CONFORMED COPY

August 22, 2010

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: Republic of Yemen: Strategic Climate Fund Trust Fund: Preparation of a Strategic Pilot Program for Climate Resilience Project, Grant No. TF097544

Excellency:

In response to the request for financial assistance made on behalf of Republic of Yemen (“Recipient”), I am pleased to inform you that the International Bank for Reconstruction and Development/ (“World Bank”), acting as the implementing agency of the Pilot Program for Climate Resilience (PPCR) under the Strategic Climate Fund Trust Fund (SCFTF), proposes to extend to the Recipient a grant in an amount not to exceed one million five hundred thousand United States Dollars (U.S.$1,500,000) (“Grant”) on the terms and conditions set forth or referred to in this letter agreement (“Agreement”), which includes the attached Annex, to assist in the financing of the project described in the Annex (“Project”). This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the Recipient may withdraw the Grant proceeds subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01 of the Annex to this Agreement; provided, however, that the offer of this Agreement shall be deemed withdrawn if
the World Bank has not received the countersigned copy of this Agreement within ninety (90)
after the date of signature of this Agreement by the World Bank, unless the World Bank shall
have established a later date for such purpose.

Very truly yours,

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

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

AGREED:
REPUBLIC OF YEMEN

By /s/ Abdulkarim I. Al-Arhabi
Authorized Representative

Title: Deputy Prime Minister for Economic Affairs,
Minister of Planning and International Cooperation

Date: September 4, 2010

Enclosures:

(1) Standard Conditions for Grants Made by the World Bank Out of Various Funds,
dated July 31, 2010
(2) Disbursement Letter dated August 22, 2010, together with World Bank
Disbursement Guidelines for Projects, dated May 1, 2006
Article I

Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated July 31, 2010 (“Standard Conditions”), constitute an integral part of this Agreement.

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

(a) “Strategic Program for Climate Resilience” means the aggregate of strategies, policies, programs, and projects identified for financing under next phase of the pilot program for climate resilience and which have incorporated climate resilience as a major part of their implementation.
(b) “EPA” means the Environmental Protection Agency, established under the Ministry of Water and Environment of the Recipient, by Decree No. 105, dated May 11, 2005, which functions as the technical secretariat for the IMCCC and is the designated authority for climate change, and includes any successor or successors thereto.
(c) “FM Manual” or “Financial Management Manual” means the manual, to be adopted by the Recipient pursuant to Section 5.01(c) of this Agreement, setting forth the financial procedures including the internal control measures for the flow of funds for the Project, as the same may be amended and supplemented from time to time with the World Bank’s prior written approval.
(d) “IMCCC” means the Recipient’s Inter-Ministerial Committee for Climate Change Coordination, established by a decision of cabinet, dated November 10, 2009, chaired by the Deputy Prime Minister and Minister of Planning and International Cooperation of the Recipient and including representatives from the Ministry of Planning and International Cooperation, the Ministry of Water and the Environment, the Ministry of Agriculture and Irrigation, the Ministry of Transport, the Ministry of Telecommunications, the Ministry of Local Administration and the EPA and includes any successor or successors thereto.
(e) “PCU” means the program coordination unit in the EPA, to be established by the Recipient pursuant to Section 5.01(b) of this Agreement, and which shall include, at a minimum: (i) a project manager; (ii) a finance officer; (iii) a procurement officer; (iv) two accountants; (v) and other technical and administrative staff as required.
(f) “Working Group” means the ad hoc group of technical experts drawn from key agencies in the IMCCC, and including other stakeholders as required from time to time, responsible for enhancing opportunities of coordination, capacity building and priority setting under the Project.

Article II

Project Execution

2.01. **Project Objectives and Description.** The objectives of the Project are to assist the Recipient in the formulation of a Strategic Program for Climate Resilience and identification of priority investments for funding under the second phase of the pilot program for climate resilience. The Project consists of the following parts:
Part A. Climate Change Information Systems and Awareness Raising

Carrying out a program of activities aimed at developing a coordinated and effective climate change information system, including establishing a shared national mechanism for climate information management and enhancement of the awareness of the key policy makers, legislators, private sector representatives, nongovernmental organizations and civil society groups, traditional community leaders, the media and academia on the importance of climate change adaptation in the development process, through the provision of consultants’ services, goods, training and incremental operating costs.

Part B. Mainstreaming Climate Resilience into National Development Planning

Carrying out a program of activities aimed at supporting the mainstreaming of climate resilience into the Recipient’s national and sectoral development plans, programs, guidelines and policies, including building capacity of key government planners in climate resilience and other risks, and development of a strategy for the integration of climate and risk issues in curricula and non-curricula activities through the provision of consultants’ services, goods, training, and incremental operating costs.

Part C. Formulation of a Strategic Program for Climate Resilience and Identification of Phase II Interventions

Carrying out a program of activities aimed at formulating a Strategic Program for Climate Resilience and identifying priority pilot interventions for the next phase of the PCCR through the provision of consultants’ services, goods, training, and incremental operating costs.

Part D. PPCR Program Coordination

Provision of consultants’ services, goods, training and incremental operating costs to build the capacity of the EPA and to support implementation and management of the Project.

2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through the EPA in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 (“Anti-Corruption Guidelines”), with the modifications set forth in the Appendix to this Agreement; and (c) this Article II.

2.03. Institutional and Other Arrangements. (a) The IMCCC shall provide overall strategic direction and policy guidance for the Project.

(b) The Recipient shall carry out the Project, through the PCU, and with the assistance of the Working Group, in accordance with the requirements, criteria, organizational arrangements and operational procedures set forth in the strategic environmental and social assessment (SESA) and the FM Manual, and shall not assign, amend, abrogate or waive any provisions of the SESA or the FM Manual, without prior approval of the World Bank.
(c) At all times during the implementation of the Project, the Recipient shall maintain the PCU and the IMCCC, both with terms of reference and resources satisfactory to the World Bank, and with competent staff in adequate numbers.

(d) (i) The Recipient shall, by not later than July 31, 2011, undertake a SESA under terms of reference satisfactory to the World Bank which, among other objectives, will: (A) identify, predict and evaluate the potential environmental and social sustainability impacts resulting from the mainstreaming of the Strategic Program for Climate Resilience; and (B) identify and recommend measures for monitoring and mitigating such impacts; and (ii) The Recipient shall ensure that such SESA shall be disclosed in-country and in the World Bank’s Infoshop within ninety (90) days of its completion.

(e) Not later than two months after Effectiveness, the Recipient shall purchase and install an automated accounting system, satisfactory to the World Bank.

2.04. Donor Visibility and Visit. (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Strategic Climate Trust Fund Donor’s support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, enable the representatives of the Donor(s) to visit any part of the Recipient’s territory for purposes related to the Project.

2.05. Project Monitoring, Reporting and Evaluation. (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators acceptable to the World Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than forty five (45) days after the end of the period covered by such report.

(b) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six months after the Closing Date.

2.06. Financial Management. (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank as part of the Project Report not later than forty five (45) days after the end of each calendar semester, covering the semester, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such 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 World Bank not later than four (4) months after the end of such period.
2.07. **Procurement**

(a) **General.** All goods and services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Procurement Guidelines”), in the case of goods; and

(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Consultant Guidelines”) in the case of consultants’ services; and

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines (“Procurement Plan”).

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

(c) **Particular Methods of Procurement of Goods**

(i) Except as otherwise provided in sub-paragraph (ii) below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.

(ii) The following methods, other than International Competitive Bidding, may be used for procurement of goods for those contracts specified in the Procurement Plan: (A) Shopping; (B) Direct Contracting; and (C) National Competitive Bidding, subject to the following additional provision: 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:

a. 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;

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

d. 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;

e. until national standard bidding documents acceptable to the World Bank are available, bidding documents approved by the World Bank shall be used, and may be prepared in Arabic;

f. 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;

g. 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;

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

i. 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;

j. 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);

k. 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;

l. post-bidding negotiations with the lowest or any other bidder shall not be permitted;

m. 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;

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

p. and each contract financed from the proceeds of the Grant shall provide that the contractor or supplier shall permit the World Bank, 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 World Bank

(d) Particular Methods of Procurement of Consultants’ Services

(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods may be used for the procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (A) Selection under a Fixed Budget; (B) Least Cost Selection; (C) Selection based on Consultants’ Qualifications; and (D) Single-source Selection.

(e) Review by the World Bank of Procurement Decisions. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.

Article III
Withdrawal of Grant Proceeds

3.01. Eligible Expenditures. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may 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 World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Consultants’ Services, Goods, Training and Incremental Operating Costs under the Project</td>
<td>1,500,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>1,500,000</td>
<td></td>
</tr>
</tbody>
</table>
For the purposes of this Section 3.01:

(a) the term “Incremental Operating Costs” means reasonable expenditures incurred for the implementation of the Project including on account of utility charges, transportation, maintenance and insurance of vehicles, fuel, office supplies, banking charges, communication services, advertising, and local travel costs and \textit{per diem} but excluding salaries of officials of the Recipient’s civil service and the purchase of vehicles; and

(b) “Training” means Project related study tours, training courses, seminars, workshops and other training activities, not included under goods or service providers’ contracts, including costs of training materials, space and equipment rental, local travel, \textit{per diem} costs of trainees, trainers and trainers’ fees, and interpretation and translation services.

3.02. \textit{Withdrawal Conditions.} Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of this Agreement.

3.03. \textit{Withdrawal Period.} The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is August 31, 2012.

\textbf{Article IV}

\textbf{Additional Remedies}

4.01. \textit{Additional Events of Suspension.} The Additional Event of Suspension referred to in Section 4.02 (k) of the Standard Conditions consists of the following: the World Bank has determined, after the Effective Date referred to in Section 5.02 of this Agreement, that prior to such date but after the date of this Agreement, an event has occurred which would have entitled the World Bank to suspend the Recipient's right to make withdrawals from the Grant Account if this Agreement had been effective on the date such event occurred.

\textbf{Article V}

\textbf{Effectiveness}

5.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the following conditions have been satisfied:

(a) the execution and delivery of this Agreement on behalf of the Recipient;

(b) the Recipient has established the PCU with a composition, resources and terms of reference satisfactory to the World Bank, including the assignment of two EPA accountants to the Project; and

(c) the Recipient has adopted a Financial Management Manual, satisfactory to the World Bank.
5.02. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01 (“Effective Date”). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

**Article VI**

**Recipient’s Representative; Addresses**

6.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Planning and International Cooperation.

6.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

   Ministry of Planning and International Cooperation  
   PO Box 175  
   Sana’a, Republic of Yemen

   Facsimile:  
   967-1-250-665

6.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

   International Bank for Reconstruction and Development  
   1818 H Street, N.W.  
   Washington, D.C. 20433  
   United States of America

   Cable: INTBAFRAD  
   Telex: 248423 (MCI) or 64145 (MCI)  
   Facsimile: 1-202-477-6391
APPENDIX
Modifications to the Anti-Corruption Guidelines

The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

“…(b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

2. Section 11(a) is modified to read as follows:

“(a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn 13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are
not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”