENT AND RECONSTRUCTION

(an Agency of the Palestine Liberation Organization)

Dated September 7, 1994

TF 026066 GZ

TRUST FUND CREDIT AGREEMENT

AGREEMENT, dated September 7, 1994, between INTERNATIONAL DEVELOPMENT ASSOCIATION, acting as administrator (the Administrator) of a Trust Fund established by a Resolution of its Board, and PALESTINIAN ECONOMIC COUNCIL FOR DEVELOPMENT AND RECONSTRUCTION (the Borrower), an agency established and operating under a Basic Regulation (the Regulation) issued on May 14, 1994, under a Decree from the Chairman of the Executive Committee of the Palestine Liberation Organization (the PLO).

WHEREAS (A) the Board of Governors of the Administrator, acting on the recommendation of its Board of Executive Directors, has decided on November 11, 1993, to establish a trust fund (the Trust Fund) in the amount of \$50,000,000 to be transferred from the surplus of the International Bank for Reconstruction and Development, and to be used for financing emergency rehabilitation activities in the Gaza Strip (Gaza);

(B) the Borrower was established specifically to be responsible for coordinating and implementing programs and projects for the development and reconstruction of the West Bank and Gaza (the Occupied Territories) and to be the recipient of funds allocated therefore;

(C) the Borrower has requested the Administrator to assist in financing the project described in Schedule 3 to this Agreement (the Project), which includes rehabilitation, reconstruction and technical assistance activities for Gaza as well as for other parts of the

Occupied Territories;

(D) under the Agreement on the Gaza Strip and The Jericho Area between the PLO and the Government of the State of Israel, dated May 4, 1994, the parties thereto agreed to the establishment by the PLO of a Palestinian Authority (the Palestinian Authority) to perform the powers and functions therein set forth;

(E) the Palestinian Authority had made certain confirmations to the Administrator as to the power of the Borrower to enter into this Agreement and as to the succession arrangements to be made with respect to rights and obligations of the Borrower in case of its full or partial dissolution, reconstitution or merger;

(F) the Credit provided under this Agreement from the proceeds of the Trust Fund in the amount of \$30,000,000 shall be allocated exclusively for financing activities to be carried out under the Project in Gaza and the Borrower intends, with the assistance of the Administrator, to secure the funds required for the carrying out of other activities under the Project through contributions from other donors;

(G) the remaining amount of \$20,000,000 in deposit in the Trust Fund shall be used for financing such additional rehabilitation activities in Gaza as the Borrower and the Administrator shall subsequently agree; and

WHEREAS the Administrator has agreed, on the basis, inter alia, of the foregoing to extend the Credit to the Borrower 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 this Agreement (the General Conditions) constitute an integral part of this Agreement.

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) "PMO" means the Program Management and Monitoring Office of the Borrower;

(b) "Sub-Project" means any component of the Project;

(c) "Implementing Agency" means any entity in the Territories, or an agency of the United Nations operating therein, to which the Borrower shall assign the responsibility for implementation of a Sub-project;

(d) "Co-Financier" means any donor providing the Borrower with a loan or a grant to assist in financing the Project;

(e) "Co-Financing Agreements" means the agreements to be concluded between the Borrower and the Co-Financiers; and

(f) "Special Account" means the account referred to in Section 2.02 (b) of this 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 thirty million dollars (\$30,000,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 2 to this Agreement for expenditures made (or, if the Administrator shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 3 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the 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 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1997 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 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 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 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 February 1 and August 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each February 1 and August 1 commencing August 1, 2004 and ending February 1, 2034. Each installment to and including the installment payable on February 1, 2014 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. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 3 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in accordance with the Implementation Program set forth in Schedule 5 to this Agreement, as such Implementation Program shall be modified from time to time by the Agreement of the Borrower and the Administrator.

Section 3.02. Except as the Administrator shall otherwise agree, procurement of the 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 4 to this Agreement.

### ARTICLE IV

#### Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account 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 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:

(i) maintain or cause to be maintained, 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 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, based on an appropriate notice, 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.

#### ARTICLE V

##### Remedies of the Administrator

Section 5.01. (a) Pursuant to Section 6.02 (g) of the General Conditions, the following additional event is specified, namely, that subject to paragraph (b) of this paragraph: (i) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or (ii) any such loan shall have become due and payable prior to the agreed maturity thereof.

(b) Paragraph (a) of this section shall not apply if the Borrower establishes to the satisfaction of the Administrator that: (i) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (ii) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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 paragraph (a) (ii) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) of that Section.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following additional event is specified for purposes of Section 12.01 of the General Conditions, namely, that the Borrower has employed, as described in paragraph 1 of Section II of Schedule 4 to this Agreement, the management consultants referred to in Part A of Schedule 5 to this Agreement.

Section 6.02. 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 Managing Director of the Borrower 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:

Palestinian Economic Council  
for Development and Reconstruction  
95 Rue Mouawya Ibn Abou Soufiane Street  
El Mensah VI-Tunis  
Republic of Tunisia

or

c/o Palestinian Authority  
Jericho

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:

197688 (TRT),  
248423 (RCA),  
64145 (WUI) or  
82987 (FTCC)

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 City, Gaza, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Caio Koch-Weser

Regional Vice President  
Middle East and North Africa

PALESTINIAN ECONOMIC COUNCIL FOR  
DEVELOPMENT AND RECONSTRUCTION

By /s/ Mohammad El Nashashibi

Authorized Representative

#### SCHEDULE 1

General Conditions

#### ARTICLE I

Application to Trust Fund Credit Agreement

SECTION 1.01. These General Conditions set forth certain terms and conditions generally applicable to this Trust Fund Credit Agreement.

SECTION 1.02. If any provision of this Trust Fund Credit Agreement is inconsistent with a provision of these General Conditions, the provision of this Trust Fund Credit Agreement shall govern.

#### ARTICLE II

Definitions; Headings

SECTION 2.01. Definitions. The following terms have the following meanings wherever used in these General Conditions:

1. "Administrator" means the International Development Association.
2. "Bank" means the International Bank for Reconstruction and Development.
3. "Trust Fund Credit Agreement" means this Trust Fund Credit Agreement to which these General Conditions are made applicable.
4. "Credit" means the Credit provided for in this Trust Fund Credit Agreement.
5. "Borrower" means the Palestinian Economic Council for Development and Reconstruction.
6. "Currency" of a country means the coin or currency which is legal tender for the payment of public and private debts in that country.
7. "Dollars" and the sign "\$" mean dollars in the currency of the United States of America.
8. "Credit Account" means the account opened by the Administrator on its books in the name of the Borrower to which the amount of the Credit is credited.
9. "Project" means the project or program for which the Credit is granted, as described in this Trust Fund Credit Agreement and as the description thereof may be amended from time to time by agreement between the Borrower and the Administrator.
10. "Effective Date" means the date on which this Trust Fund Credit Agreement shall enter into effect as provided in Section 12.03.
11. "Taxes" includes imports, levies, fees and duties of any nature, whether in effect at the date of this Trust Fund Credit Agreement or thereafter imposed.
12. "Closing Date" means the date specified in this Trust Fund Credit Agreement (as it may be extended) after which the Administrator may, by notice to the Borrower, terminate the right of the Borrower to withdraw from the Credit Account.

SECTION 2.02. References. References in these General Conditions to Articles or Sections are to Articles or Sections of these General Conditions.

SECTION 2.03. Headings. The headings of the Articles and Sections and the Table of Contents are inserted for convenience of reference only and are not a part of these General Conditions.

### ARTICLE III

Credit Account; Service Charges;  
Repayment; Place of Payment

SECTION 3.01. Credit Account. The amount of the Credit shall be credited to the Credit Account and may be withdrawn therefrom by the Borrower as provided in this Trust Fund Credit Agreement and in these General Conditions.

SECTION 3.02. Service Charges. The Borrower shall pay a service charge on the amount of the Credit withdrawn and outstanding from time to time at the rate specified in this Trust Fund Credit Agreement.

SECTION 3.03. Computation of Service Charges. Service charges shall

be computed on the basis of a 360-day year of twelve 30-day months.

SECTION 3.04. Repayment. (a) The Borrower shall repay the principal amount of the Credit withdrawn from the Credit Account in installments as provided in this Trust Fund Credit Agreement.

(b) The Borrower shall have the right to repay in advance of maturity all or any part of the principal amount of one or more maturities of the Credit specified by the Borrower.

SECTION 3.05. Place of Payment. The principal of, and service charges on, the Credit shall be paid at such places as the Administrator shall reasonably request.

#### ARTICLE IV

##### Currency Provisions

SECTION 4.01. Currencies in which Withdrawals are to be made. Except as the Borrower and the Administrator shall otherwise agree, withdrawals from the Credit Account shall be made in the respective currencies in which the expenditures to be financed out of the proceeds of the Credit have been paid or are payable.

SECTION 4.02. Currencies in which Principal and Service Charges are Payable. (a) The Borrower shall pay the principal amount of, and service charges on, the Credit in the currency specified in the Trust Fund Credit Agreement for the purposes of this Section or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraphs (c) or (e) of this Section.

(b) For the purposes of this Section, the term "eligible currency" means the currency of any member of the Administrator which the Administrator from time to time determines to be freely convertible or freely exchangeable by the Administrator for currencies of other members of the Administrator for the purposes of its operations.

(c) If at any time the Borrower shall desire that, commencing on a given future payment date, such principal and service charges shall be payable in an eligible currency other than that so specified or than one previously designated pursuant to this paragraph (c) or selected pursuant to paragraph (e) below, the Borrower shall deliver to the Administrator, not less than three nor more than five months prior to such payment date, a notice in writing to that effect and designating such other eligible currency. Upon receipt of such notice and commencing on such payment date, the currency so designated shall be the currency in which such principal and service charges shall be payable.

(d) If at any time the Administrator shall determine that a currency payable pursuant to the provisions of this Section is not an eligible currency, the Administrator shall so notify the Borrower in writing and furnish the Borrower with a list of eligible currencies.

(e) Within thirty days from the date of such notice from the Administrator, the Borrower shall notify the Administrator in writing of its selection from such list of a currency in which payment shall be made, failing which the Administrator shall select a currency for such purpose from such list. Upon such selection in either manner, such principal and service charges shall, commencing on the payment date next -succeeding such thirty-day period, be payable in the currency so selected.

SECTION 4.03 Amount of Repayment. The principal amount of the Credit repayable shall be the equivalent of the value of the currency or currencies withdrawn from the Credit Account expressed in terms of dollars as of the respective dates of withdrawal.



SECTION 4.04. Valuation of Currencies. Whenever it shall be necessary for the purposes of this Trust Fund Credit Agreement to determine the value of one currency in terms of another, such value shall be as reasonably determined by the Administrator.

SECTION 4.05. Manner of Payment. (a) Any payment required under this Trust Fund Credit Agreement to be made to the Administrator in the currency of a country shall be made in such manner, and in currency acquired in such manner, as shall be permitted under the laws of such country for the purpose of making such payment and effecting the deposit of such currency to the account of the Administrator with a depository of the Administrator in such country.

(b) The principal of, and service charges on, the Credit shall be paid without restrictions of any kind imposed by, or in the territory of, the Borrower.

#### ARTICLE V

##### Withdrawal of Proceeds of Credit

SECTION 5.01. Withdrawal from the Credit Account. The Borrower shall be entitled to withdraw from the Credit Account amounts expended or, if the Administrator shall so agree, amounts to be expended for the Project in accordance with the provisions of this Trust Fund Credit Agreement and of these General Conditions. Except as the Borrower and the Administrator shall otherwise agree, no withdrawals shall be made on account of expenditures in the territories of any country which is not a member of the Bank (other than Switzerland and Taiwan) or for goods produced in, or services supplied from, such territories.

SECTION 5.02. Special Commitments by the Administrator. Upon the Borrower's request and upon such terms and conditions as shall be agreed upon between the Borrower and the Administrator, the Administrator may enter into special commitments in writing to pay amounts to the Borrower or others in respect of expenditures to be financed out of the proceeds of the Credit notwithstanding any subsequent suspension or cancellation by the Administrator or the Borrower.

SECTION 5.03. Applications for Withdrawal or for Special Commitment. When the Borrower shall desire to withdraw any amount from the Credit Account or to request the Administrator to enter into a special commitment pursuant to Section 5.02, the Borrower shall deliver to the Administrator a written application in such form, and containing such statements and agreements, as the Administrator shall reasonably request. Applications for withdrawal, including the documentation required pursuant to this Article, shall be made promptly in relation to expenditures for the Project.

SECTION 5.04. Reallocation. Notwithstanding the allocation of an amount of the Credit or the percentages for withdrawal set forth or referred to in this Trust Fund Credit Agreement, if the Administrator has reasonably estimated that the amount of the Credit then allocated to any withdrawal category set forth in this Trust Fund Credit Agreement or added thereto by amendment will be insufficient to finance the agreed percentage of all expenditures in that category, the Administrator may, by notice to the Borrower:

(a) reallocate to such category, to the extent required to meet the estimated shortfall, proceeds of the Credit which are then allocated to another category and which in the opinion of the Administrator are not needed to meet other expenditures; and

(b) if such reallocation cannot fully meet the estimated shortfall, reduce the percentage for withdrawal then applicable to such expenditures in order that further withdrawals under such category may continue until all expenditures thereunder shall have been made.

SECTION 5.05. Evidence of Authority to Sign Applications for Withdrawal. The Borrower shall furnish to the Administrator evidence of the authority of the person or persons authorized to sign applications for withdrawal and the authenticated specimen signature of any such person.

SECTION 5.06. Supporting Evidence. The Borrower shall furnish to the Administrator such documents and other evidence in support of the application as the Administrator shall reasonably request, whether before or after the Administrator shall have permitted any withdrawal requested in the application.

SECTION 5.07. Sufficiency of Applications and Documents. Each application and the accompanying documents and other evidence must be sufficient in form and substance to satisfy the Administrator that the Borrower is entitled to withdraw from the Credit Account the amount applied for and that the amount to be withdrawn from the Credit Account is to be used only for the purposes specified in this Trust Fund Credit Agreement.

SECTION 5.08. Treatment of Taxes. It is the policy of the Administrator that no proceeds of the Credit shall be withdrawn on account of payments for any taxes levied by, or in the territory of, the Borrower on goods or services, or on the importation, manufacture, procurement or supply thereof. To that end, if the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Credit decreases or increases, the Administrator may, by notice to the Borrower, increase or decrease the percentage for withdrawal set forth or referred to in respect of such item in this Trust Fund Credit Agreement as required to be consistent with such policy of the Administrator.

SECTION 5.09. Payment by the Administrator. The Administrator shall pay the amounts withdrawn by the Borrower from the Credit Account only to or on the order of the Borrower.

## ARTICLE VI

### Cancellation and Suspension

SECTION 6.01. Cancellation by the Borrower. The Borrower may, by notice to the Administrator, cancel any amount of the Credit which the Borrower shall not have withdrawn, except that the Borrower may not so cancel any amount of the Credit in respect of which the Administrator shall have entered into a special commitment pursuant to Section 5.02.

Section 6.02. Suspension by the Administrator. If any of the following events of suspension shall have occurred and be continuing, the Administrator may, by notice to the Borrower, suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account:

(a) The Borrower shall have failed to make payment (notwithstanding the fact that such payment may have been made by a third party) of principal, interest, service charges or any other amount due to the Administrator or the Bank: (i) under this Trust Fund Credit Agreement, or (ii) under any other trust fund credit agreement between the Borrower and the Administrator.

(b) The Borrower shall have failed to perform any of its other substantial obligations under this Trust Fund Credit Agreement.

(c) The Administrator or the Bank shall have suspended in whole or in part the right of the Borrower to make withdrawals under any trust fund credit agreement with the Administrator because of a failure by the Borrower to perform any of its obligations under such agreement.

(d) As a result of events which have occurred after the date of this Trust Fund Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Project can be carried out or that the Borrower will be able to perform its obligations under this Trust Fund Credit Agreement.

(e) After the date of this Trust Fund Credit Agreement and prior to the Effective Date, any event shall have occurred which would have entitled the Administrator to suspend the Borrower's right to make withdrawals from the Credit Account if this Trust Fund Credit Agreement had been effective on the date such event occurred.

(f) A representation made by the Borrower, in or pursuant to this Trust Fund Credit Agreement, or any statement furnished in connection therewith, and intended to be relied upon by the Administrator in making the Credit, shall have been incorrect in any material respect.

(g) Any other event specified in this Trust Fund Credit Agreement for the purposes of this Section shall have occurred.

The right of the Borrower to make withdrawals from the Credit Account shall continue to be suspended in whole or in part, as the case may be, until the event or events which gave rise to suspension shall have ceased to exist, unless the Administrator shall have notified the Borrower that the right to make withdrawals has been restored in whole or in part, as the case may be.

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 that the procurement of any item is inconsistent with the procedures set forth or referred to in this Trust Fund Credit Agreement and establishes the amount of the expenditures in respect of such item which would otherwise have been eligible for financing out of the proceeds of the Credit or, (d) 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 with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be cancelled.

SECTION 6.04. Amounts Subject to Special Commitment not Affected by Cancellation or Suspension by the Administrator. No cancellation or suspension by the Administrator shall apply to amounts subject to any special commitment entered into by the Administrator pursuant to Section 5.02 except as expressly provided in such commitment.

SECTION 6.05. Application of Cancellation to Maturities of the Credit. Except as the Borrower and the Administrator shall otherwise agree, any cancellation shall be applied pro rata to the several installments of the principal amount of the Credit maturing after the date of such cancellation.

SECTION 6.06. Effectiveness of Provisions after Suspension or Cancellation. Notwithstanding any cancellation or suspension, all the provisions of this Trust Fund Credit Agreement shall continue in full force and effect except as specifically provided in this Article.

## ARTICLE VII

### Acceleration of Maturity

SECTION 7.01. Events of Acceleration. If any of the following events shall occur and shall continue for the period specified below, if any, then at any subsequent time during the continuance thereof, the Administrator, at its option, may, by notice to the Borrower, declare the principal of the Credit then outstanding to be due and payable immediately together with the service charges thereon and upon any such declaration such principal, together with such charges, shall become due and payable immediately:

(a) A default shall occur in the payment of principal or any other payment required under this Trust Fund Credit Agreement and such default shall continue for a period of thirty days.

(b) A default shall occur in the payment by the Borrower of principal or interest or any other amount due to the Administrator or the Bank.

(c) A default shall occur in the performance of any other substantial obligation on the part of the Borrower under this Trust Fund Credit Agreement, and such default shall continue for a period of sixty days after notice thereof shall have been given by the Administrator to the Borrower.

(d) Any other event specified in this Trust Fund Credit Agreement for the purposes of this Section shall have occurred and shall continue for the period, if any, specified in this Trust Fund Credit Agreement.

#### ARTICLE VIII

##### Taxes

SECTION 8.01. Taxes. (a) The principal of, and other charges on, the Credit shall be paid without deduction for, and free from, any taxes levied by, or in the territory of, the Borrower.

(b) This Trust Fund Credit Agreement, and any other agreement to which these General Conditions apply, shall be free from any taxes levied by, or in the territory of, the Borrower on or in connection with the execution, delivery or registration thereof.

#### ARTICLE IX

##### Cooperation and Information; Financial and Economic Data; Project Implementation

SECTION 9.01. Cooperation and Information. (a) The Borrower and the Administrator shall cooperate fully to assure that the purposes of the Credit will be accomplished. To that end, the Borrower and the Administrator shall:

(i) from time to time, at the request of any one of them, exchange views with regard to the progress of the Project, the purposes of the Credit, and the performance of their respective obligations under this Trust Fund Credit Agreement; and furnish to the other party all such information related thereto as it shall reasonably request; and

(ii) promptly inform each other of any condition which interferes with, or threatens to interfere with, the matters referred to in paragraph (i) above.

(b) The Borrower shall afford all reasonable opportunity for representatives of the Administrator to visit any site for purposes related to the Credit.

SECTION 9.02. Financial and Economic Data. The Borrower shall furnish to the Administrator all such information as the Administrator shall reasonably request with respect to its financial and economic conditions.

SECTION 9.03. Insurance. The Borrower shall insure or cause to be insured, or make adequate provision for the insurance of, the imported goods to be financed out of the proceeds of the Credit against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation. Any indemnity for such insurance shall be payable in a freely usable currency to replace or repair such goods.

SECTION 9.04. Use of Goods and Services. Except as the Administrator shall otherwise agree, the Borrower shall cause all goods and services financed out of the proceeds of the Credit to be used exclusively for the purposes of the Project.

SECTION 9.05. Plans and Schedules. The Borrower shall furnish, or cause to be furnished, to the Administrator promptly upon their preparation, the plans, specifications, reports, contract documents and construction and procurement schedules for the Project, and any material modifications thereof or additions thereto, in such detail as the Administrator shall reasonably request.

SECTION 9.06. Records and Reports. (a) The Borrower shall: (i) maintain records and procedures adequate to record and monitor the progress of the Project (including its cost and the benefits to be derived from it), to identify the goods and services financed out of the proceeds of the Credit, and to disclose their use in the Project; (ii) within its capacity, enable the Administrator's representatives to visit any facilities and construction sites included in the Project and to examine the goods financed out of the proceeds of the Credit and any plants, installations, sites, works, buildings, property, equipment, records and documents relevant to the performance of the obligations of the Borrower under this Trust Fund Credit Agreement; and (iii) furnish to the Administrator at regular intervals all such information as the Administrator shall reasonably request concerning the Project, its cost and, where appropriate, the benefits to be derived from it, the expenditure of the proceeds of the Credit and the goods and services financed out of such proceeds.

(b) Upon the award of any contract for goods or services to be financed out of the proceeds of the Credit, the Administrator may publish a description thereof, the name and nationality of the party to which the contract was awarded and the contract price.

(c) Promptly after completion of the Project, but in any event not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Administrator, the Borrower shall prepare and furnish to the Administrator a report, of such scope and in such detail as the Administrator shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Administrator of this respective obligations under this Trust Fund Credit Agreement and the accomplishment of the purposes of the Credit.

SECTION 9.07. Maintenance. The Borrower shall at all times operate and maintain, or cause to be operated and maintained, any facilities relevant to the Project, and promptly as needed, make or cause to be made all necessary repairs and renewals thereof.

#### ARTICLE X

#### Failure to Exercise Rights; Arbitration

SECTION 10.01. Failure to Exercise Rights. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under this Trust Fund Credit Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default. No action of such party in respect of any default, or any acquiescence by it in any default, shall affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

SECTION 10.02. Arbitration. (a) Any controversy between the parties to this Trust Fund Credit Agreement and any claim by either such party against the other arising under this Trust Fund Credit Agreement which has not been settled by agreement of the parties shall be submitted to arbitration by an Arbitral Tribunal as hereinafter provided.

(b) The parties to such arbitration shall be the Administrator and the Borrower.

(c) The Arbitral Tribunal shall consist of three arbitrators appointed as follows: one arbitrator shall be appointed by the Administrator; a second arbitrator shall be appointed by the Borrower; and the third arbitrator (hereinafter sometimes called the Umpire) shall be appointed by agreement of the parties or, if they shall not agree, by the President of the International Court of Justice or, failing appointment by said President, by the Secretary-General of the United Nations. If either of the parties shall fail to appoint an arbitrator, such arbitrator shall be appointed by the Umpire. In case any arbitrator appointed in accordance with this Section shall resign, die or become unable to act, a successor arbitrator shall be appointed in the same manner as herein prescribed for the appointment of the original arbitrator and such successor shall have all the powers and duties of such original arbitrator.

(d) An arbitration proceeding may be instituted under this Section upon notice by the party instituting such proceeding to the other party. Such notice shall contain a statement setting forth the nature of the controversy or claim to be submitted to arbitration, the nature of the relief sought, and the name of the arbitrator appointed by the party instituting such proceeding. Within thirty days after such notice, the other party shall notify to the party instituting the proceeding the name of the arbitrator appointed by such other party.

(e) If within sixty days after the notice instituting the arbitration proceeding, the parties shall not have agreed upon an Umpire, either party may request the appointment of an Umpire as provided in paragraph (c) of this Section.

(f) The Arbitral Tribunal shall convene at such time and place as shall be fixed by the Umpire. Thereafter, the Arbitral Tribunal shall determine where and when it shall sit.

(g) The Arbitral Tribunal shall decide all questions relating to its competence and shall, subject to the provisions of this Section and except as the parties shall otherwise agree, determine its procedure. All decisions of the Arbitral Tribunal shall be by majority vote.

(h) The Arbitral Tribunal shall afford to the parties a fair hearing and shall render its award in writing. Such award may be rendered by default. An award signed by a majority of the Arbitral Tribunal shall constitute the award of such Tribunal. A signed counterpart of the award shall be transmitted to each party. Any such award rendered in accordance with the provisions of this Section shall be final and binding upon the parties to this Trust Fund Credit Agreement. Each party shall abide by and comply with any such award rendered by the Arbitral Tribunal in accordance with the provisions of this Section.

(i) The parties shall fix the amount of the remuneration of the arbitrators and such other persons as shall be required for the conduct of the arbitration proceedings. If the parties shall not agree on such amount before the Arbitral Tribunal shall convene, the Arbitral Tribunal shall fix such amount as shall be reasonable under the circumstances. Each party shall defray its own expenses in the arbitration proceedings. The costs of the Arbitral Tribunal shall be divided between and borne equally by the parties. Any question concerning the division of the costs of the Arbitral Tribunal or the procedure for payment of such costs shall be determined by the Arbitral Tribunal.

(j) The provisions for arbitration set forth in this Section shall be in lieu of any other procedure for the settlement of controversies between the parties to this Trust Fund Credit Agreement or of any claims by either party against the other party arising thereunder.

(k) The Administrator shall not be entitled to enter judgment against the Borrower upon the award, to enforce the award against the Borrower by execution or to pursue any other remedy against the Borrower for the enforcement of the award, except as such procedure may be available against the Borrower otherwise than by reason of the provisions of this Section. If, within thirty days after counterparts of the award shall have been delivered to the parties, the award shall not be complied with by the Administrator, the Borrower may take any such action for the enforcement of the award against the Administrator.

(l) Service of any notice or process in connection with any proceeding under this Section or in connection with any proceeding to enforce any award rendered pursuant to this Section may be made in the manner provided in Section 11.01. The parties to this Trust Fund Credit Agreement waive any and all other requirements for the service of any such notice or process.

## ARTICLE XI

### Miscellaneous Provisions

SECTION 11.01. Notices and Requests. Any notice or request required or permitted to be given or made under this Trust Fund Credit Agreement and any other agreement between the parties contemplated by this Trust Fund Credit Agreement shall be in writing. Except as otherwise provided in Section 12.03, such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address specified in this Trust Fund Credit Agreement, or at such other address as such party shall have designated by notice to the party giving such notice or making such request.

SECTION 11.02. Evidence of Authority. The Borrower shall furnish to the Administrator sufficient evidence of the authority of the person or persons who will, on behalf of the Borrower, take any action or execute any documents required or permitted to be taken or executed by the Borrower under this Trust Fund Credit Agreement, and the authenticated specimen signature of each such person.

SECTION 11.03. Action on Behalf of the Borrower. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Trust Fund Credit Agreement on behalf of the Borrower may be taken or executed by the representative of the Borrower designated in this Trust Fund Credit Agreement for the purposes of this Section or any person thereunto authorized in writing by such representative. Any modification or amplification of the provisions of this Trust Fund Credit Agreement may be agreed to on behalf of the Borrower by written instrument executed on behalf of the Borrower by the representative so designated or any person thereunto

authorized in writing by such representative, provided that, in the opinion of such representative, such modification or amplification is reasonable in the circumstances and will not substantially increase the obligations of the Borrower under this Trust Fund Credit Agreement. The Administrator may accept the execution by such representative or other person of any such instrument as conclusive evidence that in the opinion of such representative any modification or amplification of the provisions of this Trust Fund Credit Agreement effected by such instrument is reasonable in the circumstances and will not substantially increase the obligations of the Borrower thereunder.

SECTION 11.04. Execution in Counterparts. This Trust Fund Credit Agreement may be executed in several counterparts, each of which shall be an original.

## ARTICLE XII

### Effective Date; Termination

SECTION 12.01. Conditions Precedent to Effectiveness of the Trust Fund Credit Agreement. This Trust Fund Credit Agreement shall not become effective until evidence satisfactory to the Administrator shall have been furnished to the Administrator that:

(a) the execution and delivery of this Trust Fund Credit Agreement on behalf of the Borrower have been duly authorized or ratified by all necessary governmental action; and

(b) all other events specified in this Trust Fund Credit Agreement as conditions to its effectiveness have occurred.

SECTION 12.02. Legal Opinions or Certificates. As part of the evidence to be furnished pursuant to Section 12.01, the Borrower shall furnish to the Administrator an opinion or opinions satisfactory to the Administrator of counsel acceptable to the Administrator or, if the Administrator so requests, a certificate satisfactory to the Administrator of a competent official of the Borrower, showing:

(a) that this Trust Fund Credit Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and is legally binding upon the Borrower in accordance with its terms; and

(b) such other matters as shall be specified in this Trust Fund Credit Agreement or as shall be reasonably requested by the Administrator in connection therewith.

SECTION 12.03. Effective Date. (a) Except as the Borrower and the Administrator shall otherwise agree, this Trust Fund Credit Agreement shall enter into effect on the date on which the Administrator dispatches to the Borrower notice of its acceptance of the evidence required by Section 12.01.

(b) If, before the Effective Date, any event shall have occurred which would have entitled the Administrator to suspend the right of the Borrower to make withdrawals from the Credit Account if this Trust Fund Credit Agreement had been effective, the Administrator may postpone the dispatch of the notice referred to in paragraph (a) of this Section until such event or events shall have ceased to exist.

SECTION 12.04. Termination of this Trust Fund Credit Agreement for Failure to Become Effective. If this Trust Fund Credit Agreement shall not have entered into effect by the date specified therein for the purposes of this Section, this Trust Fund Credit Agreement and all obligations of the parties thereunder shall terminate, unless the Administrator, after consideration of the reasons for the delay, shall establish a later date for the purposes of this Section. The



Administrator shall promptly notify the Borrower of such later date.

SECTION 12.05. Termination of this Trust Fund Credit Agreement on Full Payment. If and when the entire principal amount of the Credit withdrawn from the Credit Account and all charges which shall have accrued on the Credit shall have been paid, this Trust Fund Credit Agreement and all obligations of the parties thereunder shall forthwith terminate.

#### SCHEDULE 2

##### 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 Dollars)	% of Expenditures to be Financed
(1) Works Gaza	20,900,000	100%
(2) Vehicles, Equipment, Supplies and Spares		
(a) Gaza	700,000	100%
(b) Institutional Support and Project Management	100,000	100%
(3) Consultancies, Studies and Training		
(a) Gaza	1,900,000	100%
(b) Institutional Support and Project Management	2,000,000	100%
(4) Incremental Operating Expenses of the Borrower	1,400,000	100%
(5) Unallocated	3,000,000	
TOTAL	30,000,000	

2. For the purposes of this Schedule the term "operating expenditures" means expenditures incurred by the Borrower on account of salaries, operation equipment, rentals, supplies and utility prices.

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 expenditures under contracts not exceeding \$50,000 equivalent, under such terms and conditions as the Administrator shall specify by notice to the Borrower.

#### SCHEDULE 3

## Description of the Project

The objectives of the Project are to address the most pressing needs for rehabilitation and improvement of essential services in the Occupied Territories and for creation of productive employment.

The Project consists of the following components:

### Part A: Rehabilitation of Infrastructure

(1) Education: upgrading of physical facilities and of teaching quality through: (a) rehabilitation of school physical facilities; (b) provision of essential teaching materials and equipment; and (c) provision of technical assistance for purposes of project preparation and supervision.

(2) Water Supply, Waste Water and Sanitation: implementation of high priority works and provision of essential operation and maintenance equipment, including: (a) upgrading of wells and storage facilities; (b) upgrading/extension of storm water collection and sewerage system; (c) installation of urgently needed wells and improvement of water supply in selected villages; (d) provision of equipment, operation vehicles, supplies, spares and materials to meet basic operation and maintenance requirements; and (e) provision of engineering services for purposes of project preparation and implementation.

(3) Inter-urban Roads: rehabilitation of main road network and establishment of a capability for road maintenance, including: (a) rehabilitation of main roads and of village access roads; (b) development and implementation of a road maintenance program; (c) provision of guard rails, maintenance equipment and vehicle and office facilities; and (d) provision of engineering services to assist in road program preparation, work supervision and staff training.

(4) Municipal Roads and Facilities: rehabilitation of critical municipal road sections and improvement of other municipal facilities, including: (a) rehabilitation/improvement of secondary roads and internal village roads; (b) development and implementation of a road maintenance program; (c) rehabilitation of public municipal facilities, such as parks, markets and slaughter houses; and (d) implementation of a short-term program for removal of debris; (e) provision of essential equipment, vehicles and materials required for road maintenance, construction supervision and staff training; and (f) provision of engineering services to assist municipalities in road program preparation, construction supervision and staff training.

(5) Power: improvements to the power supply and distribution network through the carrying out of essential investments and the provision of vehicles, equipment and technical assistance.

### Part B: Institutional Support

(1) Support for the operation of the Borrower and Implementing Agencies, through the financing of employment of staff, rental of office facilities and acquisition of operation vehicles, equipment and materials.

(2) Provision of Consultants' services to assist in the management of the Project and other programs of the Borrower, and in procurement, accounting and audit of account.

(3) Carrying out of studies and training for the staff of the Borrower and Implementing Agencies.

\* \* \*

The Project is expected to be completed by June 30, 1997.

## SCHEDULE 4

### Procurement and Consultants' Services

#### Section I. Procurement of Goods and Works

##### Part A: International Competitive Bidding

Except as provided in Part D hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Administrator, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods and works in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Administrator, with such modifications thereto as the Administrator shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Administrator, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Administrator.

##### Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in the Occupied Territories will be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

##### Part C: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A of this Schedule, the Borrower will grant a margin of preference to domestic contractors from the Occupied Territories in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

##### Part D: Other Procurement Procedures

1. Items of works estimated to cost the equivalent of \$2,000,000 or less per contract, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Administrator. Such procedures shall ensure, inter alia, that: (i) tenders will be advertised for at least two consecutive days in a local newspaper of wide circulation; (ii) prospective bidders will be allowed a minimum of 30 days between the first appearance of notification and bid submission; (iii) bidding documents will follow the formats of the Administrator's Standard Bidding Documents or those used by United Nations Agencies operating in the Territories; (iv) if interested, foreign bidders will be allowed to submit bids; (v) bids will be submitted in sealed envelopes, and both mailed and hand-carried bids will be accepted; (vi) all bids will be opened at the same time in public; (vii) contracts will be awarded to the lowest evaluated bidder; (viii) bidders will not be asked, nor allowed, to change the substance of their bids after the bid closing

date, and price negotiations with the lowest evaluated bidder will be confined to those cases listed in the Guidelines; and (ix) in the absence of prequalification, postqualification criteria will be explicitly stated in the bidding documents.

2. Items of goods estimated to cost the equivalent of \$250,000 or less may be procured under contracts awarded through limited international shopping procedures on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers from not less than three countries (including the Occupied Territories) eligible under the Guidelines and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

3. Items or groups of items estimated to cost the equivalent of \$50,000 or less per contract, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers in the Occupied Territories eligible under the Guidelines, in accordance with procedures acceptable to the Association.

4. Proprietary items may be procured under contracts to be directly negotiated with the suppliers thereof, in accordance with procedures satisfactory to the Administrator.

#### Part D: Review by the Administrator of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for works estimated to cost the equivalent of more than \$2,000,000 and each contract for goods estimated to cost the equivalent of more than \$250,000, and the first two contracts to be concluded by any Implementing Agency, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Administrator pursuant to said paragraph 2 (d) shall be furnished to the Administrator prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Administrator pursuant to said paragraph 3 shall be furnished to the Administrator as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

2. The figure of 20% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

#### Section II. Employment of Consultants

1. In order to assist the Borrower in the carrying out of the Project, the Borrower shall employ consultants who shall be selected in accordance with principles and procedures satisfactory to the Administrator on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such

consultants under contracts using the standard form of contract for consultants' services issued by the Administrator, with such modifications as shall have been agreed by the Administrator. Where no relevant standard contract documents have been issued by the Administrator, the Borrower shall use other standard forms agreed with the Administrator.

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 contracts estimated to cost less than \$100,000 equivalent each. However, this exception to prior Administrator review shall not apply to the terms of reference for such contracts or to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Administrator or to amendments of contracts raising the contract value to \$100,000 equivalent or above.

#### SCHEDULE 5

##### Implementation Arrangements

The Borrower shall apply the following Project implementation arrangements, as they may be modified by the agreement of the Borrower and the Administrator in the course of the semi-annual reviews referred to in paragraph B(3) (c) of this Schedule.

##### A. Project Management

(1) PMO shall have the overall responsibility for Project management. It shall establish an office in Gaza to be headed by a Deputy Director. PMO shall perform the following functions with the assistance of a firm of management consultants:

- (a) programming and budgeting for Project activities;
- (b) institution of operation procedures and systems;
- (c) Sub-project screening and evaluation;
- (d) development of model contract documents for use by Implementing Agencies;
- (e) payment review and certification;
- (f) implementation monitoring and supervision; and
- (g) project data processing and accounting.

(2) PMO shall be directly responsible, with the assistance of consultants, for: (a) the implementation of large or inter-municipal sub-projects; and (b) the carrying out of bulk procurement of goods required for a multitude of Sub-projects.

(3) Sub-projects shall be:

(a) screened and approved based on their satisfaction of criteria as to their: (i) economic and technical feasibility; (ii) readiness for implementation; (iii) environmental impact; and (iv) consistency with Project objectives and the relevant sectoral strategy; and

(b) rated in terms of priority based on their satisfaction of criteria as to their: (i) economic and social impact; (ii) distributional equity; (iii) requirements in terms of recurrent cost; and (iv) satisfaction of community needs.

B. Project Implementation

(1) Sub-project implementation responsibility shall rest with: (a) the PMO and the education structure to be put by the Palestinian authority in place in Gaza with respect to education activities; (b) the municipalities with respect to water, waste water and sanitation and municipal roads activities, current road construction/ maintenance structure in Gaza; and (c) PMO and the agencies in Gaza to be designated by the Palestinian authority with respect to inter-urban road activities.

(2) For preparation and implementation of Sub-projects, the following procedures shall be followed:

(a) Implementing Agencies shall prepare any such project proposals with the assistance of a qualified local engineering or architectural firm selected by such Implementing Agency from a pre-qualified panel of such firms identified by PMO;

(b) upon the approval of a priority Sub-project according to the criteria referred to in paragraph A (3) of this Schedule, the Borrower shall budget for such Sub-project in its Program;

(c) thereafter, the Borrower shall issue an authorization letter to the relevant Implementing Agency indicating: (i) the amount allocated for the Sub-project; (ii) a brief description of the Sub-project; (iii) the proposed implementation methods and duration; and (iv) reporting, financial and other requirements;

(d) responsibility for conclusion of contracts costing not more than \$250,000 equivalent, required for implementation of this Sub-Project, and shall rest with the Implementing Agency. For contracts exceeding such amount, the approval of PMO shall be required;

(e) payments due under contracts shall be certified by the Implementing Agency, confirmed by PMO and effected through the concerned financial office of the Borrower; and

(f) PMO shall maintain an up-dated record of Sub-projects and of contracts concluded thereunder.

(3) Maintenance of Accounts and Reporting:

The Borrower shall:

(a) ensure the maintenance by Implementing Agencies of records, accounts and underlying documentation related to their activities under the Project;

(b) prepare and furnish to the Administrator quarterly reports on the status of project implementation; and

(c) undertake, jointly with the Administrator, semi-annual reviews of the Project for the purpose of agreeing on such adjustments to the components, or implementation and financing arrangements of the Project as may be required to achieve the objective thereof.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

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

(c) the term "Authorized Allocation" means an amount equivalent to \$2,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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 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; or

(b) 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 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.

