RESTRUCTURING PAPER

ON A

PROPOSED RESTRUCTURING

OF

IDA Grant H635-RY Public Finance Modernization Project

TO THE

REPUBLIC OF YEMEN

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BACKGROUND

The World Bank portfolio in Yemen consists of 21 active IDA projects for a total net commitment of US$883 million and US$541 million undisbursed balances (including three projects delivered in FY11 for US$117 m). The trust fund portfolio includes 19 projects with total net grant amount/commitments of US$136 million, of which US$81 million has been disbursed.

Yemen portfolio performance was comparable to other IDA countries until the onset of the current political turmoil that prompted Bank management to suspend disbursements on July 28, 2011, across the portfolio except for six projects, where the withdrawal applications will be paid for salaries and operating expenses under the augmented fiduciary arrangements. While disbursements remain suspended for the rest of the portfolio, including the Public Finance Modernization Project, the task team continues to conduct project level technical dialogue with the implementing staff (both staff of the Project Management Unit and civil servants involved in project implementation) as much as the current conditions in the country allow. In consultation with the Country Management Unit, reverse supervision missions have been carried out for about four projects outside the country. The Public Finance Modernization Project has been able to operate under the complex country environment, and it is important for its task team to continue to provide support. As such, it was agreed that the task team may conduct reverse supervision missions subject to approval of the Country and Sector Management, for a limited number of critical projects and on an exceptional basis.

A review of the legal agreement indicates that it does not allow for the financing of international travel for either supervision or training. The project does not provide for such expenditures under the definition of “Incremental Operating Costs”, or under “Training”, which could render the related expenditures ineligible. For that reason, the Recipient has requested in discussions with the Bank, the possibility of amending the legal agreement to enable the financing of such expenses. The task team supports the request and elevated the request to Bank management, whereby a decision was agreed upon to amend the Financing Agreement of Public Finance Modernization Project (IDA Grant H635-RY). The Bank task team has the responsibility to conduct prior review of all such travel expenses, as the Association and Republic of Yemen have previously agreed on reasonable rates of compensation for travel and per diem. In this regard, consideration will be given to this agreement when assessing whether the proposed travel costs are reasonable.

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1 The following PIUs are authorized to receive payments in their Designated Accounts for payments of salaries and operating costs: (1) Rural Access Project (IDA H543-RY; IDA 4121-YEM); (2) Third Public Works Project (IDA 4419-YEM and IDA3859-YEM); (3) Basic Education Development Project (IDA 3988-YEM/TF053721); (4) Water Sector Support (IDA H449-RY); (5) Social Fund for Development Project –IV); and (6) Social Welfare Fund Fund Project Institutional Support Project (IDA H570-RY/TF098403).
As the Project Development Objectives (PDOs) of the project will not change and there is no change to the safeguards categories as a result, this would be a second order restructuring.

PROPOSED CHANGES

The Financing Agreement would be amended as follows:

1. The definition of “Incremental Operating Costs” in Section IVA.2.a of Schedule 2 of the Financing Agreement for the Public Finance Modernization Project would be amended as follows:

   “Incremental Operating Costs” means the reasonable cost of expenditures incurred on account of Project implementation, management and monitoring, including utility charges, maintenance and insurance of vehicle, fuel, office supplies, office rental, banking charges, communication and translation services, advertising, consumables, mailing and shipping costs, travel costs, per diem, audit costs and salaries and labor costs but excluding salaries of officials of the Recipient and the purchase of vehicles.”

2. The definition of “Training” in Section IVA.2.b of Schedule 2 of the Financing Agreement for the Public Finance Modernization Project would be amended as follows:

   “Training” means Project related study tours, training courses, seminars, workshops and other training activities which are not included under goods or service providers’ contracts, including reasonable costs of training materials, space and equipment rental, travel cost, per diem, costs of trainees, trainers’ fees, and interpretation and translation services.”

IMPLEMENTATION OF THE PROPOSED CHANGES

The task team is expected to implement the proposed changes in accordance with the following disbursement guidance and to communicate the same to the implementing staff of the PMU and the Government of Yemen.

1. The financing of international travel for either supervision or training of the implementing staff from the PMU and government staff involved in project implementation would be paid out of any balances from the advances to the Designated Account. When funds in the Designated Accounts are not sufficient, the Borrower may pre-finance these expenditures from its own resources and may request reimbursement once the suspension is lifted.

2. Such expenditures would not qualify for direct payment since these expenses are not within the exception specified in the Guidance Note issued on August 15, 2011, and would be carried out beyond 60 days after the suspension date of July 28, 2011.

3. The financing of these expenditures would be considered eligible only from the date of countersignature of the amendment.