Financing Agreement

(Additional Financing for the Third Public Works Project)

between

REPUBLIC OF YEMEN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 1, 2008
FINANCING AGREEMENT

Agreement dated July 1, 2008, entered into between REPUBLIC OF YEMEN ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). The Recipient and the Association hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions.

ARTICLE II - FINANCING

2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to eighteen million eight hundred thousand Special Drawing Rights (SDR 18,800,000) (variously, "Credit" and "Financing") to assist in financing the project described in Schedule 1 to this Agreement ("Project").

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement. The Recipient’s Representative for purposes of taking any action required or permitted to be taken pursuant to this Section is the Minister of Planning and International Cooperation.

2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

2.05. The Payment Dates are June 15 and December 15 in each year.
2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

2.07. The Payment Currency is the United States dollars.

**ARTICLE III - PROJECT**

3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of Article IV of the General Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

**ARTICLE IV - TERMINATION**

4.01. The Effectiveness Deadline is the date one hundred twenty (120) days after the date of this Agreement.

**ARTICLE V - REPRESENTATIVE; ADDRESSES**

5.01. The Recipient’s Representative is Minister of Planning and International Cooperation.

5.02. The Recipient’s Address is:

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

Facsimile:

9671 250 665  
9671 250 605
5.03. The Association’s Address is:

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

Cable: Telex: Facsimile:
INDEVAS 248423 (MCI) 1-202-477-6391
Washington, D.C.

AGREED at Washington, District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF YEMEN

By /s/ Abdulwahab Abdulla Al-Hajjri

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Daniela Gressani

Authorized Representative
SCHEDULE 1

Project Description

The objectives of the Project are to assist the Recipient in providing needed infrastructure to improve services and environmental conditions affecting in particular women and children and creating short term employment.

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

Part A: Community Infrastructure

Carrying out of Subprojects in selected rural and urban areas to construct, upgrade, rehabilitate and maintain community infrastructure, including:

(i) rural and urban water supply and sanitation systems;
(ii) storm drainage, flood protection and water harvesting systems;
(iii) rural roads and sidewalks;
(iv) health centers;
(v) vocational training facilities; and
(vi) schools and furniture thereof.

Part B: Technical Assistance

1. Provision of technical assistance to design and implement a program aimed at ensuring the sustainability of Part A of the Project, including: (a) support to concerned local communities and governments in the preparation of proposals to adequately identify Subprojects for financing; (b) preparation of feasibility studies, engineering design and tender documentation for Subproject proposal; (c) supervision of construction during Subproject execution; (d) benefit assessment surveys; (e) support for auditing of the PMU; (f) training and workshops in the area of Project implementation for consulting firms, contractors and non-governmental organizations; (g) training of local communities and beneficiaries in operations and maintenance of infrastructure; (h) preparation of environmental assessments and design of mitigation measures and monitoring systems thereof; and (i) other technical assistance necessary to improve the Recipient’s capacities in community infrastructure sustainability.
2. No activities will be undertaken within Parts B.2 and B.3 of the Original Project under the Additional Financing.

Part C: Project Management

Implementation of a program designed to strengthen the administrative, financial and technical management capacities of the PMU and thereby further improve the selection, appraisal, supervision and post-evaluation of Subprojects and the overall positive impact of the Project, including training of PMU staff and provision of office equipment and vehicles.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall carry out the Project through the Steering Committee and the PMU in accordance with the Manual of Procedures, as such Manual may be updated from time to time by agreement between the Recipient and the Association.

2. For the purpose of ensuring the proper coordination and execution of the Project, the Recipient shall maintain the Steering Committee throughout Project implementation, with membership and terms of reference satisfactory to the Association. The functions of said Steering Committee shall include, inter alia: (a) approval of Subproject selection criteria, Staff Service Rules, and the Manual of Procedures; (b) entering into and termination of contracts for senior PMU staff and reviewing the performance of the PMU staff; (c) determination of remuneration for PMU staff; (d) review and approval of annual budgets for operation of the PMU, and of quarterly Investment Programs; (e) review of quarterly audit reports and quarterly and annual progress reports; (f) approval of contracts for the provision of goods and the carrying out of civil works with a value of US$200,000 or more prior to conclusion thereof by the PMU; (g) appointment and termination of internal auditors for ensuring adequate internal controls; and (h) appointment and termination of external auditors for preparing Project quarterly audit reports.

3. For the purpose of ensuring the proper supervision of the execution of the Project, the Recipient shall maintain the PMU throughout Project implementation with organization, staffing and terms of reference satisfactory to the Association. The Recipient shall ensure that the PMU shall: (a) provide assistance to local governments in preparing priority investment programs, including Subprojects based on established selection criteria set forth in the Manual of Procedures; (b) appoint consultants and non-governmental organizations for specific assignments, including engineering and construction supervision, and for works involving community participation; (c) enter into contracts for goods and civil works with a value of less than US$200,000; (d) carry out annual monitoring and evaluation reviews, with adjustments to be made in work approach and procedures on the basis of experience gained; (e) coordinate with governmental and non-governmental authorities and financing agencies; (f) revise and update the Staff Service Rules and the Manual of Procedures as needed; (g) enter into and terminate contracts with PMU support staff; and (h) build the capacity of
local consulting and construction firms and non-governmental organizations, and enhance community participation.

4. For purposes of Part A of the Project, the Recipient shall, from time to time:

(a) propose to the Association, for its review and approval, the financing out of the proceeds of the Credit of other activities that have a high labor content and positive impacts on the Recipient’s economy, social development, education, health and environment; and

(b) upon the Association's approval of any such proposal, the Recipient, through the PMU, shall arrange for the identification and appraisal of the corresponding Subprojects, to be submitted for the Association's approval as provided in paragraph A.4(a) of this Section.

5. (a) The Recipient shall enter into agreements satisfactory to the Association with governmental organizations (including any local government agency of the Recipient), non-governmental organizations, community organizations, or private firms that are selected for the purposes of carrying out Subprojects, providing, inter alia, for: (i) the institutional and operational arrangements to be undertaken for the preparation of the Subprojects; (ii) their obligation to carry out the Subprojects with due diligence and efficiency and in accordance with appropriate managerial, administrative, engineering, procurement, environmental and financial practices; and (iii) the establishment and maintenance of separate records and accounts adequate to reflect, in accordance with sound accounting practices, the operation, resources and expenditures in respect of each Subproject.

(b) Except as the Association shall otherwise agree, the Recipient shall not amend or fail to enforce the provisions of the agreements referred to in sub-paragraph (a) of this paragraph.

B. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Safeguards

1. The Recipient shall: (i) carry out the EMP in a manner designed to ensure that the Project is implemented in accordance with sound environmental practices and standards; and (ii) maintain policies and procedures adequate to enable the Recipient to monitor and evaluate, on an on-going basis, in accordance with
guidelines acceptable to the Association, the implementation of the EMP and the achievement of the objectives thereof.

2. The Recipient shall ensure that any land or right of way required for the carrying out of Subprojects shall not involve the involuntary acquisition of land or involuntary resettlement of occupants or owners of such land or displacement of their economic activities; and that such land shall be provided in a voluntary manner pursuant to a memorandum of understanding satisfactory to the Association, between the owner/occupant of such land and the Recipient.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the Association not later than one month after the end of the period covered by such report.

2. For purposes of Section 4.08(c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than September 30, 2011.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Report not later than forty five (45) days after the end of each calendar quarter, interim financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.
Section III  Procurement

A. General

1. Goods and Works. All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. Consultants’ Services. All consultants’ services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

3. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. Other Methods of Procurement of Goods and Works. The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding</td>
</tr>
<tr>
<td>(b) Shopping</td>
</tr>
<tr>
<td>(c) Small Works with Community Participation</td>
</tr>
</tbody>
</table>

The procedures to be followed for National Competitive Bidding under this paragraph shall be those set forth in Law No. 23 for 2007, concerning Government Tenders, Auctions and Stores, and its Regulations, subject to the following additional procedures:
(i) a Recipient-owned enterprise in the Republic of Yemen shall be eligible to bid only if it can establish that it is legally and financially autonomous, operates under commercial law, and is not a dependent agency of the Recipient;

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

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

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

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

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

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

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

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

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

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

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

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

(xiv) price adjustment provisions may be included in contracts for works with a duration of more than eighteen (18) months;

(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.

C. Particular Methods of Procurement of Consultants’ Services

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. Other Methods of Procurement of Consultants’ Services. The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.
Procurement Method

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>Selection Based on the Consultants’ Qualifications</td>
</tr>
<tr>
<td>(b)</td>
<td>Single-Source Selection</td>
</tr>
<tr>
<td>(c)</td>
<td>Individual Consultants</td>
</tr>
</tbody>
</table>

D. Review by the Association of Procurement Decisions

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

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works</td>
<td>16,020,000</td>
<td>85%</td>
</tr>
<tr>
<td>(2) Goods</td>
<td>760,000</td>
<td>100% of foreign expenditures; 100% of local expenditures (ex-factory costs) 85% of other items procured locally</td>
</tr>
<tr>
<td>Category</td>
<td>Amount of the Credit Allocated (expressed in SDR)</td>
<td>Percentage of Expenditures to be Financed (inclusive of Taxes)</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>--------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>(3) Consultants’ services including audit and training</td>
<td>1,170,000</td>
<td>90% for consulting firms, 87% for individual consultants and 100% for training</td>
</tr>
<tr>
<td>(4) Incremental Operating Costs</td>
<td>810,000</td>
<td>85%</td>
</tr>
<tr>
<td>(5) Unallocated</td>
<td>40,000</td>
<td></td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>18,800,000</td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this Schedule, the term “Incremental Operating Costs” means expenditures under Part C of the Project incurred by the Recipient to finance the staffing and functioning costs of the PMU, office rent, office supplies, fuel and maintenance of vehicles; travel costs and per diem, excluding salaries of officials of the Recipient’s civil service.

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.

2. The Closing Date is June 30, 2011.
SCHEDULE 3

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each June 15 and December 15:</td>
<td></td>
</tr>
<tr>
<td>commencing June 15, 2018 to and including December 15, 2027</td>
<td>1%</td>
</tr>
<tr>
<td>commencing June 15, 2028 to and including December 15, 2047</td>
<td>2%</td>
</tr>
</tbody>
</table>

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.
APPENDIX

Definitions


2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


4. “Environmental Management Plan” and “EMP” mean the Recipient’s environmental management plan dated November 19, 2003, aimed at assuring: (i) the adequate development of a screening process to identify any potential negative environmental impact under the Project and undertake mitigation measures to reduce any such impacts; (ii) the implementation of a practical monitoring program to determine the effectiveness and timeliness of said interventions; and (iii) the carrying out of effective capacity building and training activities so as to improve environmental awareness and sensitivity among Project staff, counterpart agencies and beneficiaries, as such plan may be updated from time to time by agreement between the Recipient and the Association.

5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).

6. “Investment Program” means a quarterly investment program consisting of Subprojects (as hereinafter defined) identified and appraised in accordance with the Manual of Procedures (as hereinafter defined) and referred to in paragraph 1 of Schedule 2 to this Agreement.

7. “Manual of Procedures” means the manual of the PMU (as hereinafter defined) dated January 26, 2004, specifying the managerial, financial, administrative, engineering, procurement, environmental and social policies and procedures for the execution of the Project and the eligibility criteria for selection of Subprojects (as hereinafter defined).

8. “PMU” means the Project management unit to be maintained in accordance with the provisions of Section I.A.3 of Schedule 2 to this Agreement.
9. “Original Financing Agreement” means the development credit agreement for a Third Public Works Project between the Recipient and the Association, dated April 23, 2004, as amended to the date of this Agreement (Credit No. 3859-YEM).

10. “Original Project” means the Project described in the Original Financing Agreement.


12. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated February 5, 2008, 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.

13. “Staff Service Rules” means the rules issued by the Steering Committee (as hereinafter defined) dated July 14, 1996, specifying the employment and personnel policies of the PMU, as such rules may be updated from time to time by agreement between the Recipient and the Association.

14. “Steering Committee” means the Committee established and operating pursuant to the Recipient’s Decree No. 3 of 1996, and referred to in paragraph 2 of Schedule 2 to this Agreement.

15. “Subproject” means a specific development activity to be carried out under Part A of the Project utilizing the proceeds of the Credit.