Multi-Donor Trust Fund
Project Agreement

(Municipal Development Project for the Support of Phase I of the Municipal Development Program)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION
(as Administrator of the Multi-Donor Trust Fund for Municipal Development Project)

and

THE MUNICIPAL DEVELOPMENT AND LENDING FUND

Dated June 10, 2010
MULTI-DONOR TRUST FUND PROJECT AGREEMENT

Agreement dated June 10, 2010, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the “World Bank”), (as Administrator of the Multi-Donor Trust Fund for Municipal Development Project) (the “Administrator”), and the MUNICIPAL DEVELOPMENT AND LENDING FUND established pursuant to the PLO’s Decree of the Council of Ministers No. 05/34/mim.waw.alf.qaf of 2005 (the “Project Implementing Entity”) (the “Project Agreement”) in connection with the Multi-Donor Trust Fund Grant Agreement of same date between the Palestine Liberation Organization (for the benefit of the Palestinian Authority) (the “Recipient”) and the Administrator for the Municipal Development Project (the “Grant Agreement”).

The Administrator and the Project Implementing Entity hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

1.01. The Standard Conditions (as defined in the Appendix to the Grant Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Grant Agreement or the Standard Conditions.

ARTICLE II - PROJECT

2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall carry out the Project in accordance with the provisions of Article II of the Standard Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Administrator and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III – EFFECTIVENESS; TERMINATION

3.01 This Project Agreement becomes effective upon effectiveness of the Grant Agreement.
3.02. This Agreement and all obligations of the parties under it shall terminate on the date on which the Grant Agreement terminates in accordance with the provisions of its terms and the Standard Conditions.

ARTICLE IV - REPRESENTATIVE; ADDRESSES

4.01. The Project Implementing Entity’s Representative is the Executive Director of the Municipal Development and Lending Fund.

4.02. The Administrator’s Address is:

International Development Association  
1818 H Street, NW  
Washington, DC 20433  
United States of America

Cable: Telex: Facsimile:
INDEVAS 248423(MCI) 1-202-477-6391
Washington, D.C.

4.03. The Project Implementing Entity’s Address is:

Municipal Development and Lending Fund (MDLF)  
Rashmawi Building, Al-Yasmin St.  
Al-Bireh, West Bank

Telephone: Facsimile:
972-2-296-6610 972-2-295-0685
AGREED at the West Bank, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION  
(as Administrator of the Multi-Donor Trust Fund for MDP)

/s/ Mariam J. Sherman
Authorized Representative

MUNICIPAL DEVELOPMENT AND LENDING FUND

/s/ Khaled Qawasmi
Authorized Representative
SCHEDULE

Execution of the Project

Section I. Institutional and other Arrangements

1. The Project Implementing Entity shall maintain overall responsibility for the Project, including preparation of Annual Plans and adequate compliance with the Administrator’s fiduciary requirements and shall maintain for the duration of the Project adequate capability, form and functions, staffing and resources satisfactory to the Administrator.

2. The Project Implementing Entity shall: (a) carry out the Project in accordance with the Grant Agreement, this Agreement, the Operational Manual, the Grant Allocation Manual, the On-Granting Agreement and the Environmental Management Plan; (b) take all action, including the provision of funds, facilities, services and other resources, necessary or appropriate for the carrying out of the Project; (c) not take or permit to be taken any action which would prevent or interfere with the carrying out of the Project; and (d) not amend, suspend, abrogate, repeal, waive or assign any provision of this Agreement, the Environmental Management Plan, any site-specific environmental and safeguards guidelines and documents prepared under the Project, the On-Granting Agreement, the Operational Manual or the Grant Allocation Manual without prior approval of the Administrator.

3. The Project Implementing Entity shall finance the Recurrent Expenditures only in accordance with the transaction, control and clearance processes and the procedural mechanisms set out in the Operational Manual.

4. The Project Implementing Entity shall:

   (a) exercise its rights under the On-Granting Agreement and each Grant Implementation Agreement in such manner as to protect the interests of the Recipient, the Administrator and the Project Implementing Entity and to accomplish the purposes of the Grant; and

   (b) not assign, amend, abrogate or waive the On-Granting Agreement or any Grant Implementation Agreement or any of their respective provisions, except as the Recipient and the Administrator shall otherwise agree.
C. Safeguards

1. The Project Implementing Entity shall carry out the Project in accordance with the Environmental Management Plan and any site-specific environmental and safeguards guidelines and documents required to be prepared under the Project and to ensure the satisfaction of any and all applicable requirements for the preparation, disclosure and implementation of any site-specific environmental and social impact assessments or site-specific environmental management plans, in accordance with the Environmental Management Plan, in relation to any investment or Sub-project necessitating an environmental and social impact assessment or site-specific environmental management plan.

2. The Project Implementing Entity shall not amend, suspend, abrogate, repeal, waive or assign any provision of the Environmental Management Plan or any site-specific environmental and safeguards guidelines and documents prepared under the Project without prior approval of the Administrator.

3. The Project Implementing Entity shall not: (a) approve Investments or (b) award Sub-grants for Sub-projects that are ineligible to be financed out of the proceeds of the Grant according to the restrictions set forth in the Operational Manual, the Grant Allocation Manual, the Environmental Management Plan, or this Agreement, including, but not limited to:

   (i) any Investments or Sub-projects that are likely to have significant adverse environmental or other impacts which would lead to an investment or Sub-project being classified as Category A according to the World Bank’s environmental screening mechanisms; and

   (ii) any Investments or Sub-projects that would involve the involuntary taking of land resulting in relocation or loss of shelter, loss of assets or access to assets or loss of income sources or other means of livelihood by an affected person (whether or not the affected person must move to another location) or any other type of impact that would lead to an investment or Sub-project being classified as triggering the World Bank’s Operational Policy on Involuntary Resettlement (OP 4.12), according to the World Bank’s screening mechanisms.

D. Anti-Corruption

The Project Implementing Entity shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.
E. **Sub-projects and Investments**

1. The Recipient shall cause the Project Implementing Entity, through the Palestinian Authority, to award Investments and Sub-grants in accordance with the criteria and procedures set forth in the Operational Manual and the Grant Allocation Manual and to review, appraise and select proposals and supervise implementation, all in accordance with the Operational Manual, The Grant Allocation Manual, the Environmental Management Plan and the respective Grant Implementation Agreement.

2. Each Sub-grant shall be awarded under a Grant Implementation Agreement with the respective municipality on terms and conditions approved by the Administrator, which shall include the following, namely that the Recipient shall obtain rights adequate to protect its interests and those of the Administrator, including the right to:

   (a) suspend or terminate the right of a municipality to benefit from the proceeds of the Sub-grant, or obtain a refund of all or any part of the amount of the Sub-grant then disbursed, upon that municipality’s failure to perform any of its obligations under the Grant Implementation Agreement; and

   (b) require each respective municipality to: (i) carry out its Sub-project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Administrator, including in accordance with the provisions of the Operational Manual and the provisions of the Anti-Corruption Guidelines; (ii) provide, promptly as needed, the resources required for the purpose; (iii) procure the goods, works and services to be financed out of the Sub-grant in accordance with the provisions of this Agreement; (iv) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Administrator, the progress of the Sub-grant and the achievement of its objectives; (v) enable the Recipient and the Administrator to inspect the Sub-project, its operation and any relevant records and documents; and (vi) prepare and furnish to the Recipient, and the Administrator all such information as the Recipient or the Administrator shall reasonably request relating to the foregoing.

Section II. **Project Monitoring, Reporting and Evaluation**

A. **Project Reports; Annual Plan; Completion Report**

1. The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators agreed with the Administrator. Each interim Project Report shall cover the period of the first six (6) calendar months of each calendar year and shall be furnished to the Administrator not later than forty-five (45) days after the end of the period covered by such report.

2. In addition to the interim Project Reports referred to in paragraph 1 above:
(a) the Project Implementing Entity shall prepare cumulative annual Project Reports at the end of each calendar year. Such cumulative annual Project Reports should be prepared in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators agreed with the Administrator and shall include a report on the performance of the Annual Plan for the preceding calendar year. Each such cumulative annual Project Report shall cover the period of the preceding twelve (12) months and shall be furnished to the Administrator not later than sixty (60) days after the end of the period covered by such report; and

(b) the cumulative annual Project Reports referred to in paragraph (a) above, shall include an Annual Plan for the following calendar year, for review and approval by the Administrator, including indicative amounts needed to implement the activities under the respective Annual Plan, prepared in accordance with the format included in the Operational Manual, and the Project Implementing Entity shall agree with the Administrator on steps to be taken in the following calendar year.

3. The Project Implementing Entity shall jointly undertake with the Administrator a review of the Project activities based on the report referred to in paragraph 2 above.

4. The Project Implementing Entity shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the Administrator not later than six (6) months after the Closing Date.

B. Financial Management; Financial Reports; Audits

1. The Project Implementing Entity shall maintain a financial management system in accordance with the provisions of Section 2.07 of the Standard Conditions.

2. The Project Implementing Entity shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the Administrator not later than forty five (45) days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the Administrator. Prior to submission of such unaudited financial reports, the unaudited financial reports shall have been reviewed by an independent auditor acceptable to the Administrator.

3. The Project Implementing Entity shall have its Financial Statements for the Project audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Project Implementing Entity. The audited Financial Statements for each such period shall be furnished to the Administrator not later than six (6) months after the end of such period.
Section III. Procurement

All goods, works and services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the provisions of Schedule 2 to the Grant Agreement.