

Public Disclosure Authorized

CONFORMED COPY

GRANT NUMBER H351-YEM

Financing Agreement

(Additional Financing for the Rural Water Supply and Sanitation Project)

between

REPUBLIC OF YEMEN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 25, 2008

GRANT NUMBER H351-YEM

FINANCING AGREEMENT

Agreement dated February 25, 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 grant in an amount equivalent to twelve million six hundred thousand Special Drawing Rights (SDR 12,600,000) (“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. The Recipient’s Representative for purposes of taking any action required or permitted to be taken pursuant to this Section is the Minister of Planning and International Cooperation.
- 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.

ARTICLE III - PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall 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.
- 3.03. Without prejudice to the provisions of Section 3.01 of this Agreement, the Recipient shall ensure that, annually, and commencing Fiscal Year 2001, until completion of the Project, counterpart funds, in an amount equivalent to sixteen percent (16%) of the Project's approved annual budget, shall be allocated in the relevant budget of MWE and transferred to the Project Account.

ARTICLE IV - REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following:
 - (a) A situation shall have arisen which shall make it improbable that any of the measures provided for under the Policy Statement will be carried out.

ARTICLE V - EFFECTIVENESS; TERMINATION

- 5.01. The Effectiveness Deadline is the date one hundred twenty (120) days after the date of this Agreement.
- 5.02. 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 years after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

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

6.02. The Recipient's Address 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 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 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 objective of the Project is to assist the Recipient in expanding sustainable rural water supply and sanitation service coverage in the Project Area.

The Project consists of the following parts:

Part A: Rural Water Supply

Carrying out a demand-responsive, participatory and community-managed program, consisting of the provision of goods and the execution of civil works, to increase the supply of water in the Project Area through, *inter alia*, the construction and rehabilitation of wells, rain water catchments and water supply schemes.

Part B: Rural Sanitation and Hygiene Education

Carrying out a program, consisting of the provision of goods, training and consultants' services, to improve rural sanitation and hygiene behavior in the Project Area through, *inter alia*, the construction of household sanitation systems, the design of a school hygiene education program and the training of local health promoters.

Part C: Project Management Support

Support to the PMU, PIUs and SMTs, through the provision of consultants' services, goods and training, to strengthen their Project implementation capabilities, and assist MWE in the development of a rural water supply policy, strategy and long-term investment program.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall vest the overall responsibility for the implementation of the Project in MWE which shall carry out the Project through an autonomous PMU established within MWE. The said PMU shall be supported by Project Implementation Units located at each of the Governorates within the Project Area. MWE shall cause the PMU and the PIUs to carry out the Project in accordance with the Environmental Management Plan. Except as the Association shall otherwise agree, the Recipient may not amend or waive any provision of the Environmental Management Plan if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out the Project or the achievement of the objectives thereof.
2. For purposes of ensuring proper coordination and execution of the Project, the Recipient shall maintain the PMU within MWE with professional staff in adequate numbers whose qualifications, experience and terms of reference shall be acceptable to the Association. The PMU shall operate independently under the auspices of the Oversight Committee and shall be administratively accountable to MWE. The Oversight Committee shall be chaired by the Minister of Water and Environment and the head of the General Authority for Rural Water Supply Projects shall be the deputy chairman of the said Oversight Committee. The PMU shall seek approval of the Oversight Committee in relation to decisions pertaining to: (i) the finalization of annual work programs for the Project; (ii) the finalization of annual budgets for the Project; (iii) employment of senior PMU staff; and (iv) the procurement of goods, works and services under contracts whose value exceeds the equivalent of \$250,000. The functions of the PMU shall include, inter alia, responsibility for: (i) the procurement and disbursement processes under the Project; (ii) monitoring Project performance and implementation progress in accordance with the targets and indicators agreed upon between the Recipient and the Association; (iii) training of SMTs' staff; (iv) preparation, for submission to the Association, of annual work programs and updated procurement plans; and (v) preparation, for submission to the Association, of the reports referred to under Section II of this Schedule. Key staff of the PMU shall consist of a manager, a social scientist, a procurement specialist, an accountant and an administrative officer.
3. The responsibilities of the PIUs shall include: (i) the physical planning, implementation and supervision of the Project and of the procurement and

disbursement processes thereunder; and (ii) the supervision of the SMTs' activities.

4. The PMU and/or the PIUs shall: (i) carry out any Sub-project under a Tripartite Sub-project Agreement with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of Grant proceeds other than the Recipient; (ii) provide, promptly as needed, the resources required for the purpose of this Project; (iii) procure the goods, works and services to be financed out of the proceeds of the Grant in accordance with the provisions of this Agreement; (iv) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the Sub-project and the achievement of its objectives; (v): (A) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the Sub-project; and (B) at the Association's or the Recipient's request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient and the Association; (vi) enable the Recipient and the Association to inspect the Sub-project, its operation and any relevant records and documents; and (vii) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing.

5. The main functions of SMTs, as intermediaries between the PIUs and the Beneficiaries, shall be to: (i) raise awareness in the Project Area about the benefits to be realized under Part B of the Project; (ii) help Beneficiaries choose and design suitable water sanitation systems that conform to their needs; (iii) provide hygiene education, and technical and administrative training to Beneficiaries; (iv) assist the Beneficiaries in the creation of WUAs; and (v) put Beneficiaries in contact with private entrepreneurs to ensure the provision of spare parts and the operation and maintenance services.

B. Selection Procedures and Criteria

1. The Recipient shall select Districts in the Project Area in accordance with the District's poverty alleviation needs (under the definition of "poverty" adopted by the Recipient under the social assessment carried out as part of the preparation of the Project). Communities shall self-select by expressing their demand to

participate in the Project and undertaking to assume the obligations referred to under paragraph 5 of this Section B.

2. The Recipient shall mount a campaign throughout the Districts selected pursuant to the provisions of paragraph B.1 above to advertise the Project and explain to the Project Area's population the benefits that shall derive therefrom. Means to advertise the Project shall include flyers, radio messages and meetings with communities during which eligibility and selection criteria shall be explained. Communities shall be given a deadline to register their interest with either the respective PIU, the District or the Governorate. Communities, registered pursuant to the provisions of this paragraph, shall be visited by an SMT for a detailed explanation of the Project, including their obligations and benefits thereunder.
3. Without limiting the generality of sub-paragraphs 1 and 2 of this paragraph B, and except as the Association shall otherwise agree, no Beneficiary shall receive financing under Part A and/or Part B of the Project unless the Beneficiary shall have first established a WUA which shall have subsequently entered into a Tripartite Sub-project Agreement.
4. A Tripartite Sub-project Agreement shall provide, *inter alia*, for: (i) the WUA's commitment to the objectives of the Project and to undertake to conduct its operations and affairs in accordance with sound financial standards and practices; (ii) the WUA's obligation to exercise its rights under each Tripartite Sub-project Agreement in such manner as to protect the interests of the Recipient and the WUA; (iii) the WUA's obligation to duly perform all its obligations under the Tripartite Sub-project Agreement, and not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the Tripartite Sub-project Agreement; (iv) the WUA's obligation to promptly inform the respective PIU or PMU of any condition which interferes or threatens to interfere with the accomplishment of the purposes of the Project or the performance by the WUA of its obligations under the Tripartite Sub-project Agreement; and (v) the WUA's obligation to collect from the Beneficiaries charges in amounts adequate to cover the cost of operating and maintaining the Sub-project in full.
5. A Sub-project under Part A or Part B of the Project shall qualify for financing out of the proceeds of the Financing only if the PIU in whose territorial jurisdiction the Sub-project is located shall have determined that: (a) the Beneficiary has undertaken to participate in the design of the Sub-project, contributed at least five percent (5%) of the total estimated cost of the Sub-project in cash or in kind, or a combination thereof, and, subsequently, paid one hundred percent (100%) of the operation and maintenance costs of the Sub-project, together with an additional amount to establish a small fund for minor repairs and the purchase of spare

parts; (b) water is proven to be available in sufficient quantity and adequate quality in the location where the Sub-project shall be expected to take place; and (c) the estimated cost of carrying out the Sub-project shall not exceed the following per capita investment ceilings (in 2007 prices) for minimum service levels: (i) \$135 equivalent for new systems or for a system where a previously built acceptable borehole or well is available; and (ii) \$80 equivalent for the rehabilitation of an existing system, provided, however, that said ceilings may be exceeded if the Beneficiary shall be willing to incur the incremental cost of carrying out the Sub-project.

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

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 quarter, 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 June 30, 2010.

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. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Report not later than forty five (45) days after the end of each calendar quarter, interim 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 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 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:

Procurement Method
(a) National Competitive Bidding
(b) Shopping
(c) Direct Contracting

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 one year;
- (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 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.

Procurement Method
(a) Least Cost Selection
(b) Selection Based on Consultants' Qualifications
(c) Single Source Selection
(d) 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) Goods	400,000	100%
(2) Works	10,600,000	85%

Category	Amount of the Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(3) Training	300,000	100%
(4) Consultants' Services	1,100,000	100%
(5) Unallocated	200,000	
TOTAL AMOUNT	<u>12,600,000</u>	

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 December 31, 2009.

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. “Beneficiaries” means communities within a District (as this term is hereinafter defined), selected pursuant to the provisions of Section I.B. of Schedule 2 to this Agreement, which shall receive financial support from the Recipient under the Grant to carry out Sub-projects (as this term is hereinafter defined); each a “Beneficiary”.
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 by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
5. “District” means an administrative division of a Governorate (as this term is hereinafter defined).
6. “Environmental Management Plan” means the Recipient’s plan, dated May 16, 2000, and updated on November 30, 2007, as such plan may be updated from time to time by agreement of the Recipient and the Association, for implementation of the Project in accordance with certain institutional, mitigating and monitoring measures to offset or reduce adverse environmental impacts to acceptable levels.
7. “Fiscal Year” means the fiscal year of the Recipient commencing on January 1 and ending on December 31.
8. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
9. “Governorate” means an administrative division of the Republic of Yemen.
10. “MWE” means the Ministry of Water and Environment of the Recipient.
11. “Operations Manual” means the Recipient’s Operations Manual, agreed with the Association and dated December 11, 2007, for the carrying out of the Project, as

the same may be amended from time to time with the agreement of the Association.

12. “Original Financing Agreement” means the development credit agreement for a Rural Water Supply and Sanitation Project between the Recipient and the Association, dated December 22, 2000, as amended to the date of this Agreement (Credit No. 3450).
13. “Original Project” means the Project described in the Original Financing Agreement.
14. “Oversight Committee” means the Committee whose main responsibility shall be to oversee the implementation of the Project.
15. “PIUs” means, collectively, the Project Implementation Units to be established in accordance with the provisions of Section I.A of Schedule 2 to this Agreement at each Governorate within the Project Area; each a “PIU”.
16. “PMU” means the Project Management Unit to be established in accordance with the provisions of Section I.A of Schedule 2 to of this Agreement.
17. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
18. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated December 11, 2007, 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.
19. “Project Account” means the local currency deposit account to be opened by the Recipient in its Central Bank and to be maintained throughout the life of the Project, in which the counterpart funds referred to under Section 3.03 of this Agreement shall be regularly deposited.
20. “Project Area” means the Governorates of Ibb, Abyan, Hajja, Lahej, Amran and Al-Dhale’e or such other Governorates as may be agreed from time to time by the Recipient and the Association.
21. “SMTs” means Social Mobilization Teams, the multi-disciplinary teams consisting of local experts whose main role is to intermediate between a PIU and one or more Beneficiaries, and design a hygiene education campaign under Part B of the Project.
22. “Sub-project” means a specific development project to be carried out under Part A or Part B of the Project which the Association shall consider to be eligible,

pursuant to the criteria referred to under paragraphs Section I.B of Schedule 2 to this Agreement, for financing under the Project.

23. “Tripartite Sub-project Agreement” means a written agreement among a Governorate in the Project Area, PMU or a PIU, and a WUA (as this term is hereinafter defined) pursuant to which the WUA (as this term is hereinafter defined) shall undertake to carry out a Sub-project in accordance with terms and conditions satisfactory to the Association, including those provided for under Section I.B of Schedule 2 to this Agreement.
24. “WUAs” means Water User Associations established under Law No. 11 of the Recipient, dated July 11, 1963, as the same may be amended from time to time; each, individually, called “a WUA”.