

Public Disclosure Authorized

CONFORMED

CREDIT NUMBER 3450 - YEM

DEVELOPMENT CREDIT AGREEMENT

(Rural Water Supply and Sanitation Project)

between

REPUBLIC OF YEMEN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 22, 2000

Public Disclosure Authorized

CREDIT NUMBER 3450 - YEM

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 22, 2000, between REPUBLIC OF YEMEN (the Borrower) and the 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) the Association has received from the Borrower a letter dated November 26, 2000, declaring the Borrower's commitment to carry out certain policy measures as part of the implementation of the Project (hereinafter called the Policy Statement); and

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 (as amended through October 6, 1999) with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement.

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 18, 1999; and 'Participating Countries' means, collectively, all such countries."

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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) “Beneficiaries” means communities within a District (as this term is hereinafter defined), selected pursuant to the provisions of paragraph B.1 of Schedule 4 to this Agreement, which shall receive financial support from the Borrower under the Credit to carry out Sub-projects (as this term is hereinafter defined); each a “Beneficiary”;

(b) “District” means an administrative division of a Governorate (as this term is hereinafter defined);

(c) “Eligible Categories” means Categories (1), (2), (3), (4) and (5) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(d) “Eligible Expenditures” means the expenditures for goods, works and services referred to in Section 2.02 (a) of this Agreement and to be financed out of the proceeds of the Credit allocated from time to time to the Special Account;

(e) “Environmental Management Plan” means the Borrower’s plan, dated May 16, 2000, as such plan may be updated from time to time by agreement of the Borrower 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;

(f) “Fiscal Year” means the fiscal year of the Borrower commencing on January 1 and ending on December 31;

(g) “Governorate” means an administrative division of the Republic of Yemen;

(h) “MEW” means the Ministry of Electricity and Water of the Borrower;

(i) “MLA” means the Ministry of Local Administration of the Borrower;

(j) “Oversight Committee” means the Committee whose main responsibility shall be to oversee the implementation of the Project;

(k) “PMU” means the Project Management Unit to be established in accordance with the provisions of Section 6.01 (b) of this Agreement;

(l) “PIUs” means, collectively, the Project Implementation Units to be established in accordance with the provisions of Section 6.01 (c) of this Agreement within each of the Governorates of Ibb, Abyan and Hajja in accordance with the provisions of Section 6.01 (c) of this Agreement; each a “PIU”;

(m) “Project Account” means the local currency deposit account to be opened by the Borrower in its Central Bank and to be maintained throughout the life of the Project, in which the

counterpart funds referred to under Section 4.03 of this Agreement shall be regularly deposited;

(n) "Project Area" means the Governorates of Ibb, Abyan, Hajja, Hudeidah, Marib, Lahaj, Al-Mahwit, Amran, Shabwa and Sana'a or such other Governorates as may be agreed from time to time by the Borrower and the Association;

(o) "Project Management Report" means each report prepared in accordance with the provisions of Section 4.02 of this Agreement;

(p) "Project Preparation Advance" means the Project preparation advance granted by the Association to the Borrower pursuant to the Letter Agreement signed on behalf of the Association on November 8, 1999, and on behalf of the Borrower on January 12, 2000;

(q) "SMTs" means Social Mobilization Teams, the multi-disciplinary teams consisting of local experts whose main role is to intermedate between a PIU and one or more Beneficiaries, and design a hygiene education campaign under Part B of the Project,

(r) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement;

(s) "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 B.3, B.4 and B.5 of Schedule 4 to this Agreement, for financing under the Project;

(t) "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 paragraph B.4 of Schedule 4 to this Agreement; and

(u) "WUAs" means Water User Associations established under Law No. 11 of the Borrower, dated July 11, 1963, as the same may be amended from time to time; each, individually, called "a WUA".

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 this Agreement, an amount in various currencies equivalent to fifteen million seven hundred thousand Special Drawing Rights (SDR 15,700,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works 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) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be June 30, 2006, 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 on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days (60) after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) 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 percent (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 15 and September 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 15 and September 15 commencing March 15, 2011, and ending September 15, 2040. Each installment to and including the installment payable on September 15, 2020, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three (3) consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; 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 repayment of installments under paragraph (a) above by:

- (A) 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; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six (6) months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five (5) years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above 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 above-mentioned repayment modification.

(d) 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 with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, engineering and environmental standards and 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 and the provisions of the Environmental Management Plan.

Section 3.02. 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.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the continued achievement of the objectives of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial and Other Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have its records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each Fiscal Year audited, in accordance with appropriate auditing standards acceptable to the Association, 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 (6) months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year as so audited, and (B) an opinion on such statement and 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 financial statements, and the audit thereof, and concerning said auditors, as the Association may 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 or Project Management Reports, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such

expenditures;

- (ii) retain, until at least one (1) year after the Association has received the audit report for the Fiscal Year in which the last withdrawal from the Credit Account was made, all records and documents (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records and documents; and
- (iv) ensure that such records, documents 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.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of its financial management system for the Project in order to enable the Borrower, not later than June 30, 2001, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which shall:

- (i) (A) set forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) show separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;
- (ii) (A) describe progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explain variances between actual and previously forecast implementation targets; and
- (iii) set forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter a Project Management Report for such period.

Section 4.03. Without prejudice to the provisions of Section 3.01 of this Agreement, the

Borrower shall ensure that, annually, and commencing Fiscal Year 2001 until completion of the Project, counterpart funds, in an amount equivalent to fifteen percent (15%) of the Project's approved annual budget, shall be allocated in the relevant budget of MLA and transferred to the Project Account.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that 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 VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) that the financial management system referred to under Section 4.01 (a) of this Agreement has been established;

(b) that PMU has been established, under terms and conditions acceptable to the Association, and key staff thereof, referred to under paragraph A.2 of Schedule 4 to this Agreement, have been employed under terms of reference acceptable to the Association;

(c) that each PIU has been established, under terms and conditions acceptable to the Association, and key staff thereof have been employed under terms of reference acceptable to the Association; and

(d) that each PIU has submitted to PMU, with copies to the Association, suitable work plans and budgets for Fiscal Year 2001 adequate to ensure the effective carrying out of the Project during said year.

Section 6.02. The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Planning and Development of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

P.O. Box 175
Sana'a
Republic of Yemen

Cable address:

Telex:

CENPLAN
Sana'a

2266
CENPLAN YE

For the Association:

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

Cable address:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI); or
64145 (MCI)

202.477.6391

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.

REPUBLIC OF YEMEN

By /s/ Abdulwahab Al-Hajjri

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Jean-Louis Sarbib

Regional Vice President
Middle East and North Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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:

	<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1)	Goods	1,100,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost); and 90% of local expenditures for other items procured locally
(2)	Civil works	10,190,000	75%
(3)	Training	1,260,000	100% of foreign expenditures and 80% of local expenditures
(4)	Consultants' services	950,000	100% of foreign expenditures and 80% of local expenditures
(5)	Incremental Operating Expenditures	950,000	100% until December 31, 2002, 70% until December 31, 2003, 40% until December 31, 2004 and 0% thereafter
(6)	Refunding of Project Preparation Advance	480,000	Amount due pursuant to Section 2.02 (b) of this Agreement
(7)	Unallocated	770,000	
	TOTAL	<u><u>15,700,000</u></u>	

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;

(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; and

(c) the term "Incremental Operating Expenditures" means expenditures incurred by PMU on account of utility charges, rent for office space, maintenance of vehicles, fuel, office supplies, banking charges, communication services, audit costs, travel costs, salaries and labor costs and other consumables but excluding salaries of officials 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.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$100,000 equivalent; (b) works under contracts costing less than \$400,000 equivalent; (c) services under contracts for consulting firms costing less than \$100,000 equivalent; (d) services under contracts for individual consultants costing less than \$50,000 equivalent; (e) training; and (f) Incremental Operating Expenditures, all under such terms and conditions as the Association shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall, for the purposes of the Project, open and maintain in dollars a separate special deposit account in its Central Bank, on terms and conditions satisfactory to the Association.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Association shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement, and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Association of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such

time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Association determines at any time that all further withdrawals should be made by the Borrower directly from the Credit Account; or

(c) if the Borrower shall have failed to furnish to the Association within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account, or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation

in accordance with the provisions of the Credit Agreement.

**Annex A
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Not Made
On the Basis of Project Management Reports**

1. For the purposes of this Annex, the term "Authorized Allocation" means an amount equivalent to \$1,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Credit pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to said 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.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Made
On the Basis of Project Management Reports**

1. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Credit from the Credit Account under one or more of the Eligible Categories.
2. Each application for withdrawal from the Credit Account for deposit into the Special Account shall be supported by a Project Management Report.
3. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$2,000,000.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in expanding sustainable water supply and sanitation service coverage in the Project Area.

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: 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 training of latrine builders, the design of a school hygiene education program and the training of local health promoters.

Part C: Project Management Support

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

* * *

The Project is expected to be completed by December 31, 2005.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

1. Goods and works shall be procured in accordance with: (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits", published by the Association in January 1995 and revised in January and August 1996, in September 1997 and in January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Guidelines), and (b) the provisions of the following Parts of this Section I.
2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.
2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) **Grouping of contracts**

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

(b) **Preference for domestically manufactured goods**

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

(c) **Notification and Advertising**

The invitation to pre-qualify or bid for each contract estimated to cost \$100,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost the equivalent of \$100,000 or more per contract, and goods estimated to cost the equivalent of less than \$400,000 per contract may, be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$400,000 equivalent, may be procured under contracts awarded on the basis of international procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost less than \$5,000 equivalent per contract, up to an aggregate amount not to exceed \$50,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Direct Contracting

Works estimated to cost less than \$20,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to pre-qualify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to the first three contracts for goods and the first three contracts for works, irrespective of the contract's value, and, subsequently, each contract for goods estimated to cost the equivalent of \$400,000 or more, and each contract for works estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract to be procured under the procedures described under paragraphs 3 and 4 of Part C of this Schedule, the following procedures shall apply:

(i) prior to the selection of any supplier under direct contracting or shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;

(ii) prior to the execution of any contract procured under direct contracting or shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers", published by the Association in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Least-Cost Selection

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants Qualifications

Services estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

4. Single Source Selection

Services which are estimated to cost less than \$50,000 equivalent per contract may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

A. Overall Project Implementation and Coordination

1. The Borrower shall vest responsibility for the implementation of the Project in MLA which shall carry out the Project through an autonomous Project Management Unit located within MLA. The initial phase of the Project shall focus on the Governorates of Ibb, Abyan and Hajja (the Initial Phase of the Project). PMU shall be supported by three (3) Project Implementation Units located within each of the Governorates of Ibb, Abyan and Hajja, respectively. Experience gained during the Initial Phase of the Project shall be relied upon to implement the remainder of the Project which shall focus on the Governorates of Hudeidah, Marib, Lahaj, Al-Mahwit, Amran, Shabwa and Sana'a.

2. For purposes of ensuring proper coordination and execution of the Project, the Borrower shall maintain PMU within MLA with professional staff in adequate numbers whose qualifications, experience and terms of reference shall be acceptable to the Association. PMU shall operate independently under the auspices of the Oversight Committee and shall be administratively accountable to MLA. 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 \$200,000. The functions of 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 Borrower 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 paragraph C (b) (i) of this Schedule. Key staff of PMU shall consist of a manager, a social scientist, a procurement specialist, a financial management specialist 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 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 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 Borrower shall select Districts in the Project Area in accordance with the District's poverty alleviation needs (under the definition of "poverty" adopted by the Borrower 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 Borrower 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 ensure that the proceeds of the Credit which shall be made available to it shall be utilized to finance Sub-projects in accordance with the procedures and on the terms and conditions set forth or referred to in the Tripartite Sub-project Agreement; (iii) the WUA's obligation to exercise its rights under each Tripartite Sub-project Agreement in such manner as to protect the interests of the Borrower and the WUA; (iv) 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; (v) the WUA's obligation to promptly inform the respective PIU of any condition which interferes or threatens to interfere with the accomplishment of the purposes of the Credit or the performance by the WUA of its obligations under the Sub-project Finance Agreement; (vi) the WUA's obligation to maintain procedures adequate to monitor and record the progress of the Sub-project for which proceeds under Part A and/or B of the Credit shall have been made available to the WUA; (vii) 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; (viii) the WUA's obligation to open an account in a commercial bank; (ix) MLA and the WUA's right to terminate the Tripartite Sub-project Agreement upon failure by MLA or the WUA to perform any of its respective obligations under the Tripartite Sub-project Agreement, or upon notice by the Association to the Borrower that it intends to exercise any of its remedies under Sections 6.02 and 7.01 of the General Conditions or Article V of this Agreement; and (x) disputes to be settled through arbitration provided that the Governor in whose Governorate the Sub-project that shall have given rise to the dispute is located shall act as arbitrator.

5. A Sub-project under Part A or Part B of the Project shall qualify for financing out of the proceeds of the Credit 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, contribute at least fifteen percent (15%) of the total estimated cost of the Sub-project in cash or in kind, or a combination thereof, and, subsequently, pay 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 1999 prices) for minimum service levels: (i) \$85 equivalent for new systems or for a system where a previously built acceptable borehole or well is available; and (ii) \$60 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. Progress Reports and Mid-Term Review

The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators agreed upon between the Borrower and the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association: (i) on a quarterly basis, commencing June 30, 2001, a report on the progress achieved in the implementation of the Project and the achievement of the objectives thereof; and (ii) on or about June 30, 2003, a report, to constitute the basis upon which the mid-term review shall take place, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section and consolidating the results of the reports referred to under sub-paragraph (b) (i) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by September 30, 2003, or such later date as the Association shall request, the report referred to in subparagraph (b) (ii) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.