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CONFORMED COPY

GRANT NUMBER H558-RY

Financing Agreement

(Higher Education Quality Improvement Project)

between

REPUBLIC OF YEMEN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 28, 2010

GRANT NUMBER H558-RY

FINANCING AGREEMENT

AGREEMENT dated June 28, 2010, 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 eight million five hundred thousand Special Drawing Rights (SDR 8,500,000) (“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 Payment Dates are June 15 and December 15 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 the MoHESR, 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

Facsimile:

967-1-250-665
- 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 the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF YEMEN

By /s/ Abdulwahab Abdullah Al-Hajri
Authorized Representative

**INTERNATIONAL DEVELOPMENT
ASSOCIATION**

By /s/ Shamshad Akhtar
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to create the enabling conditions for the enhancement of the quality of university programs and graduate employability.

The Project consists of the following parts:

Part A: Quality Improvement for University Programs

Provision of goods, consultants' services and training to establish and implement a Quality Improvement Fund (QIF) to assist Selected Universities to provide qualitative higher education, consonant with social and economic priorities.

Part B: Quality Assurance

1. Provision of goods, consultants' services and training to the QAC to develop quality assurance practices, including through study tours of similar quality assurance agencies, the development of a strategic plan and a QAC operational manual, awareness campaigns, mentoring of higher education QAUs, and the creation of a pool of reviewers for quality assessment.
2. Provision of goods, consultants' services and training to QAUs to develop quality assurance practices, including through study tours of other higher education quality assurance units, customization of the QAC operational manual for QAU needs and the carrying out of institutional and programmatic quality reviews.

Part C: Institutional Capacity Development

1. Provision of goods, consultants' services and training to build the capacity of the MoHESR in the area of planning and policy development, including through finalization of key performance indicators, development of the higher education database at the sector level and development of faculty and finance modules for the university level information system.
2. Provision of goods, consultants' services and training to build the capacity of Taiz University, particularly development of its fiduciary management capacity.

Part D: Monitoring and Evaluation and Program 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 PSC shall have overall responsibility for Project oversight and policy guidance of the Project in accordance with the requirements, criteria, organizational arrangements and operational procedures set forth in the Operational Manual.
2. The Recipient, through the PMU, shall carry out the Project, with the assistance of the PIRC and the QITs for Part A of the Project, and with the assistance of the QAC for Part B of the Project, in accordance with the requirements, criteria, organizational arrangements and operational procedures set forth in the Operational Manual, and shall not assign, amend, abrogate or waive any provisions of the Operational Manual without prior approval of the Association.
3. At all times during the implementation of the Project, the Recipient shall maintain the PSC, the PMU and the PIRC, all with a composition, resources, and terms of reference satisfactory to the Association.
4. For the purposes of Part A of the Project, the Recipient, through the PMU, shall:
 - (a) provide financing to Selected Universities to carry out programs to upgrade the quality of teaching and learning, including to develop new curricula or upgrade curricula (QIF Programs) in accordance with eligibility criteria and procedures acceptable to the Association and set out in the Operational Manual and the Performance Agreement;
 - (b) make such financing from the QIF under a Performance Agreement entered into between the Recipient, through the MoHESR, and the Selected University, on terms and conditions approved by the Association, as set out in the Operations Manual which shall include the following:
 - (i) The PMU is responsible for all financial management and procurement for QIF Programs.
 - (ii) To be eligible to receive such financing from the QIF, Selected Universities shall have developed final proposals for a QIF

Program, which have been deemed acceptable to the PSC, and which shall include a self-assessment methodology and a SWOT analysis of university capacity to develop or renew the proposed activities, the context, rationale and objectives of the QIF Program, its activities and expected outcomes and a monitoring and evaluation plan for the of QIF Program.

- (iii) Selected Universities shall provide additional funds to support the QIF Program, directly, in accordance with the guidelines set out in the Operational Manual and the Performance Agreement.
- (iv) Selected Universities shall establish a QIT which shall be responsible for technical design, coordination and the carrying out of the QIF Program, as set out in the Operational Manual.
- (v) The Recipient, through the PMU, shall obtain rights adequate to protect its interests and those of the Association including the right to require each Selected University to:
 - (aa) carry out the QIF Program with due diligence and efficiency in accordance with sound technical, economic, managerial, environmental and social standards and practices, including submission of an environment and safety checklist for the QIF Program, and where applicable, preparation of, and compliance with, a time-bound plan for mitigating any potential negative impacts of the QIF Program, all acceptable to the Association. The PMU will not provide financing for any QIF Program which may involve land acquisition, resettlement, the use of international waterways or shall be designated as environmental Category A investment projects in accordance with the applicable laws and regulations of the Recipient;
 - (bb) provide, promptly as needed, the resources required for the purpose;
 - (cc) maintain policies and procedures adequate to enable it, and to allow the Recipient, to monitor and evaluate the Program in accordance with indicators acceptable to the Association, the progress of the Program and the achievement of its objectives;

- (dd) enable the Recipient and the Association to inspect the Program, its operation and any relevant records and documents; and
 - (ee) prepare and furnish to Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing.
- (c) exercise its rights under each Performance Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive any Performance Agreement or any of its provisions.

C. Anti-Corruption

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

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

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 indicators agreed with the Association. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the Bank not later than forty five (45) days after the end of the period covered by such report.

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 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: (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. 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.

<u>Procurement Method</u>
(a) Selection under a Fixed Budget
(b) Least Cost Selection
(c) Selection based on Consultants' Qualifications
(d) Single-source Selection
(e) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(f) 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 Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of taxes)
(1) Goods, consultants’ services, and Training for Part A of the Project	5,350,000	100%
(2) Goods, consultants’ services, Training and Incremental Operating Costs for Parts B, C and D of the Project	2,760,000	100%
(3) Refund of Preparation Advance	390,000	Amount payable pursuant to Section 2.07 of the General Conditions
TOTAL AMOUNT	8,500,000	

For the purpose of this table:

- (a) the term “Incremental Operating Costs” means expenditures incurred for the implementation of the Project on account of office rental, utility charges, transportation, maintenance and insurance of vehicles, fuel, office supplies, banking charges, communication services, interpretation and translation services, advertisements, travel costs and *per diem*, and excluding salaries of officials of the Recipient’s civil service; and
- (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, local and international travel, *per diem* costs of trainees, trainers and trainers’ fees, and interpretation and translation services.

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, except that withdrawals up to an aggregate amount not to exceed \$600,000 equivalent may be made for payments made prior to this date but on or after February 1, 2010, for Eligible Expenditures under Category (2).
- 2. The Closing Date is August 31, 2016.

APPENDIX

Section I. 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. “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.
4. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006), with the modifications set forth in Section II of this Appendix.
5. “MoHESR” means the Ministry of Higher Education and Scientific Research of the Recipient or any successor or successors thereto.
6. “Operational Manual” means the manual dated February 20, 2010, adopted by the Recipient, and comprised of two volumes: (i) Volume One-PMU Manual specifying the Recipient’s managerial, financial, administrative, monitoring and evaluation, procurement, engineering and environmental and social policies and procedures for execution of the Project, and including a financial management manual; and (ii) Volume Two – QIF Manual, setting out, among other things, the eligibility criteria for grants for selection of Selected Universities under Part A of the Project, as well as the policies and procedures for evaluation of QIF Program proposals, their implementation and monitoring and evaluation, as the same may be amended from time to time with the agreement of the Association.
7. “Performance Agreement” means the agreement between the Recipient and a Selected University for the provision of financing under Part A of the Project.
8. “PIRC” means the Program Identification and Review Committee, established on July 30, 2009, and chaired by the Vice Minister of MoHESR and which shall include, at a minimum, the following members: (i) a representative of private sector employers; and (ii) a representative of private universities. The director of the PMU and the coordinator of the QIF Program may serve as *ex officio* members.

9. “PMU” means the Project Management Unit of the MoHESR which shall include, at a minimum: (i) a project director; (ii) a procurement officer; and (iii) a finance officer.
10. “Preparation Advance” means the advance referred to in Section 2.07 of the General Conditions, granted by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on November 7, 2009 and on behalf of the Recipient on November 11, 2009.
11. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
12. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 15, 2010, 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.
13. “PSC” means the Project Steering Committee, established on August 18, 2009, chaired by the Minister of MoHESR and which includes, at a minimum, the following members: (i) the Vice Minister of MoHESR; (ii) a representative from the Ministry of Finance of the Recipient; and (iii) a representative from the Ministry of Planning and International Cooperation of the Recipient. The project director may serve as an *ex officio* member.
14. “QAC” means the Quality Assurance Council established on August 26, 2009, through Decree No 210/2009, to determine and coordinate quality assurance standards and procedures in the higher education institutions.
15. “QAU” means a Quality Assurance Unit responsible for quality assurance activities in a university; and “QAUs” means more than one such “QAU”.
16. “QIF” means the Quality Improvement Fund, a mechanism to be established under Part A of the Project for channeling financial resources to Selected Universities to support improvement in quality teaching and learning.
17. “QIF Program” means a program to improve the quality of teaching and learning to be carried with the assistance of the QIT of a Selected University under Part A of the Project and in accordance with a corresponding Performance Agreement.
18. “QIT” means a Quality Improvement Team of a Selected University responsible for the design, management and carrying out of a QIF Program under Part A of the Project; and “QITs” means more than one such “QIT”.

19. “Selected University” means an established public university identified as eligible to receive support under Part A of the Project; and “Selected Universities” means more than one such “Selected University”.

Section II. Modifications to the General Conditions

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. Section 2.07 is modified to read as follows:

“Section 2.07. Refinancing Preparation Advance

If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

2. Paragraph (i) of Section 6.02 is modified to read as follows:

“Section 6.02. Suspension by the Association

... (1) *Ineligibility.* The Association or the Bank has declared the Project Implementing Entity ineligible to receive proceeds of any financing made by the Association or the Bank or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Association or the Bank, as a result of a determination by the Association or the Bank that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Association or the Bank.”

3. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”