

GRANT NUMBER H663-RY

Financing Agreement

(Labor Intensive Public Works Project)

between

REPUBLIC OF YEMEN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 23, 2012

GRANT NUMBER H663-RY

FINANCING AGREEMENT

AGREEMENT dated May 23, 2012, entered into between REPUBLIC OF YEMEN ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this 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 General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to thirty nine million three hundred thousand Special Drawing Rights (SDR 39,300,000) ("Financing" or "Grant") to assist in financing the project described in Schedule 1 to this Agreement ("Project").
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Payment Dates are March 1 and September 1 in each year.
- 2.05. The Payment Currency is Dollars.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through MoPIC in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — TERMINATION

- 4.01. The Effectiveness Deadline is the date one hundred twenty (120) days after the date of this Agreement.
- 4.02. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE V — REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Minister of Planning and International Cooperation.

- 5.02. The Recipient's Address is:

Ministry of Planning and International Cooperation
PO Box 175
Sana'a, Republic of Yemen

| | |
|---------------|---------------|
| Telephone: | Facsimile: |
| 967-1-250-118 | 967-1-250-665 |
| | 967-1-250-605 |

- 5.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433

United States of America

Cable:

Telex:

Facsimile:

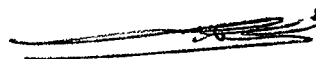
INDEVAS
Washington, D.C.

248423 (MCI)

1-202-477-6391

AGREED at Riyadh, Saudi Arabia, as of the day and year first above written.

REPUBLIC OF YEMEN

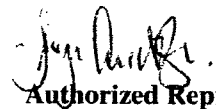


By

Authorized Representative

**INTERNATIONAL DEVELOPMENT
ASSOCIATION**

By



Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to assist the Recipient to: (i) provide needed infrastructure to improve access to basic public services; and (ii) create short term employment.

The Project consists of the following parts:

Part A: Community Infrastructure

Provision of goods and works for the carrying out of Sub-projects in selected rural and urban areas to construct, upgrade, rehabilitate and maintain community infrastructure, including in the following areas: (i) health; (ii) education; (iii) water supply; (iv) sewage; (v) water harvesting; (vi) stone paving of roads and streets; and (vii) vocational training centers.

Part B: Technical Assistance

Provision of consultants' services to ensure the sustainability of Part A of the Project, including: (a) support to local communities and governments in the preparation of proposals to adequately identify Sub-projects for financing; (b) preparation of feasibility studies, engineering design and tender documents for Sub-project proposals; (c) supervision of construction during execution of Sub-projects; (d) benefit assessment surveys; (e) support for auditing of PMU; (f) training and workshops in the area of Project implementation for consulting firms, contractors and non-governmental organizations; (g) training of local communities and beneficiaries in operations and maintenance of infrastructure; (h) preparation of environmental assessments and design of mitigation measures and monitoring systems thereof; and (i) other technical assistance necessary to improve the Recipient's capacities in community infrastructure sustainability.

Part C: Project Management

Provision of goods, consultants' services, training and operating costs of the PMU to support Project coordination, implementation, monitoring and evaluation and management.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

The Recipient shall carry out the Project in accordance with the following institutional and other arrangements:

1. The Recipient shall carry out the Project through the PMU and the Steering Committee in accordance with the Manual of Procedures, as such Manual may be updated from time to time by agreement between the Recipient and the Association.
2. For the purpose of ensuring the proper coordination and execution of the Project, the Recipient shall maintain the Steering Committee throughout Project implementation, with membership satisfactory to the Association. The functions of said Steering Committee shall include, *inter alia*: (a) review and approval of annual budgets for operation of the PMU, and of Annual Investment Plans for Sub-projects; and (b) endorsement of annual audit reports and semi-annual progress reports.
3. For the purpose of ensuring the proper supervision of the execution of the Project, the Recipient shall maintain the PMU throughout Project implementation with organization, staffing and terms of reference satisfactory to the Association. The Recipient shall ensure that the PMU shall: (a) provide assistance to local governments in preparing priority Quarterly Investment Programs, including Sub-projects based on established selection criteria; (b) appoint consultants and non-governmental organizations for specific assignments, including engineering and construction supervision, and for works involving community participation; (c) enter into contracts for goods and civil works with a value of less than US\$200,000; (d) carry out annual monitoring and evaluation reviews, with adjustments to be made in work approach and procedures on the basis of experience gained; (e) coordinate with governmental and non-governmental authorities and financing agencies; (f) revise and update the Staff Service Rules and the Manual of Procedures as needed; (g) enter into and terminate contracts with PMU support staff; and (h) build the capacity of local consulting and construction firms and non-governmental organizations, and enhance community participation. Except as set out above in paragraph A. 2 of this Section of the Agreement, the PMU shall be responsible for all procurement and financial management under the Project.

4. For purposes of Part A of the Project, the Recipient shall, from time to time:
 - (a) propose to the Association, for its review and approval, the financing out of the proceeds of the Grant, of other activities that have a high labor content and positive impacts on the Recipient's economy, social development, education, health and environment; and
 - (b) upon the Association's approval of any such proposal, the Recipient, through the PMU, shall arrange for the identification and appraisal of the corresponding Sub-projects, to be submitted for the Association's approval as provided in paragraph 3 (a) of this Schedule.
5. Before November 1 of each year, commencing November 1, 2012, the Recipient shall furnish to the Association, for its review and comments, an Annual Investment Plan including an estimate of: (i) the operational costs of the PMU for the subsequent year; and (ii) the counterpart funding required to be provided by the Recipient out of its own resources for Sub-projects to be carried out during the subsequent year.
6. Taking into account the comments of the Association, the Recipient shall: (i) ensure that adequate annual budgetary allocations are made prior to January 1 of each year to cover the counterpart funding required for the Sub-projects to be implemented during such year; and (ii) deposit each quarter into a separate bank account the counterpart funds identified in the interim unaudited financial reports referred to in Section II B. 2 of Schedule 2 of this Agreement.
7. Not later than three months after the Effective Date, the Recipient shall appoint an independent external auditor based on terms of reference acceptable to the Association.

B. Anti-Corruption.

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Safeguards.

1. The Recipient, through the PMU, shall carry out the Project in accordance with the requirements and operational procedures set forth in the EIA (including the EMP), and the Site-specific EMPs, and shall not assign, amend, abrogate or waive any provisions of the EIA (including the EMP), or the Site-specific EMPs without prior approval of the Association.
2. The Recipient shall, where required by the EIA (including the EMP):

- (a) prepare, prior to the commencement of any civil works under the Project, a Site-specific EMP for a site, satisfactory to the Association, in accordance with the EIA (including the EMP);
 - (b) implement the Site-specific EMP in accordance with the EIA (including the EMP); and
 - (c) not amend, suspend or abrogate any of the provisions of the Site-specific EMP without the prior agreement of the Association.
3. In carrying out Sub-projects under Part A of the Project, the Recipient shall ensure that: (a) (i) any land or right of way required for the carrying out of Sub-projects shall not involve the acquisition of land resulting in Resettlement; and (ii) any land or right of way required for the carrying out of Sub-projects shall be provided in a voluntary manner pursuant to a memorandum of understanding satisfactory to the Association, between the owner/occupant of such land and the Recipient; and (b) no Sub-project shall involve the use or potential pollution of the following types of transboundary waterways: (i) any river, canal, lake, or similar body of water that forms a boundary between, or any river or body of surface or ground water that flows through or is bounded by, two or more states, whether members of the Association or International Bank for Reconstruction and Development or not; (ii) any tributary or other body of surface water that is a component of any waterway described in (i) above; and (iii) any bay, gulf, strait, or channel bounded by two or more states or, if within one state, recognized as a necessary channel of communication between the open sea and other states, and any river flowing into such waters.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators acceptable to the Association. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than forty five (45) days after the end of the period covered by such report.
2. On or about September 1, 2014, the Recipient shall carry out jointly with the Association, a midterm review of the progress made in carrying out the Project (hereinafter referred to as the Midterm Review). The Midterm Review shall cover, amongst other things:
- (a) progress made in meeting the Project's objective; and
 - (b) overall Project performance against Project performance indicators.

3. The Recipient shall prepare at least four (4) weeks prior to the Midterm Review, and furnish to the Association, a separate report describing the status of implementation of each component of the Project and a summary report of Project implementation generally.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. The Recipient shall prepare and furnish to the Association not later than forty five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

| <u>Procurement Method</u> |
|---|
| (a) National Competitive Bidding, subject to the following additional provisions: the procedures to be followed for National Competitive Bidding under this paragraph shall be those set forth in Law No. 23 for 2007, concerning Government Tenders, Auctions and Stores, and its Regulations, subject to the following additional procedures: <ol style="list-style-type: none">(1) a Recipient-owned enterprise in the Republic of Yemen shall be eligible to bid only if it can establish that it is legally and financially autonomous, operates under commercial law, and is not a dependent agency of the Recipient;(2) bidding (or pre-qualification, if required) shall not be restricted to any particular class of contractors or suppliers, and non-registered contractors and suppliers shall also be eligible to participate;(3) tenders shall be advertised for at least two (2) consecutive days in two (2) local newspapers of wide circulation;(4) prospective bidders shall be allowed a minimum of thirty (30) days for the preparation and submission of bids, such thirty (30) days to begin with the availability of the bidding documents or the advertisement, whichever is later;(5) until national standard bidding documents acceptable to the Association are available, bidding documents approved by the Association shall be used, and may be prepared in Arabic;(6) registration shall not be used to assess bidders' qualifications; qualification criteria (in case pre-qualification was not carried out) and the method of evaluating the qualification of each bidder shall be stated in the bidding documents, and before contract award the bidder having submitted the lowest evaluated responsive bid shall be subject to post-qualification;(7) a foreign bidder shall not be required to register or to appoint an agent as a condition for submitting its bid and, if determined to be the lowest evaluated responsive bidder, shall be given reasonable opportunity to register, without let or hindrance; the registration process shall not be applicable to sub- |

contractors;

(8) all bids shall be submitted in sealed envelopes and may be submitted, at the bidder's option, in person or by courier service;

(9) all bids shall be opened at the same time in a public bid opening which bidders shall be allowed to attend and which shall follow immediately after the deadline for submission of bids;

(10) evaluation of bids shall be carried out in strict adherence to the criteria declared in the bidding documents and contracts shall be awarded to the lowest evaluated responsive bidder, without resorting to the rejection of bids above or below a certain percentage of the pre-bid estimate (bid price bracketing);

(11) no bidder shall be requested or permitted to modify its bid after the bid closing date shall have elapsed and bids submitted after the deadline for submission of bids shall be returned to the bidder unopened;

(12) post-bidding negotiations with the lowest or any other bidder shall not be permitted;

(13) under exceptional circumstances, the procuring entity may, before the expiration of bid validity, request all bidders in writing to extend the validity of their bids, in which case bidders shall not be requested nor permitted to amend the price or any other condition of their bids; a bidder shall have the right to refuse to grant such an extension without forfeiting its bid security, but any bidder granting such extension shall be required to provide a corresponding extension of its bid security;

(14) price adjustment provisions may be included in contracts for works with a duration of more than eighteen (18) months;

(15) rejection of all bids is justified when there is lack of effective competition, or bids are not substantially responsive, however, lack of competition shall not be determined solely on the basis of the number of bidders; and

(16) each contract financed from the proceeds of the Grant shall provide that the contractor or supplier shall permit the Association, at its request, to inspect their accounts and records relating to the performance of the contract and to have such accounts and records audited by auditors appointed by the Association

(b) Shopping

(c) Direct Contracting

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

| Procurement Method |
|---|
| (a) Least Cost Selection |
| (b) Selection based on Consultants' Qualifications |
| (c) Single-source Selection |
| (d) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants |
| (e) Sole Source Procedures for the Selection of Individual Consultants |

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

| Category | Amount of the Grant Allocated (expressed in SDR) | Percentage of Expenditures to be Financed (inclusive of Taxes) |
|--|---|---|
| (1) Works under Part A of the project | 34,000,000 | 93% |
| (2) Goods | 1,500,000 | 100% |
| (3) Consultants' Services and Training | 2,200,000 | 100% |
| (4) Incremental Operating Costs | 1,600,000 | 100% |
| TOTAL AMOUNT | 39,300,000 | |

For the purpose of this table:

- (a) the term "Incremental Operating Costs" means expenditures incurred for the implementation of the Project, management and monitoring, on account of office rental, local contractual staff salaries, utility charges, transportation, maintenance of vehicles, insurance of vehicles, fuel, office supplies, banking charges, communication services, and travel costs and *per diem*, excluding salaries of officials of the Recipient's civil service and the purchase of vehicles;
- (b) "Training" means Project related study tours, training courses, seminars, workshops and other training activities, not included under goods or service providers' contracts, including costs of training materials, space and equipment rental, travel, *per diem* costs of trainees, trainers and trainers' fees, and interpretation and translation services; and
- (c) "Goods" excludes the purchase of vehicles.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement; or
 - (b) under Category (1), unless a Site-specific EMP has been prepared for the particular site for which the withdrawal application is submitted in accordance with paragraph 1 Section I.C of Schedule 2 of this Agreement.
2. The Closing Date is June 30, 2016.

APPENDIX

Definitions

1. “Annual Investment Plan” means an annual investment plan consisting of Sub-projects identified and appraised in accordance with the Manual of Procedures and referred to in paragraph 5 of Section I.A of Schedule 2 to this Agreement; and “Annual Investment Plans” means more than one such Annual Investment Plan.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006, and revised January 2011.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” published by the Bank in January 2011.
5. “EIA” means the Environmental Impact Assessment (including an Environmental Management Plan or EMP), dated December 27, 2010, prepared by the Recipient, satisfactory to the Association, disclosed in the Association’s Infoshop on January 4, 2011, and referred to in paragraph 1 of Section I.C of Schedule 2 of this Agreement, consisting of, *inter alia*: (i) a screening process to identify Sub-projects that are ineligible for financing under Part A of the project; (ii) the potential and actual adverse environmental impacts of the activities under the Project; and (iii) measures to be taken during the implementation and operation of the Project to mitigate, eliminate or otherwise offset adverse environmental impacts under the Project.
6. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010.
7. “Manual of Procedures” means the manual of the PMU (as hereinafter defined) dated January 26, 2004, updated February 16, 2011, specifying the managerial, financial, administrative, engineering, procurement, environmental and social policies and procedures for the execution of the Project and the eligibility criteria for selection of Sub-projects under Part A of the Project.
8. “MoPIC” means the Recipient’s Ministry of Planning and International Cooperation.

9. "PMU" means the Project Management Unit established by the Recipient and referred to in paragraph 1 of Section I.A. of Schedule 2 to this Agreement.
10. "Procurement Guidelines" means the "Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" published by the Bank in January 2011.
11. "Procurement Plan" means the Recipient's procurement plan for the Project, dated March 1, 2011, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
12. "Quarterly Investment Program" means a quarterly investment program consisting of Sub-projects identified and appraised in accordance with the Manual of Procedures and referred to in paragraph 3 of Section I.A of Schedule 2 to this Agreement.
13. "Resettlement" means: (i) the involuntary taking of land, including anything growing on, or permanently affixed to, such land, such as buildings and crops, resulting in: (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not the affected persons must move to another location; or (ii) the involuntary restriction of access to legally designated parks and protected areas resulting in adverse impacts on the livelihoods of the affected persons, and encompassing restrictions on the use of resources imposed on people living outside a park or protected area, or on those who continue living inside the park or protected area during and after Project implementation.
14. "Site-specific EMPs" means the site-specific environmental management plans, to be prepared by the Recipient, pursuant to paragraph 1 of Section I.C. of Schedule 2 to this Agreement, and satisfactory to the Association, in respect of works to be undertaken for Sub-projects under Part A the Project defining details of measures to manage potential environmental risks and mitigate, reduce and/or offset adverse environmental impacts associated with the implementation of such activities, together with adequate institutional, monitoring and reporting arrangements capable of ensuring proper implementation of, and regular feedback on compliance with, its terms, as the same may be amended and supplemented from time to time with the Association's prior written approval; and "Site-specific EMPs" refers to one such Site-specific EMP.
15. "Staff Service Rules" means the rules issued by the Steering Committee, dated July 14, 1996, specifying the employment and personnel policies of the PMU, as such rules may be updated from time to time by agreement between the Recipient and the Association.

16. "Steering Committee" means the Committee established and operating pursuant to the Recipient's Presidential Decree No. 3 of 1996, and referred to in paragraph 1 of Section I.A of Schedule 2 to this Agreement.
17. "Sub-project" means a specific development activity to be carried out under Part A of the Project utilizing the proceeds of the Grant; and "Sub-projects" means more than one such Sub-project.