

CREDIT NUMBER 1848 YAR

Development Credit Agreement

(Sana'a-Hodeidah Road Rehabilitation Project)

between

YEMEN ARAB REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 17, 1987

CREDIT NUMBER 1848 YAR

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated November 17, 1987, between YEMEN ARAB REPUBLIC (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project.

(B) To assist in the financing of the Project, the Borrower intends to obtain from the Arab Fund for Economic and Social Development and the OPEC Fund (the Co-Financiers) loans in the approximate total amount of \$28,000,000 equivalent (the Co-Financing Loans) under agreements (the Co-Financing Agreements) to be entered into between the Borrower and the Co-Financiers;

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Authority" means the Highway Authority of the Borrower;

(b) "MPW" means the Borrower's Ministry of Public Works; and

(c) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Credit

Section. 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to fourteen million Special Drawing Rights (SDR 14,000,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule I to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special account in its Central Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1991 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge at the rate of one-half of one per cent ($1/2$ of 1%) per annum on the principal amount of the Credit not withdrawn from time to time. The commitment charge shall accrue from a date sixty days after the date of the Development Credit Agreement to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or shall be cancelled.

(b) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one per cent ($3/4$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on March 1 and September 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 1 and September 1 commencing March 1, 1998, and ending September 1, 2027. Each installment to and including the installment payable on September 1, 2007, shall be one per cent (1%) of such principal amount, and each installment thereafter shall be two per cent (2%) of such principal amount.

(b) Whenever (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the abovementioned repayment modification.

(c) if, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through the Authority with due diligence and efficiency and in conformity with appropriate engineering, financial and administrative practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. The Borrower shall cause the Authority to plan the execution of road works so as to ensure, to

the extent practicable, that contracts for such works in the amount of not less than 25,000,000 Rials would be annually awarded to private domestic contractors.

Section 3.03. The Borrower shall take all action required to enable the Authority to Increase, over the period 1987-1991, its budget for routine and recurrent road maintenance by not less than 5% annually, measured in real terms.

Section 3.04. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the completion of the audit for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause the Authority:

(a) to carry on its operations and conduct its affairs in accordance with sound administrative, financial and engineering practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

(b) at all times to operate and to maintain its machinery, equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound engineering and financial practices.

ARTICLE VI

Remedies of the Association

Section 6.01. (a) Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely, that subject to paragraph (b) of this Section: (i) the right of the Borrower to withdraw the proceeds of any of the Co-Financing loans shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or (ii) any such loan shall have become due and payable prior to the agreed maturity thereof.

(b) Paragraph (a) of this Section shall not apply if the Borrower establishes to the satisfaction of the Association that: (i) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (ii) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 6.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely that the event specified in paragraph (a)(ii) of Section 6.01 of this Agreement shall occur, subject to the proviso of paragraph (b) of that Section.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of the

Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Co-Financing Agreements have been concluded between the Borrower and the Co-Financiers; and

(b) the Authority has employed the consultants required to assist in the supervision of construction works under Part A (1) of the Project.

Section 7.02. The date 120 days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The Minister of Development and Chairman of the Central Planning organization of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Central Planning Organization
P.O. Box 175
Sana'a
Yemen Arab Republic

Cable address: Telex:

CENPLAN 2266 CENPLAN YE
SANAA

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address: Telex:

INDEVAS 440098 (ITT),
Washington, D.C. 248423 (RCA)

or

64145 (WUI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

YEMEN ARAB REPUBLIC

By /s/ M. A. Alaini
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ E. F. Lari
Acting Regional Vice President
Europe, Middle East and North Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works	9,600,000	80%
(2) Goods	2,100,000	100% of foreign expenditures
(3) Consultants' services	1,300,000	100% of foreign expenditures
(4) Unallocated	1,000,000	
TOTAL	14,000,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are (a) to assist the Borrower in the implementation of its program for improvement, repair and maintenance of the road network; (b) to increase the capability and efficiency of the domestic construction industry; (c) to assist in establishing new regulations for fuel pricing and vehicle taxation; and (d) to undertake studies for priority projects and identify and implement important sector reforms.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Road Works and Equipment

(1) Rehabilitation, strengthening or reconstruction of sections of the Sanaa-Hodeidah road.

(2) Rehabilitation of flood-damaged sections of the main road network.

(3) Provision of road maintenance equipment, spare parts and materials.

Part B: Institutional Services

(1) Technical assistance for the design and implementation of measures to enhance the competitiveness of the Borrower's private construction industry through adoption of modern management and engineering techniques.

(2) Technical assistance in the supervision of construction works under Part A of the Project.

(3) Feasibility studies of priority investments in the transport sector, including the investigation of the major issues facing the sector and the preparation of measures to address such issues.

* * *

The Project is expected to be completed by December 31, 1990.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Works and Goods

Part A: International Competitive Bidding

Works and goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Yemen Arab Republic may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in

paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in the carrying out of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 4

Implementation Program

(1) The Borrower shall cause the Authority:

(a) to complete the bidding process and the award of the contracts for construction works under Part A of the Project by such dates as shall ensure the completion of such works by the end of the year 1990;

(b) to employ the consultants required to assist in the implementation of Part B (3) of the Project by March 31, 1988, and complete the implementation of said Part B (3) by June 30, 1990;

(c) to prepare and furnish to the Association quarterly progress reports on the Project; and

(d) by December 31, 1987, to prepare, in collaboration with MPW, and furnish to the Association for its comments, a plan to strengthen and expand the Planning and Traffic Department of the Authority.

(2) The Borrower shall cause MPW:

(a) to assign, by January 31, 1988, to an adequately staffed unit within its Technical Department, the responsibility for: (i) the implementation of the measures, referred to in Part B (1) of the Project, for improving the Borrower's construction industry; and (ii) the training of MPW's and the Authority's staff in the preparation of bidding documents and the evaluation of bids for construction works and in supervising the execution thereof;

(b) to employ the consultants required to assist in the implementation of Part B (1) of the Project by March 31, 1988, and to complete the implementation of said Part

B (1) by the end of the year 1990; and

(c) to review with the Association, on an annual basis, its transport investment and maintenance proposals.

(3) The Borrower shall:

(a) complete, by December 31, 1988, a study of the mechanism and criteria for the determination of petroleum prices, and discuss thereupon the findings and recommendations of such study with the Association; and

(b) review with the Association, by December 31, 1988, the levels of road users charges, and adjust, on the basis of such review, said charges to such levels so as to differentiate among classes of vehicles on the basis of their axle-load.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) set forth in the table in paragraph 1 of Schedule I to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule I to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to SDR 1,200,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Association shall otherwise agree, payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Association requests for replenishment of the Special Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by the evidence

supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Association, prior to or at the time of such request, such documents and other evidence as the Association shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Association when either of the following situations first arises:

- (i) the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or
- (ii) the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Association deposit into the Special Account (or, if the Association shall so request, refund to the Association for crediting to the Credit Account) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. No further deposit by the Association into the Special Account shall be made until the Borrower has made such deposit or refund.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount for crediting to the Credit Account.



