CREDIT NUMBER 4220-YEM

Development Credit Agreement

(Rainfed Agriculture and Livestock Project)

between

REPUBLIC OF YEMEN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 11, 2006
DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 11, 2006, between REPUBLIC OF YEMEN (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 (the Project), has requested the Association to assist in the financing of the Project;

(B) Part C of the Project will be carried out by Social Fund for Development (SFD) with the Borrower’s assistance and, as part of such assistance, the Borrower will make part of the proceeds of the credit provided for in Article II of this Agreement (the Credit) available to SFD, as set forth in this Agreement; 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 and in the Agreement of even date herewith between the Association and SFD (the Project 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 May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

"Section 5.08. Treatment of Taxes

Except as otherwise provided in the Development Credit Agreement the proceeds of the Credit may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Credit, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association’s policy of requiring economy and efficiency in the use of the proceeds of its credits. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Credit is excessive or otherwise unreasonable, the Association may, by notice to the
Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Credit Agreement as required to be consistent with such policy of the Association.”

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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) “Beneficiary” means any individual or group of individuals from the local communities within the Project Area (as this term is hereinafter defined) to whom SFD proposes to make or has made a PRP Grant (as this term is hereinafter defined) under Part C.2 of the Project;

(b) “Eligible Categories” means Category (1) set forth in the table in Part A.1 of Schedule 1 to this Agreement in respect of Parts A and B of the Project and Category (2) set forth in said table in respect of Part C of the Project;

(c) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services referred to in Section 2.02 of this Agreement;

(d) “Environmental Management Plan” or “EMP” means the Borrower’s environmental management plan for the Project furnished to the Association on July 21, 2005, as such EMP may be updated from time to time by agreement between the Borrower and the Association, setting forth the 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;

(e) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(f) “MAI” means the Borrower’s Ministry of Agriculture and Irrigation, or any successor thereto;

(g) “Manual of Procedures for PRP Grants” means the Manual referred to in paragraph A.3 of Schedule 1 to this Agreement, specifying the eligibility criteria, procedures for selection, disbursement mechanisms and expected Beneficiary contribution for PRP Activities (as this term is hereinafter defined);

(h) “Operations Manual” means the manual, dated December 2004, specifying SFD’s managerial, financial, administrative, engineering and environmental
policies and procedures for the execution of the Project, as the same may be amended from time to time with the agreement of the Association;

(i) “Parts A and B PIP” means the Borrower’s Parts A and B Project implementation plan, furnished to the Association on November 23, 2005, setting forth the procedures, methodology, plans of implementation and specialists acceptable to the Association required for carrying out Parts A and B of the Project, as such plan may be updated from time to time by agreement of the Borrower and the Association;

(j) “Part C PIP” means SFD’s Part C Project implementation plan, furnished to the Association on November 23, 2005, setting forth the procedures, methodology, plans of implementation and personnel acceptable to the Association required for carrying out Part C of the Project, as such plan may be updated from time to time by agreement of SFD and the Association;

(k) “Procurement Plan” means the Borrower’s procurement plan, dated December 21, 2005 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 of this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(l) “Project Agreement” means the agreement between the Association and SFD of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(m) “Project Area” means the areas where the target beneficiaries are rural producers operating under rainfed conditions (including small spate irrigation systems) in five governorates, namely Al-Mahweet, Hajjah, Al-Hudeidah, Lahej and Sana’a;

(n) “PSU” means the Project Support Unit to be maintained within MAI in accordance with the provisions of paragraph A.3 of Schedule 4 to this Agreement;

(o) “PRP Activity” means a specific poor rural procedures activity to be carried out under Part C 2 of the Project utilizing the proceeds of a PRP Grant (as this term is hereinafter defined);

(p) “PRP Grant” means a Poor Rural Producer grant made by the Borrower, through SFD, to a Beneficiary to finance, in whole or in part, the carrying out of a PRP Activity under Part C.2 of the Project;

(q) “SFD” means the Social Fund for Development, established pursuant to the Borrower’s Law No. 10 of 1997 as the same may be amended from time to time;

(r) “Special Accounts” means the accounts referred to in Part B of Schedule 1 to this Agreement;
(s) “Steering Committee” means the Committee referred to in Paragraph A.2 of Schedule 4 to this Agreement; and

(t) “Subsidiary Grant Agreement” means the agreement to be entered into between the Borrower and the SFD pursuant to Section 3.01(c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Grant 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 this Agreement, an amount in various currencies equivalent to fourteen million Special Drawing Rights (SDR14,000,000).

Section 2.02. 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 and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be June 30, 2012, 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 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 June 15 and December 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 June 15 and December 15 commencing December 15, 2016 and ending June 15, 2046. Each installment to and including the installment payable on June 15, 2026, 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 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 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 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 Parts A and B of the Project through MAI with due diligence and efficiency and in conformity with appropriate administrative, economic, environmental, engineering, financial and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall for the purpose of Part C of the Project cause SFD to perform in accordance with the provisions of the Project Agreement all the obligations of SFD therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable SFD to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(c) The Borrower shall make part of the proceeds of the Credit available to SFD, on a grant basis, under a subsidiary grant agreement to be entered into between the Borrower and SFD, under terms and conditions which shall have been approved by the Association.

(d) The Borrower shall exercise its rights under the Subsidiary Grant Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Grant Agreement or any provision thereof.

(e) 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 Parts A and B of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.
Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and 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, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than twelve (12) months after the date of the preceding Procurement Plan, for the Association’s approval.

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 future operation of the Project; and

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

Section 3.04. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part C of the Project shall be carried out by SFD pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to Parts A and B of the Project.

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, 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 (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

(iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, 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 reports referred to in Part A 4 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

(i) retain, until at least one year after the Association has received the audit report for, or covering, 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;

(ii) enable the Association’s representatives to examine such records; and

(iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower’s progress reporting obligations set out in Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

(i) sets forth sources and uses of funds for Parts A and B of the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
(ii) describes physical progress in implementation of Parts A and B of the Project, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and

(iii) sets forth the status of procurement under Parts A and B of the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than forty five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than forty five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

**ARTICLE V**

**Remedies of the Association**

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) SFD shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that SFD will be able to perform its obligations under the Project Agreement.

(c) Law No. 10 of 1997 of the Borrower or the Operations Manual of SFD shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of SFD to perform any of its obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of SFD or for the suspension of its operations.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower; and
(b) any event specified in paragraphs (b), (c) or (d) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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 Subsidiary Grant Agreement has been executed on behalf of the Borrower and SFD; and

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

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02(b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or ratified by SFD, and is legally binding upon SFD in accordance with its terms; and

(b) that the Subsidiary Grant Agreement has been duly authorized or ratified by the Borrower and SFD and is legally binding upon the Borrower and SFD in accordance with its terms.

Section 6.03. The date one hundred and 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 International Cooperation 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:

Ministry of Planning and International Cooperation
P.O. Box 175
Sana’a
Republic of Yemen

Facsimile:
9671 250 665
9671 250 605

For the Association:

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

Cable address: Telex: Facsimile:
INDEVAS 248423 (MCI) or (202) 477-6391
Washington, D.C. 64145 (MCI)
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 A. Al-Hajjri

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Inger Andersen

Acting 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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (Expressed in SDR)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works, Goods, Consultants’ Services, Training and Incremental Operating Costs under Parts A and B of the Project</td>
<td>6,200,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods, Consultants’ Services, PRP Grants and Incremental Operating Costs for three Governorates within the Project Area under Part C of the Project</td>
<td>7,400,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Unallocated</td>
<td>400,000</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>14,000,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

2. For the purposes of this Schedule the term “Incremental Operating Costs” means expenditures incurred by the PSU and SFD on account of maintenance of vehicles, fuel, office supplies, banking charges, communication services, travel costs, salaries and labor costs 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: Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to
the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR200,000, may be made on account of payments made for expenditures before that date but after December 1, 2005; and (b) payments made for PRP Grants under Category (2), unless a Manual of Procedures for PRP Grants, satisfactory to the Association, specifying the eligibility criteria, procedures for selection, disbursement mechanisms and expected Beneficiary contributions for PRP Activities, has been approved by the Association.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than $100,000 equivalent per contract; (b) works costing less than $200,000 equivalent per contract; (c) services of individual consultants costing less than $100,000 equivalent per contract; (d) services of consulting firms under contracts costing less than $50,000 equivalent per contract, (e) training; (f) PRP Grants; and (g) Incremental Operating Costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Credit Account, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Accounts

1. The Borrower may, for the purposes of each of: (i) Parts A and B open and maintain in United States dollars a separate special deposit account in its Central Bank on terms and conditions satisfactory to the Association (Special Account for Parts A and B of the Project); and (ii) Part C of the Project, open and maintain in United States dollars a separate special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment (Special Account for Part C of the Project).

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

   (a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

   (b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.
3. Payments out of the respective 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 any Special Account:

   (a) if the Association, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule adequately provide the information required for Report-based Disbursements;

   (b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures 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 Accounts; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into any 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 any 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 any 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 respective 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 any 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 any 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 Accounts.

(d) Refunds to the Association made pursuant to subparagraph (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 for Parts A and B of the Project
When Withdrawals Are Not Report-based Disbursements

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of US$800,000 to be withdrawn from the Credit Account and deposited into the Special Account for Parts A and B of the Project pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account for Parts A and B of the Project 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 for Parts A and B of the Project 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 for Parts A and B of the Project such amount as the Borrower shall have requested.

   (b) For replenishment of the Special Account for Parts A and B of the Project, the Borrower shall furnish to the Association requests for deposit into the Special Account for Parts A and B of the Project 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 for Parts A and B of the Project 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 Parts A and B of the Project for Eligible Expenditures. Each such deposit into the Special Account for Parts A and B of the Project 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 for Parts A and B of the Project, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association 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 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 for Parts A and B of the Project as of the date of such notice will be utilized in making payments for Eligible Expenditures.
Annex B
to
SCHEDULE 1

Operation of the Special Account for Part C of the Project
When Withdrawals Are Report-based Disbursements

1. Withdrawals from the Credit Account shall be deposited by the Association into the Special Account for Part C of the Project in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account for Part C of the Project shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

2. 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 for Part C of the Project an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.
SCHEDULE 2

Description of the Project

The objective of the Project is to enable poor rural producers to improve their production, processing and marketing systems and protect their assets through the development of farmer based systems of seeds management and promoting productive rural development within the project Area and enhance the livestock husbandry and health services for the benefit of poor rural producers nationwide.

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: Farmer Based System of Seed Improvement and Management

1. Promoting within the Project Area ex-situ and on farm conservation of local landraces by enhancing capacity and conducting research and development activities to collect, characterize conserve and improve them, and ensure seed quality by national mandated institutions in collaboration with farmer groups through the provision of goods and technical advisory services.

2. Carrying out a program for promoting seed producer groups in the Project Area by:
   
   (a) establishing seed producer groups to produce quality landrace seeds at the farm level through the provision of technical advisory services;

   (b) enhancing the capacity of agricultural district offices through the rehabilitation and furnishing of such offices through the carrying out of works, and the provision of goods and technical advisory services; and

   (c) developing the capacity of farmers in technological innovations related to seed production, variety improvement, maintenance and seed storage, and quality assurance through the carrying out of small works and the provision of goods, technical advisory services and training.

3. Enhancing the capacity of seed producer groups to establish a network for seed delivery and marketing of local land races in the Project Area through the carrying out of works, and the provision of goods, technical advisory services and training.

4. Provision of equipment, services and operating costs to support the implementation and management of Part A of the Project.
Part B: Livestock Husbandry and Health Services

1. Enhancing the capacity of GDAR to develop live stock strategies, policies and regulations, and disease control and diagnosis through the provision of goods, technical advisory services, training and workshops.

2. Rehabilitation and strengthening of national and regional veterinary laboratories through the carrying out of works and the provision of goods, technical advisory services and training.

3. Design, construction and equipment of a live animal quarantine holding ground in Al Mukha through the carrying out of works and the provision of goods, advisory services, and the preparation of a design for a similar quarantine holding ground at Al Mukalla as well as conducting a needs assessment for the establishment of quarantine holding ground at Dhobab and Haradh through the provision of technical advisory services.

4. Establishing a public-private partnership based on a contracting system for sanitary mandate and epideimosurveillance, and promoting accessible delivery of proximity veterinary and animal husbandry services and goods to livestock owners through the provision of goods, technical advisory services and training.

5. Provision of equipment, services and operating costs to support the implementation and management of Part B of the Project.

Part C: Productive Rural Development

1. Enhancing the organizational capacity of poor rural producers at the community and inter-community levels to improve access to public and private services, as well as input and output markets through the provision of technical advisory services and training.

2. Provision of PRP Grants to poor rural producer groups within the Project Area on a cost sharing basis to finance demand driven productive rural community development initiatives, either directly or through non-governmental organizations acting as intermediaries for SFD.

3. Establishing a flow of market information between local producers and distant market stakeholders through the carrying out of works, and the provision of goods and technical advisory services.
4. Provision of equipment, services and operating costs for the implementation and management of Part C of the Project.

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The Project is expected to be completed by December 31, 2011.
SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants’ services) shall be procured in accordance with the provisions of Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants’ services shall be procured in accordance with Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants’ Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

B. Other Procurement Procedures

1. National Competitive Bidding. (a) Goods estimated to cost less than $100,000 equivalent per contract and works estimated to cost less than $500,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding, including the clarifications set forth in paragraph (b) of this Part B.1 required for compliance with the provisions of the Guidelines.

(b) The procedures to be followed for National Competitive Bidding under this Part B.1 shall be those set forth in Law No. 3 for 1997 concerning Government Tenders, Auctions and Stores, and its Regulations, with the following modifications required for compliance with paragraph 3.3 of the Guidelines:
(i) a Borrower-owned enterprise in the Republic of Yemen shall be eligible to bid only if it can establish that it is legally and financially autonomous, operates under commercial law, and is not a dependent agency of the Borrower;

(ii) bidding (or pre-qualification, if required) shall not be restricted to any particular class of contractors or suppliers, and non-registered contractors and suppliers shall also be eligible to participate;

(iii) tenders shall be advertised for at least two (2) consecutive days in two (2) local newspapers of wide circulation;

(iv) prospective bidders shall be allowed a minimum of thirty (30) days for the preparation and submission of bids, such thirty (30) days to begin with the availability of the bidding documents or the advertisement, whichever is later;

(v) unless national standard bidding documents acceptable to the Association are available, bidding documents approved by the Association shall be used, and may be prepared in Arabic;

(vi) registration shall not be used to assess bidders’ qualifications; qualification criteria (in case pre-qualification was not carried out) and the method of evaluating the qualification of each bidder shall be stated in the bidding documents, and before contract award the bidder having submitted the lowest evaluated responsive bid shall be subject to post-qualification;

(vii) a foreign bidder shall not be required to register or to appoint an agent as a condition for submitting its bid and, if determined to be the lowest evaluated responsive bidder, shall be given reasonable opportunity to register, without let or hindrance; the registration process shall not be applicable to sub-contractors;

(viii) all bids shall be submitted in sealed envelopes and may be submitted, at the bidder’s option, in person or by courier service;

(ix) all bids shall be opened at the same time in a public bid opening which bidders shall be allowed to attend and which shall follow immediately after the deadline for submission of bids;

(x) evaluation of bids shall be carried out in strict adherence to the criteria declared in the bidding documents and contracts shall be awarded to the lowest evaluated responsive bidder, without
resorting to the rejection of bids above or below a certain percentage of the pre-bid estimate (bid price bracketing);

(xi) no bidder shall be requested or permitted to modify its bid after the bid closing date shall have elapsed and bids submitted after the deadline for submission of bids shall be returned to the bidder unopened;

(xii) post-bidding negotiations with the lowest or any other bidder shall not be permitted;

(xiii) under exceptional circumstances, the procuring entity may, before the expiration of bid validity, request all bidders in writing to extend the validity of their bids, in which case bidders shall not be requested nor permitted to amend the price or any other condition of their bids; a bidder shall have the right to refuse to grant such an extension without forfeiting its bid security, but any bidder granting such extension shall be required to provide a corresponding extension of its bid security;

(xiv) price adjustment provisions may be included in contracts for works with a duration of more than one year;

(xv) rejection of all bids is justified when there is lack of effective competition, or bids are not substantially responsive, however, lack of competition shall not be determined solely on the basis of the number of bidders; and

(xvi) each contract financed from the proceeds of the Credit shall provide that the contractor or supplier shall permit the Association, at its request, to inspect their accounts and records relating to the performance of the contract and to have such accounts and records audited by auditors appointed by the Association.

2. **Shopping.** Goods estimated to cost less than $5,000 equivalent per contract and works estimated to cost less than $15,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. **Community Participation**

Works under Part C of the Project may be carried out through community participation in accordance with procedures agreed with the Association.
Section III. Particular Methods of Procurement of Consultants’ Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than $100,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Selection Based on Consultants’ Qualifications. 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, 3.7 and 3.8 of the Consultant Guidelines.

2. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association’s prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

3. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.
SCHEDULE 4

Implementation Program

A. Implementation and Coordination of Parts A and B of the Project

1. The Borrower shall vest the overall responsibility for the implementation of Parts A and B of the Project in MAI and shall cause MAI to implement Parts A and B of the Project in accordance with the Parts A and B PIP and the Environmental Management Plan. Except as the Association shall otherwise agree, the Borrower may not amend or waive any provision of the Parts A and B PIP or the Environmental Management Plan if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out Parts A and B of the Project or the achievement of the objectives thereof.

2. For the purpose of ensuring the proper coordination and execution of Parts A and B of the Project, the Borrower shall maintain the Steering Committee, with membership and terms of reference satisfactory to the Association. The functions of said Steering Committee shall include, inter alia: (i) overall supervision of the implementation of Parts A and B of the Project; (ii) review and approval of the annual work programs budgets and reports for the operation of the PSU; and (iii) review of auditor’s reports.

3. For the purpose of ensuring the proper supervision of the execution of Parts A and B of the Project, the Borrower shall maintain the PSU throughout the Project’s implementation with organization, staffing and terms of reference satisfactory to the Association. The PSU shall be responsible for supervising all procurement, financial management and monitoring and evaluation of Parts A and B of the Project.

B. Progress Reports and Mid-Term Review

1. The Borrower shall:

   (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of Parts A and B 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, on or about June 30, 2009, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of Parts A and B 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 Parts A and B 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, 2009, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of Parts A and B 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.