

CONFORMED COPY

**Global Partnership on Output-based Aid
GRANT NUMBER TF096519-RY**

Global Partnership on Output-based Aid
Grant Agreement

(Water for Urban Centers Project)

between

REPUBLIC OF YEMEN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

acting as Administrator of the Global Partnership on Output-based Aid

Dated March 31, 2010

**Global Partnership on Output-based Aid
GRANT NUMBER TF096519-RY**

**GLOBAL PARTNERSHIP ON OUTPUT-BASED AID
GRANT AGREEMENT**

AGREEMENT dated March 31, 2010, entered into between:

REPUBLIC OF YEMEN (“Recipient”); and

INTERNATIONAL DEVELOPMENT ASSOCIATION (“World Bank”), acting as administrator of the Global Partnership on Output-based Aid (“GPOBA”).

The Recipient and the World Bank hereby agree as follows:

**Article I
Standard Conditions; Definitions**

- 1.01. The Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 1, 2008 (“Standard Conditions”), 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 Standard Conditions or in this Agreement.

**Article II
The Project**

- 2.01. The Recipient declares its commitment to the objectives of the project described in Schedule 1 to this Agreement (“Project”). To this end, the Recipient shall carry out the Project through its Ministry of Water and Environment in accordance with the provisions of Article II of the Standard Conditions.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient and the World Bank 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 III
The Grant**

- 3.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to five million United States Dollars (\$5,000,000) (“Grant”) to be provided by the United Kingdom Department for International Development under trust fund number TF071249 to assist in financing the Project.
- 3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.
- 3.03. The Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions. In accordance with Section 3.02 of the Standard Conditions, the Recipient may withdraw the Grant proceeds subject to the availability of such funds.

**Article IV
Additional Remedies**

- 4.01. The Additional Event of Suspension referred to in Section 4.02 (k) of the Standard Conditions consists of the following, namely, the concession contract entered into between the LC of an operation area and the selected Privately Managed Network Operator (PMNO) has been amended, suspended, revoked, voided or otherwise modified so as to materially and adversely affect the ability of the Recipient to perform any of its obligations arising under, or entered into pursuant to, the Grant Agreement, or to achieve the objectives of the Project.

**Article V
Effectiveness; Termination**

- 5.01. The Grant Agreement shall not become effective until the Project Management Unit (PMU) has prepared and adopted a Manual of Operations acceptable to the World Bank, in accordance with the provisions of paragraph A.2, Section I of Schedule 2 to the Grant Agreement.
- 5.02. The Grant Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date ninety (90) days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

Article VI
Recipient's Representative; Addresses

6.01. The Recipient's Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Planning and International Cooperation.

6.02. The Recipient's Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Planning and International Cooperation
P.O. Box 175
Sana'a
Republic of Yemen

Facsimile:

9671 250 665
9671 250 605

6.03. The World Bank's Address referred to in Section 7.01 of the Standard Conditions 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) or
64145 (MCI)

1-202-477-6391

AGREED at Sana'a, Republic of Yemen, as of the day and year first above written.

REPUBLIC OF YEMEN

By /s/ Abdulkarim Ismail Al-Arhabi

Authorized Representative

**INTERNATIONAL DEVELOPMENT
ASSOCIATION**

**acting as Administrator of the
Global Partnership on Output-based Aid**

By /s/ A. David Craig

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to assist the Recipient to increase access to safe water supply for poor peri-urban households in selected areas.

The Project consists of the following:

Part I: Pilot Phase

Carry out a program of: (i) rehabilitation of existing infrastructure and development of new sources and networks for water supply; and (ii) construction of household connections and service delivery, for the benefit of about 4,500 households in the areas of Al Qabel in Sana'a City, Al Salabah in Ibb City, Sanaban in Dham-ar Governorate, and Al Sharis in Hajah Governorate, through the provision of output-based subsidies to competitively selected and contracted Privately Managed Network Operators.

Part II: Scale-Up

Scale up the pilot program to benefit about 25,500 households in selected urban and peri-urban areas.

The Project is designed as part of a multi-donor-funded Water Sector Support Program which supports the implementation of the Recipient's National Water Sector Strategy and Investment Program.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Project Management Unit; Local Water and Wastewater Corporation; Independent Verification Agent.**

1. Throughout the period of implementation of the Project, the Recipient, through MWE, shall maintain the Project Management Unit under the direction of qualified managers, staffed with competent personnel in sufficient numbers, and provided with sufficient resources; said PMU to be responsible for: (i) the financial management of the Project, including budgeting, disbursement, accounting and record keeping; (ii) coordinating the selection of PMNOs for selected operation areas through a competitive tender process; (iii) arranging for the financial and technical audits of the Project; and (iv) monitoring, evaluation and reporting.
2. (a) The Recipient shall, through the PMU, prepare and put into effect a Manual of Operations acceptable to the World Bank, including therein provisions regarding: (i) financial management, maintenance of records and accounts and auditing; (ii) criteria for the selection of operation areas for the scale-up phase of the Project; (iii) tendering process and criteria for the selection of PMNOs for the selected operation areas; (iv) model provisions and format for contracts to be entered into between LCs and selected PMNOs, including provisions regarding duration of contract, evaluation of, and compensation for, assets to be transferred upon termination of contract, calculation of household connection charge and water tariff; (v) calculation of subsidies for water supply investments and for household connections, as well as subsidy eligibility criteria; (vi) procedures for review and approval of output-based reimbursement; and flow of funds and funding arrangements including, in particular, the matching funds from the Recipient's Designated Account under the Water Sector Support Project, consisting of the Recipient's own funds and of part of the proceeds of the IDA Grant for said Project (Grant H449-RY) allocated to the Urban component thereunder; and (vii) systems and indicators for monitoring, evaluation, independent verification of outputs, and reporting.
- (b) The Recipient shall, through the PMU, provide to the World Bank for its prior approval any revision proposed to be introduced into the Manual of Operations in order to achieve the objectives of the Project, and, thereafter, introduce only such revisions to said Manual as shall have been agreed by the World Bank in writing.

- (c) The Recipient, through the PMU, shall not, and shall not permit to, amend, waive, abrogate or otherwise modify the Manual of Operations or any of its provisions without the prior concurrence of the World Bank in writing.
- 3.
 - (a) Following the selection of a PMNO for a selected operation area in accordance with the provisions of Section III of this Schedule 2, the Recipient, through the PMU, shall cause the LC of said area of operation to enter into a concession contract with said PMNO in accordance with the provisions of the Manual of Operations.
 - (b) the Recipient, through the PMU, shall cause the LC to exercise its rights under the concession contract with said PMNO in such manner as to accomplish the objectives of the Project and to protect the interests of the LC and the Recipient; and except as the PMU shall otherwise agree, the LC shall not assign, amend, abrogate or waive the concession contract or any of its provisions.
- 4.
 - (a) The PMU shall engage, in accordance with the provisions of Section III of this Schedule 2, an Independent Verification Agent (IVA) with qualifications and experience and under terms of reference satisfactory to the World Bank; said IVA to be responsible for verifying on a quarterly basis, in accordance with the procedures set forth in the Manual of Operations: (i) the completion and operation of the water supply works by the PMNOs; and (ii) in regard to household connections, their installation and operation and the continuity of water supply, all in accordance with technical standards set forth in the applicable concession contracts, as a basis for disbursement request by the PMNO.
 - (b) The PMU shall not disburse the agreed subsidy payments to a PMNO unless and until the IVA has verified and certified that the relevant works by said PMNO have been completed in accordance with defined quality criteria as set forth in the concession contract, and until the PMU has reviewed the quarterly output verification reports submitted by the IVA.

B. Safeguards.

- 1. To ensure that potential adverse environmental impacts arising out of the implementation and operation of the Project are offset, mitigated, reduced or otherwise addressed in a manner acceptable to the World Bank, the Recipient shall cause the PMU:
 - (a) to implement, and cause to be implemented, the Environmental and Social Management Framework in a manner satisfactory to the World

Bank, including, wherever may be required pursuant to the provisions of said ESMF, the preparation and implementation by the relevant LC and PMNO, in a manner satisfactory to the World Bank, of an environmental management plan satisfactory to the World Bank; and

- (b) to not waive, suspend, abrogate or otherwise modify, nor allow to be waived, suspended, abrogated or otherwise modified, the provisions of said ESMP or environmental management plans without the prior concurrence of the World Bank.
2. In the event that any activity under the Project may result in land acquisition and/or adverse impact on livelihood, the Recipient shall cause the PMU:
- (a) to implement, and cause to be implemented, the Resettlement Policy Framework in a manner satisfactory to the World Bank, including, wherever may be required pursuant to the provisions of said RPF, the preparation and implementation by the relevant LC and PMNO, in a manner satisfactory to the World Bank, of a resettlement action plan satisfactory to the World Bank; and
 - (b) to not waive, suspend, abrogate or otherwise modify, nor allow to be waived, suspended, abrogated or otherwise modified, the provisions of said RPF or resettlement action plans without the prior concurrence of the World Bank.
3. The ESMP and the RPF shall be incorporated into the Manual of Operations and be deemed an integral part thereof.

C. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 (“Anti-Corruption Guidelines”).

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports; Completion Report

1. The Recipient 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 World Bank and set forth in the Manual of Operations. Each Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the World Bank not later than one (1) month after the end of the period covered by such report.

2. The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Recipient shall prepare the Recipient's Completion Report not later than six months after the Closing Date. In addition, the Recipient shall prepare two additional reports ("Post Project Reports"), each of such scope and in such detail as the World Bank shall reasonably request, on the execution of the plan set out in the Recipient's Completion Report, and setting out measures designed to ensure the continued efficient and effective achievement of the Project's objectives. The Recipient shall furnish the Post-Project Reports to the World Bank not later than one month after the first and second anniversaries of the Closing Date, respectively.

B. Financial Management; Financial Reports; Audits

1. The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.
2. The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty-five (45) days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.
3. The Recipient shall, upon the World Bank's request, 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 indicated in the World Bank's request. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the date of the World Bank's request.

Section III. Procurement

A. General

1. **Procurement and Consultant Guidelines.** 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 requirements set forth or referred to in:
 - (a) Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the World Bank in May 2004 and revised in October 2006 ("Procurement Guidelines") in the case of goods and works, and Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the World Bank in May 2004 and revised in October 2006 ("Consultant Guidelines") in the case of consultants' services; and

(b) the provisions of this Section III, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines (“Procurement Plan”).

2. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the World Bank 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. **National Competitive Bidding.** Except as otherwise provided in paragraph 2 below, the PMNOs shall be selected under contracts awarded on the basis of National Competitive Bidding, subject to the additional procedures set forth in the Attachment to this Schedule 2.
2. **Other Method of Procurement of Goods and Works.** The following method, other than National Competitive Bidding, may be used for selection of the PMNOs for those contracts which the Bank agrees meet the requirements set forth in the Procurement Guidelines for their use: 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 methods, other than Quality- and Cost-based Selection, may be used for procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (a) Least Cost Selection; (b) Selection based on Consultants’ Qualifications; (c) Selection of Individual Consultants; and (d) Sole Source procedures for the Selection of Firms or Individual Consultants.

D. Review by the World Bank of Procurement Decisions

1. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.

Section IV. Withdrawal of Grant Proceeds

A. General

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may 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 World Bank 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 Grant (“Category”), the allocations of the amounts of the Grant 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 USD)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Subsidy payments for goods and works for the rehabilitation and/or construction of new water sources and supply networks, and construction of household connections and service delivery	4,710,000	30%
(2) Consultants’ services	290,000	100%
TOTAL AMOUNT	5,000,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is June 30, 2014.

Attachment to Schedule 2**National Competitive Bidding Procedures**

The procedures to be followed for National Competitive Bidding under paragraph B.1, Section III of Schedule 2 to this Grant Agreement 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:

- (i) 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;
- (ii) 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;
- (iii) tenders shall be advertised for at least two (2) consecutive days in two (2) local newspapers of wide circulation;
- (iv) 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;
- (v) until national standard bidding documents acceptable to the World Bank are available, bidding documents approved by the World Bank shall be used, and may be prepared in Arabic;
- (vi) 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;
- (vii) 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;
- (viii) all bids shall be submitted in sealed envelopes and may be submitted, at the bidder's option, in person or by courier service;

- (ix) 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;
- (x) 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);
- (xi) 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;
- (xii) post-bidding negotiations with the lowest or any other bidder shall not be permitted;
- (xiii) 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;
- (xiv) price adjustment provisions may be included in contracts for works with a duration of more than eighteen (18) months;
- (xv) 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
- (xvi) each contract financed from the proceeds of the Grant shall provide that the contractor or supplier shall permit the World Bank, 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 World Bank.

Appendix

Definitions

1. “Environmental and Social Management Framework” and the acronym “ESMF” mean the environmental and social management framework for the Project furnished by the Recipient to the World Bank on October 15, 2008, as such framework may be updated from time to time by agreement between the Recipient and the World Bank, setting forth the mitigating, monitoring and institutional measures to be taken during the implementation and operation of the Project to offset or reduce adverse environmental impacts to levels acceptable to the World Bank.
2. “Local Water and Wastewater Corporation” and the acronym “LC” means a corporation established under the law of the Recipient, in accordance with the decentralized approach adopted by the Recipient in its National Water Sector Strategy and Investment Program, and responsible for the development and management of water services for a specific urban area, directly or by contract with private operators.
3. “MWE” means the Recipient’s Ministry of Water and Environment, and any successor thereto.
4. “PMNO” means a Privately Managed Network Operator.
5. “PMU” means the Project Management Unit established within MWE for purposes of managing the implementation of: (i) the Urban Water Supply and Sanitation Project (Credit 3700-YEM) from 2002 to 2010; and (ii) Component B of the Water Sector Support Project (Grant H449-RY) since 2009.
6. “Resettlement Policy Framework” and the acronym “RPF” means the resettlement policy framework, satisfactory to the World Bank, dated October 15, 2008, as such framework may be amended from time to time by agreement of the Recipient and the World Bank, which sets out, inter alia, the principles and objectives of the RPF, the institutional and implementation arrangements, the requirements of a resettlement action plan including, the eligibility criteria for assistance and rehabilitation entitlements, as well as the monitoring and reporting arrangements to ensure compliance with the provisions of the RPF.

