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**CREDIT NUMBER 4391 YEM**

# **Financing Agreement**

**(Additional Financing for the Civil Service Modernization Project)**

**between**

**REPUBLIC OF YEMEN**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated June 16, 2008**

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**CREDIT NUMBER 4391 YEM**

**FINANCING AGREEMENT**

Agreement dated June 16, 2008, entered into between REPUBLIC OF YEMEN (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). 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 credit in an amount equivalent to eight million nine hundred thousand Special Drawing Rights (SDR 8,900,000) (variously, “Credit” and “Financing”) 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are April 1 and October 1 in each year.

- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is the United States dollars.

### **ARTICLE III - PROJECT**

- 3.01. The Recipient declares its commitment to the objectives of the Project and the Program. To this end, the Recipient shall carry out the Project 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.

### **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
  - P.O. Box 175
  - Sana'a
  - Republic of Yemen
- 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<br>Washington, D.C. | 248423 (MCI) | 1-202-477-6391 |

AGREED at Washington, District of Columbia, United States of America, as of the day and year first above written.

**REPUBLIC OF YEMEN**

By /s/ Abdulwahab Abdulla Al-Hajjri

Authorized Representative

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

By /s/ Daniela Gressani

Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objectives of the Project are to assist the Recipient in creating capacity, and putting in place institutions and systems, for sustained and improved utilization of human and financial resources.

The Project consists of the following parts:

#### **Part A: Improvement of Core Systems**

Provision of technical assistance, including goods and consultants' services, to the Recipient to: (i) design and put in place an information management framework to ensure compatibility and consistency among the various civil service functions to be computerized under the Program; (ii) revise existing employment policies and practices with a view to converting the existing civil service system into a merit-based system; (iii) put in place an employee database to provide a human resources management information system to maintain the integrity of personnel records in the Ministry of Civil Service and regional information centers; (iv) streamline and standardize payroll preparation procedures to enable the Recipient to accurately measure the cost savings realized as a result of the staff reductions and redeployment contemplated under the Program; and (v) develop an accounting and financial management information system for all the central ministries in Sanaa.

#### **Part B: Streamlining and Rationalization**

1. Carrying out a pilot program to streamline and rationalize the organizational structure of ministries and agencies of the Recipient selected pursuant to the criteria referred to under Section I.A.3 of Schedule 2 to this Agreement.
2. Provision of technical assistance, including goods and consultants' services, to: (a) carry out comprehensive reviews and assessments of the Innovation Fund's operations with a view to improving its effectiveness in promoting and encouraging innovation within the public sector; and (b) evaluate and finance specific proposals submitted to the Innovation Fund for implementation.
3. Provision of funds in support of the Innovation Fund operations.

#### **Part C: Civil Service Fund**

Conducting comprehensive reviews and assessments of the operations of the Civil Service Fund, through the provision of goods and consultants' services.

Part D: Project Management Support

Support to TS, and to ministries and agencies selected under Part C of the Project, through the provision of expert services, goods, training and the carrying out of performance audits, to strengthen their capabilities to implement the Project and the Program.

**SCHEDULE 2****Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements**

1. The Recipient, through MoCSI, shall: (a) be responsible for the overall implementation of the Project; (b) maintain TS with professional staff in adequate numbers whose qualifications, experience and terms of reference shall be acceptable to the Association which will be responsible, for: (i) assistance in the development and review of work plans to ensure consistency within the overall objectives of the Program; (ii) monitoring Project performance and implementation progress in accordance with the targets and indicators set forth in the Project Implementation Plan; and (iii) preparation, for submission to the Association, of annual work programs and updated procurement plans; and (c) maintain PIU during the execution of the Project which is responsible for: (i) the day-to-day management and coordination of Project implementation; (ii) responsibility for the procurement and disbursement processes under the Project; and (iii) preparation, for submission to the Association, of the reports referred to under Section II of this Schedule.
2. Key staff of TS shall include: (a) a Project general manager responsible for the implementation of the Project; (b) a re-engineering coordinator responsible for the implementation of Part B of the Project; (c) a Civil Service Fund manager responsible for the implementation of Part C of the Project; (d) a civil service renewal coordinator; (e) an accounting and financial management information system Project coordinator; (f) Innovation Fund Program coordinator; (g) a monitoring and evaluation officer; (h) a Project financial manager; (i) two procurement specialists; and (j) Project officer responsible for the administration of the Project.
3. In order to achieve the objectives of Part B.1 of the Project, the Recipient shall select ministries and agencies on the basis of the following criteria: (i) the ministry or agency's size, to be technically suitable in terms of number of employees; (ii) the extent of the ministry or agency's interface with the general public or the private sector; and (iii) the ministry or agency's willingness, commitment and motivation to streamline and rationalize its organizational structure.
4. In order to achieve the objectives of Part D of the Project, the Recipient shall cause to be carried out, not later than December 31 of each year, commencing December 31, 2008, until completion of the Project, an independent audit of the effectiveness and efficiency of the Project, such audit to assess the extent to

which the Project is likely to achieve its objectives, the integrity of the processes used to attain said objectives, the consistency of the methodology used to carry out the Project and the effectiveness of the services of consultants employed under the Project.

**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**

The Recipient shall carry out a social assessment prior to December 31, 2008, based on terms of references acceptable to the Association. The Recipient shall thereafter ensure that the procedures of the Civil Service Fund shall be amended prior to March 31, 2009, to reflect the findings of such assessment in a manner acceptable to the Association.

**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 agreed with the Association. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than one month after the end of the period covered by such report.
2. For purposes of Section 4.08(c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than six (6) months after the Closing Date.

**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.** All goods 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**

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

| <b>Procurement Method</b>        |
|----------------------------------|
| (a) National Competitive Bidding |
| (b) Shopping                     |

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:

- (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 Association are available, bidding documents approved by the Association 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 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 Credit 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.

**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.

| <b>Procurement Method</b>                              |
|--|
| (a) Selection Based on the Consultants’ Qualifications |
| (b) Single-Source Selection                            |
| (c) 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:

| <b>Category</b>                    | <b>Amount of the Financing Allocated (expressed in SDR)</b> | <b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b> |
|------------------------------------|---|---|
| (1) Goods                          | 2,500,000   | 100%  |
| (2) Capacity building and training | 1,790,000   | 80%   |

| <b>Category</b>           | <b>Amount of the Financing Allocated (expressed in SDR)</b> | <b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b> |
|---------------------------|---|---|
| (3) Consultants' services | 4,080,000   | 80%   |
| (4) Innovation Fund       | 450,000   | 100%  |
| (5) Unallocated           | 80,000  |   |
| <b>TOTAL AMOUNT</b>       | <b><u>8,900,000</u></b>                                     |   |

For the purposes of this Schedule:

- (a) the term "capacity building and training" means expenditures incurred by TS on account of Project related capacity building activities, training, conferences, seminars, workshops, including international travel and per diem costs of trainees and trainers.
- (b) the term "Innovation Fund" means the fund referred to under Part B.2 of the Project whose purpose is to provide an alternative track for ad hoc initiatives under Part B.1 of the Project that shall not have been initially contemplated to take place under the Program and shall be deemed to have a clear benefit to the population at large.

**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 is June 30, 2010.

**SCHEDULE 3****Repayment Schedule**

| <b>Date Payment Due</b>                                   | <b>Principal Amount of the Credit repayable (expressed as a percentage)*</b> |
|---|--|
| On each April 1_ and October 1:                           |  |
| commencing October 1, 2018 to and including April 1, 2028 | 1%   |
| commencing October 1, 2028 to and including April 1, 2048 | 2%   |

\* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the General Conditions.

**APPENDIX****Definitions**

1. “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.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Civil Service Fund” means the fund referred to under Part C of the Project, established pursuant to the Recipient’s Presidential Decree No. 1 of 1999 and Law No.1 of 2004, and funded out of the Recipient’s own resources, whose purpose is to finance, for a limited period of time, the wage bill of surplus staff, identified as such under Part C of the Project, prior to providing buy-out packages to said staff in accordance with guidelines to be developed by the Recipient and to be acceptable to the Association.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
6. “MoCSI” means the Ministry of Civil Service and Insurance of the Recipient and any successor or successors thereto.
7. “Original Financing Agreement” means the development credit agreement for a Civil Service Modernization Project between the Recipient and the Association, dated May 12, 2000, as amended to the date of this Agreement (Credit No. 3335-YEM).
8. “Original Project” means the Project described in the Original Financing Agreement.
9. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
10. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 4, 2008, 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.

11. “Program” means the program designed to set out the measures required to carry out the Recipient’s civil service modernization program and set forth or referred to in the letter dated March 1, 2000, from the Recipient to the Association.
12. “Project Implementation Plan” means the Recipient’s plan, agreed between the Recipient and the Association, for the implementation of the Project which sets out the targets and indicators to be used in evaluating progress toward the achievement of the objectives of the Project.
13. “PIU” means the Project Implementation Unit within the Ministry of Civil Service and Insurance of the Recipient which will be responsible for day to day implementation of the Project, including financial management, procurement, disbursement and management.
14. “SCCSAR” means the Supreme Council for Civil Service and Administrative Reform, established pursuant to the Recipient’s Presidential Decree No. 250 of 1997, as the same may be amended from time to time.
15. “TS” means the Technical Secretariat created, structured and operating pursuant to the TS Decree (as this term is hereinafter defined).
16. “TS Decree” means Decree No. 74 of 1997, as the same may be amended to the date of this Agreement.