Project Agreement

(Rainfed Agriculture and Livestock Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

SOCIAL FUND FOR DEVELOPMENT

Dated September 11, 2006
PROJECT AGREEMENT

AGREEMENT dated September 11, 2006, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and the SOCIAL FUND FOR DEVELOPMENT (SFD).

WHEREAS (A) by the Development Credit Agreement of even date herewith between REPUBLIC OF YEMEN (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to fourteen million Special Drawing Rights (SDR14,000,000), on the terms and conditions set forth in the Development Credit Agreement, but only on conditions that SFD agree to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by a subsidiary grant agreement to be entered into between the Borrower and SFD, part of the proceeds of the credit provided for under the Development Credit Agreement will be made available to SFD for carrying out Part C of the Project on the terms and conditions set forth in said Subsidiary Grant Agreement; and

WHEREAS SFD, in consideration of the Association’s entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I
Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II
Execution of Part C of the Project

Section 2.01. (a) SFD declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out Part C of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and environmental practices, and shall
provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Part C of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and SFD shall otherwise agree, SFD shall carry out Part C of the Project in accordance with the Implementation Program set forth in Schedule 1 to this Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works and services required for Part C of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to the Development Credit Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) SFD 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 2.03. SFD shall carry out 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 the Project Agreement and Part C of the Project.

Section 2.04. SFD shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Association shall otherwise agree, SFD shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Grant Agreement or any provision thereof.

Section 2.05. (a) SFD shall, at the request of the Association, exchange views with the Association with regard to the progress of Part C of the Project, the performance of its obligations under this Agreement and under the Subsidiary Grant Agreement and other matters relating to the purposes of the Credit.

(b) SFD shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of Part C of the Project, the accomplishment of the purposes of the Credit, or the performance by SFD of its obligations under this Agreement and under the Subsidiary Grant Agreement.
ARTICLE III

Management and Operations of SFD

Section 3.01. SFD shall carry on its operations and conduct its affairs in accordance with sound administrative, financial and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. SFD shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and environmental practices.

Section 3.03. SFD shall take out and maintain with responsible insurers, or make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) SFD 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 its operations and financial condition and to register separately the operations, resources and expenditures related to Part C of the Project.

(b) SFD shall:

(i) have its financial statements (balance sheets, statements of income and expenses and related statements) 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 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 such 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.

Section 4.02. (a) Without limitation upon SFD’s reporting obligations set out in Schedule 1 to this Agreement, SFD 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 Part C 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 Part C 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 Part C 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 Part C of 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 the period not covered by the previous FMR until the end of such calendar quarter.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.
Section 5.02. (a) This Agreement and all obligations of the Association and of SFD thereunder shall terminate on the earlier of the following two dates:

(i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or

(ii) the date twenty (20) years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a)(ii) of this Section, the Association shall promptly notify SFD of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telex or facsimile to the party to which it is required or permitted to be given or made at such party’s address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:

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)
Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of SFD may be taken or executed by SFD or such other person or persons as SFD shall designate in writing, and SFD shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.
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.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Inger Andersen
Acting Regional Vice President
Middle East and North Africa

SOCIAL FUND FOR DEVELOPMENT

By /s/ Abdulwahab A. Al-Hajjri
Authorized Representative
SCHEDULE 1

Implementation Program

1. SFD shall carry out Part C of the Project and ensure that any PRP Grant under Part C of the Project shall be made, in accordance with the requirements and other details set forth in the Part C PIP, the Operations Manual and the Manual of Procedures for PRP Grants and in conformity with the Association’s social and environmental safeguard policies as specified in the EMP. Except as the Association shall otherwise agree, SFD may not amend or waive any provision of the Part C 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 Part C of the Project or the achievement of the objectives thereof.

2. SFD 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 Part C 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 Part C 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 Part C 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 Part C 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.