The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT INTERNATIONAL DEVELOPMENT ASSOCIATION

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CONFORMED COPY

May 3, 2011

H.E. Mr. Abdulkarim I. Al Arhabi Deputy Prime Minister for Economic Affairs and Minister of Planning and International Cooperation Ministry of Planning and International Cooperation P. O. Box 175 Sana'a, Republic of Yemen

Re: Grant No. H449-RY

Water Sector Support Project

Amendment to the Financing Agreement

Excellency:

We refer to the Financing Agreement (Water Sector Support Project) between the Republic of Yemen (the Recipient) and the International Development Association (the Association) dated March 20, 2009 (the Financing Agreement). We also refer to your letter, dated March 15, 2011, requesting certain changes to the Water Sector Support Project.

We are pleased to inform you that the Association, after due consideration, has acceded to your request. Accordingly, the Financing Agreement is hereby amended as follows:

1. Section 4.01 of the Financing Agreement is amended to read as follows:

"Section 4.01. The Additional Event of Suspension consists of the following: the PIM referred to in Section 5.01(c) of this Agreement, or any part thereof, shall have been amended, suspended, abrogated, repealed or waived, so as to affect materially and adversely, in the opinion of the Association, the carrying out of the Project."

2. Part A of the Project Description at Schedule 1 of the Financing Agreement is amended as follows:

"Part A: Water Resources Management

Strengthening the institutional and policy development capacity of NWRA, within an integrated water resources management framework by: (i) preparing, enhancing and implementing water basin plans; and (ii) enhancing NWRA's capacity to monitor water quantity and quality, through the carrying out of works and provision of goods, consultants' services and training."

3. Part C of the Project Description at Schedule 1 of the Financing Agreement is amended as follows:

"Part C: Rural Water Supply and Sanitation

Increasing coverage of affordable and sustainable access to safe rural water supply and sanitation through: (i) (a) the installation of Priority Water and Sanitation Schemes; (b) the installation of other new water and sanitation schemes and the rehabilitation or completion of existing schemes based on the demand responsive approach; (ii) the development of joint rural water supply and sanitation operational manual and data base to increase the implementation efficiency; (iii) strengthening the coordination of rural sector agencies; and (iv) the capacity development of GARWSP and some of its branches, through the carrying out of works and provision of goods, consultants' services and training."

4. Part E of the Project Description at Schedule 1 of the Financing Agreement is amended as follows:

"Part E: Institutional Strengthening, Capacity Development and Project Management

- 1. Strengthening the institutional capacity of MWE and MAI to regulate, coordinate, and administer water policy, through the provision of goods, consultants' services and training.
- 2. Support to MWE and MAI, to strengthen their Project implementation capabilities, and assist the Coordinating Secretariat in Project coordination, through the provision of consultants' services, goods and training"
- 5. Paragraph 3 of Section IA of Schedule 2 of the Financing Agreement is amended as follows:
 - "3. For the purpose of ensuring the proper coordination and execution of the Project, the Recipient shall maintain the IMSC throughout the duration of the Project. The IMSC shall be chaired by the Minister of Planning and International Cooperation, with membership consisting of the Ministers of Water and Environment; Agriculture and Irrigation; Finance; and Local Administration. The IMSC shall approve the Annual Operating Plans and review progress and financial reports. The IMSC shall be assisted in the carrying out of its duties by a Coordinating Secretariat, with staffing and terms of reference satisfactory to the Association. The functions of said Coordinating Secretariat shall include, inter alia: (a) overall follow up and coordination of the implementation of the Project; (b) review of the Annual Operating Plans; (c) review of the audited Financial Statements for the Project; (d) carrying out quarterly internal audits of the Project related financial transactions of MAI, NWRA, GARWSP and the PMU; and (e) review and consolidation of the Project reports prepared by MAI, NWRA, GARWSP and the PMU for their respective Part of the Project."

- 6. Paragraph 4 of Section IA of Schedule 2 of the Financing Agreement is amended as follows:
 - "4. For the purpose of proper implementation of the Project activities, the Recipient shall: (a) cause MAI, NWRA, GARWSP and PMU to prepare their respective Annual Operating Plans in accordance with the PIM to cover the period of one year and to submit same by no later than July 1st of each year to the Coordinating Secretariat; and (b) cause the Coordinating Secretariat to review the said plans and furnish same to the Association within ten days thereafter."
- 7. The table at paragraph 2 of Section III B of Schedule 2 of the Financing Agreement is amended as follows:

"

Procurement Method			
(a) National Competitive Bidding			
(b) Shopping			
(c) Direct Contracting			
(d) Force Account			
(e) Community Participation procedures as described in the PIM			

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8. The table at paragraph 2 of Section IVA of Schedule 2 of the Financing Agreement is amended as follows:

"

Category	Amount of the Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, works, consultants' services, training and Incremental Operating Costs for Part A of the Project for:		
(a) the first year of the Project	57,100	100%
(b) the subsequent duration of the Project	2,522,900	50%
(2) Goods, works, consultants' services, training and Incremental Operating Costs for Part B of the Project for:		
(a) the first year of the Project	0	100%

Category	Amount of the Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(b) the subsequent duration of the Project	24,231,900	85%
(3) Goods, works, consultants' services, training and Incremental Operating Costs for Part C of the Project for:		
(a) the first year of the Project	1,622,400	100%
(b) the subsequent duration of the Project (<i>pro memoria</i>)	459,100	7.6%
(4) Goods, works, consultants' services, training and Incremental Operating Costs for Part D of the Project for:		
(a) the first year of the Project	126,100	100%
(b) the subsequent duration of the Project	20,082,000	70%
(5)(a) Goods, consultants' services, training and Incremental Operating Costs for Part E of the Project for MWE for:		
(i) the first year of the Project	0	100%
(ii) the subsequent duration of the Project	730,000	50%
(5)(b) Goods, consultants' services, training and Incremental Operating Costs for Part E for MAI for:		
(i) the first year of the Project	28,000	100%
(ii) the subsequent duration of the Project	222,000	50%

Category	Amount of the Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(6) (a) Goods, works, consultants' services, training and Incremental Operating Costs for Part C(i)(a) of the Project from the date of effectiveness of this Letter Agreement	1,500,000	85%
(6) (b) Goods, works, consultants' services, training and Incremental Operating Costs for Part C(i)(b), (ii), (iii) and (iv) of the Project from the date of effectiveness of this Letter Agreement	6,318,500	20%
TOTAL AMOUNT	57,900,000	

- 9. Paragraph 3 (b) of Section IV A of Schedule 2 of the Financing Agreement is amended as follows:
 - " (b) the term "Incremental Operating Costs" means expenditures incurred for the implementation of the Project on account of utility charges and rent for office space for the Coordinating Secretariat, maintenance and insurance of vehicles, fuel, office supplies, banking charges, communication services, local travel costs, salaries and labor costs for support staff but excluding salaries of officials of the Recipient."
- 10. Paragraph 1 of Section IV B of Schedule 2 of the Financing Agreement is amended as follows:
 - "1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for payments made prior to the date of the Original Financing Agreement; or
 - (b) for payments under Category (3)(b) made after the date of this Letter Agreement; or
 - under Categories (1)(b), (2)(b), (3)(b), (4)(b), (5)(a)(ii), (5)(b)(ii), (6) (a) or (6) (b) unless an Annual Operating Plan for the second and each subsequent year of implementation of the Project, has been approved by the Association."

11. The Appendix to the Financing Agreement is amended as follows:

"

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. "Annual Operating Plan" means the list, prepared by the Recipient, of annual activities to be financed by the Association under the Project in accordance with the PIM and acceptable to the Association; "Annual Operating Plans" means more than one such Annual Operating Plan.
- 3. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
- 4. "Co-financier(s)" means: (a) the Federal Republic of Germany; and (b) the Netherlands Ministry of Foreign Affairs/Ministry of Development Cooperation, referred to in paragraph 5.01 (a) of this Agreement.
- 5. "Co-financing" means an amount of: (a) sixty million seven hundred thousand Dollars (\$60,700,000) from the Federal Republic of Germany; and (b) forty eight million seven hundred and fifty thousand Dollars (\$48,750,000) from the Netherlands Ministry of Foreign Affairs/Ministry of Development Cooperation, which had been initially provided by the Cofinancier(s) to assist in jointly co-financing the Project but which was later provided as parallel co-financing.
- 6. "Co-financing Agreement" means the agreement which had been entered into between the Recipient and each of the Co-financiers to provide for initial joint Co-financing of the Project; "Co-financing Agreements" means more than one such Co-financing Agreement.
- 7. "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.
- 8. "Coordinating Secretariat" means the administrative unit established under the Recipient's Ministry of Planning and International Cooperation and referred to in paragraph 3 of Section IA of Schedule 2 to this Agreement.
- 9. "ESMF" means the Recipient's environmental and social management framework for the Project furnished to the Association on October 15, 2008, as such framework may be updated from time to time by agreement between the Recipient and the Association, setting forth the mitigating, monitoring and institutional measures to be taken during the implementation and operation of the Project to offset or reduce adverse environmental impacts to levels acceptable to the Association.
- 10. "Financial Management Manuals" means the manuals acceptable to the Association, describing the internal controls, accounting systems, flow of funds, budgeting, reporting and authorization cycles required for carrying out the Project.

- 11. "GARWSP" means the Recipient's General Authority for Rural Water Supply Projects established by virtue of Presidential Decree No. 60 of 2002.
- 12. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005 (as amended through October 15, 2006).
- 13. "IMSC" means the Recipient's inter ministerial steering committee referred to in Section I.A.3 of Schedule 2 to this Agreement.
- 14. "MAI" means the Recipient's Ministry of Agriculture and Irrigation or any successor thereof.
- 15. "MOPIC" means the Recipient's Ministry of Planning and International Cooperation or any successor thereof.
- 16. "MWE" means the Ministry of Water and Environment of the Recipient or any successor thereof.
- 17. "National Irrigation Program" means the Recipient's national program for irrigation, set forth in the Ministerial Decree of MAI No. 69 dated November 5, 2008.
- 18. "NWRA" means the National Water Resources Authority, established and operating under the Recipient's Decree No. 154 of 1995, as the same may be amended from time to time.
- 19. "Original Financing Agreement" means the Financing Agreement between the International Development Association and the Republic of Yemen, for the Water Sector Support Project (H449-RY), dated March 20, 2009.
- 20. "PIM" means the Recipient's Project implementation manual, referred to in Section I.A.1 of Schedule 2 to this Agreement, outlining the institutional and implementation arrangements including, *inter alia*, Project financial management systems, and the manual of procurement procedures agreed with the Association, for the carrying out of the Project, as the same may be amended with the agreement of the Association.
- 21. "PMU" means the Project Management Unit established by the Recipient within MWE for the implementation of the Urban Water Supply and Sanitation Project (Credit Number 3700-YEM) and referred to in Section I.A.2 of Schedule 2 to this Agreement.
- 22. "Priority Water and Sanitation Schemes" means selected water and sanitation activities and schemes to be financed by the Association and included in the Annual Operating Plan as agreed between the Recipient and the Association.
- 23. "Procurement Guidelines" means the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004 and revised in October, 2006.
- 24. "Procurement Plan" means the Recipient's procurement plan for the Project, dated January 21, 2009, 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.

- 25. "Program" means the Recipient's updated National Water Sector Strategy and Investment Program (NWSSIP 2009-2015) set forth or referred to in the minutes of the meeting of the IMSC dated January 13, 2009 furnished by the Recipient to the Association.
- 26. "RPF" means the Recipient's resettlement policy framework for carrying out the Project, satisfactory to the Association, dated October 15, 2008, as such framework may be amended from time to time by agreement of the Recipient and the Association, which sets out, *inter alia*, the principles and objectives of the RPF, the institutional and implementation arrangements, the requirements of a resettlement action plan including, the eligibility criteria for assistance and rehabilitation entitlements, as well as the monitoring and reporting arrangements to ensure compliance with the provisions of the RPF."
- 12. The attachment to Supplemental Letter 2 is hereby replaced by the attachment hereto.

All the terms and conditions of the Financing Agreement that have not been amended hereby shall remain unchanged and in full force and effect.

Please confirm your agreement with the foregoing by signing and dating the confirmation on the enclosed copy of this Amendment to the Financing Agreement and returning it to the Association.

Sincerely,

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ A. David Craig Country Director Yemen, Egypt and Djibouti Middle East and North Africa Region

AGREED AND CONFIRMED:

REPUBLIC OF YEMEN

By: /s/ Abdulkarim I. Al-Arhabi Deputy Prime Minister for Economic Affairs, Minister of Planning and International Cooperation

Date: May 17, 2011

Attachment

ANNEX 1: Results Framework and Monitoring REPUBLIC OF YEMEN: WATER SECTOR SUPPORT PROJECT

PDO		Project Outcome Indicators	Use of Information
To support the Recipient's implementation of the NWSSIP to: (i) strengthen institutions for sustainable water resources management; (ii) improve community-based water resource management; (iii) increase access to water supply and sanitation	3	3 new basins benefiting from the Project have basin plans; 4 priority basins¹ benefiting from the Project have their basin plans implemented; and 4 basins have basin committees. 200 WUAs/WUGs established/ strengthened in the project area, and 50 percent of the WUAs in priority basins of Sana'a, Amran and Dhamar are able to	Demonstrates the effectiveness of institutions, including communities and basin committees to develop and implement sustainable water resources management, following an IWRM approach
services; (iv) increase returns to water use in agriculture; and (v) stabilize and reduce groundwater abstraction for agricultural use in critical water basins.	3	monitor agricultural wells. Access to water supply and sanitation services provided to additional 700,000 ² capita in rural areas and additional 220,000 ³ capita in urban areas.	Demonstrates the project's effectiveness in terms of expanding coverage and quality of services
	3	Energy consumption (Kwh/yr/capita, or litre/yr/capita of fuel) reduced by 20 percent for farmers benefiting from the Project.	Demonstrates improved water use efficiency and increased returns to water use in agriculture for farmers benefiting from the Project.
	3	Groundwater use for agriculture has reduced by 10 MCM ⁴ per year by 2014 in critical basins of Sana'a, Dhamar and Amran.	Demonstrates the overall impact of the project on water saving, especially in critical basins.
	Co	mponent 1: Water Resources Managemen	t
Component outcomes		Performance indicators	Use of information
NWRA, basin committees, local authorities and other partners have the institutional capacity to develop and coordinate integrated water resource management.	0%	Three new basin plans in Dhamar-Radaa, Hadramout and South Tihama are prepared, and four basin plans (Dhamar and three existing basin plans in Sana'a, Amran and Taiz) are fully implemented by NWRA. Number of basin committees established and strengthened and that became operational (meet regularly at least every quarter and make decisions on water issues in the basin) has reached 4 (1 new—Dhamar, and 3 existing—Sana'a, Amran and Taiz).	Demonstrates NWRA's effectiveness in monitoring the nation's water resources and using the data for decision making. Demonstrates availability of
Improved National Water Resources Information System	2	400 systemic ground and surface water monitoring stations established and	more data, effectiveness of IWRM and Institutional and Policy Development

¹ WSSP will be implemented in all Governorates of the country both in terms of surface and ground water investments. However, more emphasis, as much as possible, will be given to priority basins of Amran, Dhamar and Sana'a in order to make measurable impacts on the ground.

² Additional 600,000 capita access to water supply and additional 100,000 capita access to sanitation

³ Additional 114,000 capita access to water supply and additional 105,000 capita access to sanitation ⁴ MCM stands for million cubic meter (i.e., 1,000,000 m³).

	operational, with special focus on basins of priority interest such as Sana'a, Taiz, Dhamar, and Amran by 2014. 2 90 percent of the newly licensed wells are metered	initiatives in IWRM, for example, as it applies to enforcing the water law and its bylaws.
Communities are empowered and enabled to manage their water resources at the local level.	Solution of 200 WUA/WUG established/ strengthened and operational, about 100 of the WUAs have received adequate training to monitor groundwater levels and make decision on water consumption as such.	Measures ownership of farmers of the decentralized community water management approach.
Increased public awareness about water scarcity and its consequences	80 percent of target audience that can recall water scarcity awareness-raising messages correctly in priority basins such as Sana'a, Dhamar, Taiz and Amran	Measures level of public awareness on the scarcity of water and available solutions
	Component 2: Urban Water Supply and Sanitat	ion
Access to piped water in ten urban centres has been expanded	Number of new piped household water connections that are resulting from the project intervention in urban areas has reached 9,000 by 2014 (core indicator) Number of new piped household water connections affected by rehabilitation works undertaken in urban areas under the project has reached 6,000 by 2014 (core indicator)	Demonstrates effectiveness of the program in promoting improved UWSS services to provide maximum levels coverage using public and private sector providers.
Sustainable LCs and Utilities with adequate finances	Number of utilities and other ⁵ water supply services providers supported by the project that have a 10-20 year water supply strategy, supported by studies and implementation manual, prepared and under implementation has reached 10 and 10, respectively, by 2014 (core indicator)	Shows capacity and sustainability of local utilities to effectively plan and service target population.
Access to improved sanitation in six urban areas has been expanded	 15,000 new sewer connections constructed under the project by 2014 (core indicator) Volume (mass) of BOD pollution loads removed by treatment plant financed under the project has reached 25 tons/year by 2014 (core indicator) 	Demonstrates effectiveness of the program in promoting improved sanitation services to provide maximum levels of coverage and improved wastewater treatment plant.
Improve Financial Sustainability of Urban Water Supply and Sanitation Services	95 percent of the utilities and other services providers benefiting from the project are aware of the cost recovery principles set out in WSS financial policy and have established plans to do so.	Measures effectiveness of LCs fee recovery system.
Component 3: Rural Water Supply and Sanitation		
Access to piped water in rural areas nationwide has been expanded	 5,000 new piped household water connections that are resulting from the project intervention in rural areas by 2014 (core indicator) 6,500 improved community water points constructed or rehabilitated in rural areas under the project by 2014 (core indicator) 	Demonstrate effectiveness of the program in promoting improved RWSS services to provide maximum levels coverage under WSSP. NWSSIP Update target is water supply of 72% for rural

⁵ private sector water service providers through an output based aid (OBA) approach.

Sustainable rural water	300 other service providers (WUAs managed by committees or boards) the project is supporting by 2014 (core indicator)	areas by 2014.
supply system	Of those supported by the Project, the number of water supply schemes developed/ rehabilitated with background study on water availability and quality, and strong WUA in place has reached 70 percent by 2014.	Ensures community participation and sustainability of investments in the rural water sector
Access to improved sanitation in rural areas nationwide has expanded	 20,000 improved latrines constructed under the project by 2014 (core indicator) 100,000 people trained to improve hygiene behaviour or sanitation practices under the project by 2014 (core indicator) 	Measures increased access to sanitation coverage and hygiene education in rural areas
Improve Financial Sustainability of Rural Water Supply and Sanitation Services	80 percent of the rural water user associations' management participating in the project are aware of the cost recovery principles set out in the WSS sector's financial policy and have plans in places to cover the O&M cost at minimum	Measures effectiveness of rural water service providers (WUAs) fee recovery system
	Component 4: Irrigation	
Farmers productivity improved in areas covered by: ② spate irrigation systems ③ modernized conveyance and onfarm irrigation and drainage services, including equipments and trainings, improved	Area with improved spate irrigation services expanded by 13,000 ha in 2014 (end of project) (core indicator) Area with improved localized and conveyance irrigation services expanded by 8,900 ha in 2014 (end of project) (core indicator) 10,000 water users (households) provided with new/improved irrigation and drainage services, including IAS/AAS ⁷ services by 2014 5,000 female water users 5,000 male water users (core indicator)	Demonstrates farmers' access to modern irrigation schemes (including spate irrigation, conveyance and localized irrigation schemes) and area covered by the Project.
Equity in access to irrigation water has improved	 50 percent of farmers with land holdings less than 1 ha in groundwater irrigation benefiting from WSSP by 2014. 50 percent of farmers with holdings less than 2 ha in spate irrigation benefiting from WSSP by 2014. 	Demonstrates equity in irrigated agriculture under WSSP.
Watershed management developed and implemented as part of basin planning	 Five basin plans prepared for targeted watershed management (Sana'a, Amran, Abyan, Taiz and Sa'ada) by 2014. Watershed management implemented in two priority wadis—Wadi Ahwar and Wadi Khawrah. 	Demonstrate synergies between watershed management and basin planning for water resources management and use.
Community irrigation	Number of operational WUA/WUG using water balance as part of their water	

⁶ Improved irrigation and drainage services refer to upgrading, rehabilitation and/or modernization of irrigation and drainage services in an area with existing irrigation and drainage services.
7 IAS/AAS services include both irrigation related and other broader agricultural advisory services.

water management and use strengthened	\$	management and use has reached 100 by 2014 85 percent of WUA/WUG received IAS/AAS training by 2014	Demonstrates community participation in sustainable agricultural water use.
Component 5: Institutional	Stre	ngthening, Capacity Development and Proj	ect Management
Capacity to undertake water investments and delivery of water and sanitation services has improved	2	200 staff of MWE, MAI and other WSSP implementing sub-sectors and the CS trained in effective project management, procurement, FM and safeguards by 2014. 200 staff of local corporations, MWE, UWSS-PMU and GARWSP trained in effective delivery of water and sanitation services by the end of the project.	Measures the effectiveness of MWE, MAI, CS, LCs, urban PMU and GARWSP to regulate and facilitate WSSP activities.
Water law enforced in selected priority basins	\$	All sub-sectors include the state of water resources in their annual sector reports. Percent of illegal drillings, including deepening of wells compared to total wells has declined in selected priority basins of Sana'a, Dhamar and Amran by 50 percent.	Demonstrates the effectiveness of community water management in enforcing the water law and its bylaws.
Program development ensured	\$	10 studies undertaken in order to plan and develop future water investments on a demand basis.	Illustrates the continuity of the program