

Public Disclosure Authorized

CONFIRMED COPY

TRUST FUND GRANT NUMBER TF023307-YEM

Grant Agreement

(Commercial Debt Reduction Program)

between

REPUBLIC OF YEMEN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

as Trustee of

the Debt Reduction Facility
for IDA-Only Countries

Dated December 1, 1999

GRANT AGREEMENT

This AGREEMENT, dated December 1, 1999 is entered into between REPUBLIC OF YEMEN (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) acting as trustee of the Debt Reduction Facility for IDA-Only Countries (the Facility).

WHEREAS (A) pursuant to Resolutions No. 89-13 and No. IDA 89-4 of the Executive Directors of the International Bank for Reconstruction and Development and the Association, respectively, as amended, the Facility has been established and is being administered by the Association as a trust to provide grants to assist in the reduction of the commercial debt of certain members of the Association;

WHEREAS (B) the Recipient has established a medium-term adjustment program, as described in the Policy Framework Paper dated March 5, 1999, that is acceptable to the Association;

WHEREAS (C) the Recipient has formulated a debt management strategy satisfactory to the Association that, inter alia (i) includes a program, to be financed under this Agreement, for resolving the commercial debt problem of the Recipient in a comprehensive manner based on funds to be provided by the Facility and other available resources (the Debt Reduction Program); and (ii) will materially enhance the Recipient's growth and development prospects; and

WHEREAS (D) on the basis of the foregoing, the Recipient has requested and the Association has agreed to make available to the Recipient a grant out of the funds of the Facility to assist the Recipient in implementing the Debt Reduction Program on the terms and conditions hereinafter set forth;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Central Bank of Yemen" means the Recipient's central bank acting, for the purposes of the Debt Reduction Program, on behalf of the Recipient, acting for itself,

and all of the Related Obligors (as defined below) under the terms of the Invitation to Creditors and the Paying Agent Agreement (both as defined below);

(b) "Closing Agent" means Public Resources International – PRI, the agent appointed by the Recipient in the Invitation to Creditors (as defined below) with the functions set forth therein in respect of each Eligible Debt Offer (as defined below);

(c) "Creditor" means each of the persons claiming to be a holder of Eligible Debt (as defined below) and to have full legal and beneficial ownership and title thereto, whose Eligible Debt Offer or Offers (as defined below) is or are included in the description attached to a request for withdrawal from the Recipient referred to in paragraph 1(d)(i) of the Schedule to this Agreement and to whom a payment will be made by or on behalf of the Recipient to settle the corresponding Eligible Debt Agreement (as defined below);

(d) "Dollars" and the sign "\$" mean the lawful currency of the United States of America;

(e) "Dollar Equivalent" means in relation to any sum denominated in a currency other than Dollars, the equivalent thereof in Dollars calculated at the Applicable Exchange Rate (as that expression is defined in the Invitation to Creditors) for such currency;

(f) "Eligible Debt" means any claim defined as "Eligible Debt" in the Invitation to Creditors (as defined below);

(g) "Eligible Debt Acceptance" means the letter or facsimile, substantially in the form of Part 9 of the Invitation to Creditors (as defined below) to be sent by the Closing Agent on behalf of the Central Bank of Yemen to the relevant Creditor, accepting, in whole or in part, one or more Eligible Debt Offers;

(h) "Eligible Debt Agreement" means each of the agreements resulting from the issuance of an Eligible Debt Acceptance (as defined above) in response to an Eligible Debt Offer (as defined below) made by the corresponding Creditor in accordance with the terms and conditions of the Invitation to Creditors (as defined below);

(i) "Eligible Debt Offer" means each of the irrevocable and unconditional offers by a Creditor to sell all of its Eligible Debt to the Central Bank of Yemen pursuant to an Offering Communication (as defined below) submitted in response to, and in accordance with the terms of, the Invitation to Creditors (as defined below);

(j) "Eligible Debt Purchase" means the purchase by the Recipient of one or more Eligible Debts pursuant to an Eligible Debt Agreement;

- (k) "Grant" means the grant referred to in Section 2.01 of this Agreement;
- (l) "Grant Account" means the account opened by the Association on its books in the name of the Recipient to which the amount of the Grant is credited;
- (m) "Identified Eligible Debt" means the Eligible Debt set forth in a Schedule of Eligible Debt dated September 8, 1998, submitted by the Recipient to the Association, and in form and substance satisfactory to the Association;
- (n) "Invitation to Creditors" means the invitation, issued by the Recipient, through the Central Bank of Yemen, to Creditors to submit Eligible Debt Offers to settle their respective claims, on the terms and conditions accepted by the Association in accordance with paragraph (a) of Section 5.01 of this Agreement;
- (o) "Offering Communication" means the letter or facsimile, substantially in the form of Part 7, including Schedule 1 thereto, of the Invitation to Creditors (as defined below) to be sent by each Creditor in accordance with the terms of said Invitation to Creditors;
- (p) "Paying Agent Agreement" means the certain agreement among the Central Bank of Yemen, the Recipient and Chase Manhattan Bank as paying agent for the Central Bank of Yemen, and the Closing Agent in connection with the holding of the proceeds of the Grant, together with any investment income and proceeds thereof, in trust, prior to the distribution thereof for the purposes set forth in Section 3.02 of this Agreement, as accepted by the Association for purposes of compliance with the condition of effectiveness stipulated in paragraph (a) of Section 5.01 of this Agreement;
- (q) "Person" shall include any individual, company, corporation, firm, partnership, joint venture, association, organization, institution, trust or agency, whether or not having a separate legal personality;
- (r) "Related Obligors" means, collectively, the former Yemen Arab Republic, the former People's Democratic Republic of Yemen, the Central Bank of Yemen, the former Bank of Yemen, the Yemen Bank for Reconstruction and Development, the Yemen Economic Corporation and the former Military Economic Corporation;
- (s) "Taxes" includes taxes, imposts, levies, fees, charges and duties of any nature, whether in effect at the date of this Agreement or thereafter imposed; and
- (t) "Termination Date" means the date three hundred and sixty (360) days after the date of this Agreement or such later date as may be established by the Association for purposes of paragraph 3 of the Schedule to this Agreement.

ARTICLE II

The Grant

Section 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth in this Agreement, a grant (the Grant) in the amount of Fifteen Million One Hundred Thousand Dollars (US\$15,100,000).

Section 2.02. The amount of the Grant shall be credited to the Grant Account and may be withdrawn therefrom by the Recipient only in accordance with the provisions of the Schedule to this Agreement, as such Schedule may be amended from time to time by agreement between the parties hereto.

Section 2.03. It is the policy of the Association that no Facility funds shall be withdrawn on account of payments for any Taxes levied by, or in the territory of, the Recipient. To that end, the Recipient shall not cause or permit any proceeds of the Grant to be used as payment for such Taxes.

Section 2.04. Neither the Recipient, nor any other person shall have any rights with respect to the Grant, and the Association shall have no obligations with respect thereto except as stated in this Agreement. The Association does not assume any fiduciary obligation to, or relationship of agency or trust for or with, the Recipient or any other person and shall have no obligation or liability, or owe any duty, to the Recipient or to any other person for any action taken or omitted to be taken by it, except for the performance of its express obligations set forth in this Agreement.

Section 2.05. (a) Unless the Association shall otherwise agree, any proceeds of the Grant held or used, following their withdrawal by the Recipient from the Grant Account, other than in accordance with Section 2.02 of, and the Schedule to, this Agreement, shall be immediately refunded by the Recipient to the Association.

(b) Any refund pursuant to paragraph (a) above shall be made in Dollars, under such procedures as the Association shall direct.

ARTICLE III

Execution of the Debt Reduction

Program; Other Covenants

Section 3.01. (a) The Recipient shall carry out the Debt Reduction Program with due diligence and to that end shall exercise its rights and comply, and shall cause the Central Bank of Yemen to exercise its rights and to comply, with its obligations under the Invitation to Creditors and each of the Eligible Debt Agreements, if any, in such a manner as to protect the interests of the Association.

(b) Prior to the entering into and due performance of all Eligible Debt Agreements, the Recipient shall not, and shall cause the Central Bank of Yemen not to, without the prior written consent of the Association, amend, modify, revoke or terminate the Debt Reduction Program or any Eligible Debt Offer, waive any provisions thereof or consent to any such amendment, modification, waiver, revocation or termination, or agree to do so at any future date.

Section 3.02. The Recipient shall ensure that the proceeds of the Grant are used solely for the payment of:

(a) the Offer Price as defined in Part 6 of the Invitation to Creditors for each Eligible Debt Purchase pursuant to the corresponding Eligible Debt Offer, all in accordance with the Invitation to Creditors; and

(b) other expenditures permitted pursuant to the Schedule to this Agreement.

Section 3.03. (a) The Recipient shall maintain or cause to be maintained separate records and accounts adequate to reflect in accordance with sound accounting practices the use of the proceeds of the Grant and all agreements and transactions to which it (directly or through the Central Bank of Yemen) is a party under the Debt Reduction Program.

(b) The Recipient shall:

(i) have the records and accounts referred to in paragraph (a) above audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association, as soon as available, but in any case not later than four (4) months after the Termination Date, a certified copy of the report of such audit by said auditors, of

such scope and in such detail as the Association shall have reasonably requested; and

- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

Section 3.04. (a) The Recipient shall permit and cause the Central Bank of Yemen to permit the Association's representatives to examine all records and documents within their respective possession, power or control relevant to the performance of the Recipient's obligations under this Agreement and the Debt Reduction Program.

(b) Promptly after completion of the Debt Reduction Program, but in any event not later than six (6) months after the Termination Date or such later date as may be agreed for this purpose between the Recipient and the Association, the Recipient shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the carrying out of the Debt Reduction Program, its cost and the benefits derived and to be derived from it, the performance by the Recipient of its obligations under this Agreement, the performance by the Recipient, the Central Bank of Yemen and each Creditor of their respective rights and obligations under the corresponding Eligible Debt Agreements and the accomplishment of the purposes of the Grant.

Section 3.05. The Recipient and the Association shall cooperate fully to ensure that the purposes of the Grant will be accomplished. To that end, the Recipient and the Association shall:

(a) from time to time, at the request of either one of them, exchange views with regard to the progress of the Debt Reduction Program, the purposes of the Grant, and the performance of their respective obligations under this Agreement, and furnish to one another all such information related thereto as is reasonably requested; and

(b) promptly inform each other of any condition which interferes with, or threatens to interfere with, the matters referred to in paragraph (a) above.

ARTICLE IV

Suspension; Cancellation

Section 4.01. (a) If any of the following events shall have occurred and be continuing, the Association may, by notice to the Recipient, suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account:

- (i) the Recipient shall have failed to perform any of its obligations under this Agreement;
- (ii) any representation made, or statement furnished, by the Recipient in connection with this Agreement and intended to be relied upon by the Association in making the Grant shall have been incorrect in any material respect;
- (iii) the Association shall have suspended in whole or in part the right of the Recipient to make withdrawals under any agreement between the Recipient and the Association because of a failure by the Recipient to perform any of its obligations under such agreement;
- (iv) the right of the Recipient to withdraw proceeds of any financing (other than that provided hereunder) provided for the Debt Reduction Program shall have been suspended, canceled or terminated;
- (v) as a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Debt Reduction Program can be carried out in whole or in part or that the Recipient or the Central Bank of Yemen will be able to perform its obligations under or in connection with this Agreement, the Invitation to Creditors or any agreement related to the Debt Reduction Program; or
- (vi) the Recipient shall have been suspended from membership in or ceased to be a member of the Association, or ceased to be a member of the International Monetary Fund.

(b) If the Recipient shall have failed, after the Termination Date, to perform any of its obligations under this Agreement, the Association may, by notice to the Recipient, suspend in whole or in part the right of the Recipient to make withdrawals under any agreement between the Recipient and the Association.

(c) The right of the Recipient to make withdrawals from the Grant Account, or the right of the Recipient to make withdrawals from any credit account opened under any of the development credit agreements between the Recipient and the Association or any grant account opened under any of the grant agreements between the Recipient, or any agency thereof, and the Association shall continue to be suspended until the event or events which gave rise to suspension shall have ceased to exist, unless the Association shall have notified the Recipient that the right to make withdrawals has been restored.

Section 4.02. If: (a) at any time, the Association determines: (i) after consultation with the Recipient, that an amount of the Grant will not be required to finance the Debt Reduction Program pursuant to the terms of this Agreement; or (ii) with respect to any contract to be financed out of the proceeds of the Grant (including the Eligible Debt Agreements), that corrupt or fraudulent practices were engaged in by representatives of the Recipient or the Central Bank of Yemen or a Creditor or other beneficiary of the Grant during the procurement or execution or in connection with the entering into of such contract, without the Recipient or the Central Bank of Yemen having taken timely and appropriate action satisfactory to the Association to remedy the situation, and establishes the amount of expenditures or payments in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Grant; or

(b) after the Termination Date, an amount of the Grant shall remain unwithdrawn from the Grant Account; or

(c) the right of the Recipient to make withdrawals in respect of any amount from either the Grant Account or from any of the credit or grant accounts referred to in Section 4.01(c) above, shall have been suspended for a continuous period of thirty (30) days, then the Association may, by notice to the Recipient, terminate the right of the Recipient to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Grant shall be canceled.

Section 4.03. Notwithstanding any cancellation or suspension under this Article, all the provisions of this Agreement shall continue in full force and effect except as specifically provided in this Article.

ARTICLE V

Effective Date; Termination

Section 5.01. This Agreement shall not become effective unless the following conditions have been fulfilled:

(a) the Invitation to Creditors shall have been issued and the Paying Agent Agreement shall have been executed and delivered, both in form and substance

satisfactory to the Association, and the Association shall have received evidence satisfactory to it establishing that the Invitation to Creditors and the Paying Agent Agreement are in full force and effect and no party thereto has breached any of its obligations thereunder;

(b) the Association shall have received evidence satisfactory to it establishing that the execution and delivery of this Agreement, and the Paying Agent Agreement, the issuance of the Invitation to Creditors and, when entered into, each Eligible Debt Agreement, by the Recipient, and the performance by the Recipient of its obligations thereunder have been duly authorized or ratified by all necessary governmental or corporate action;

(c) the Association shall have received evidence satisfactory to it that the aggregate principal amount of Eligible Debt for which valid Eligible Debt Offers shall have been received pursuant to the Invitation to Creditors by the Closing Agent shall be at least equal to sixty-five per cent (65%) of the Dollar Equivalent of the aggregate principal amount of Identified Eligible Debt; provided that, for this purpose, any Identified Eligible Debt not shown as denominated in Dollars shall be translated into Dollars using the applicable exchange rates set forth in Annex A to the Invitation to Creditors; and

(d) no event shall have occurred since the date of this Agreement which would have entitled the Association to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had become effective on such date.

Section 5.02. As part of the evidence to be furnished pursuant to Section 5.01 of this Agreement, the Recipient shall furnish to the Association an opinion or opinions satisfactory to the Association from legal counsel acceptable to the Association, showing that:

(a) this Agreement has been duly authorized or ratified by, and validly executed and delivered on behalf of the Recipient and is legally binding upon the Recipient in accordance with its terms;

(b) the Paying Agent Agreement has been duly authorized or ratified by, and has been validly executed and delivered on behalf of the Central Bank of Yemen, the Recipient, Chase Manhattan Bank and the Closing Agent, and is legally binding upon the parties thereto, and enforceable in accordance with its terms;

(c) the issuance of the Invitation to Creditors and the entering into of each Eligible Debt Agreement have been duly authorized or ratified by the Recipient and the Central Bank of Yemen in accordance with the laws of the Recipient, and the Recipient and the Central Bank of Yemen have the legal capacity to enter into and to perform their

obligations under all agreements and transactions contemplated by this Agreement and the Invitation to Creditors, and necessary for the Debt Reduction Program;

(d) assuming the due authorization, execution and delivery of the Eligible Debt Offers by the Creditors parties thereto, each of the Eligible Debt Agreements is a legally valid agreement binding upon the parties thereto, and enforceable in accordance with its terms;

(e) the issuance by the Recipient of the Invitation to Creditors, its entering into of each of the Eligible Debt Agreements and the performance of its obligations and the exercise of its rights thereunder, do not and will not conflict with or result in breach of: (i) the terms or provisions of, or constitute a default under, any agreement or instrument to which the Recipient or the Central Bank of Yemen is a party; or (ii) any law or statute, or any order or regulation applicable to the Recipient or the Central Bank of Yemen of any court, government agency, authority or body or arbitrator having jurisdiction over the Recipient or the Central Bank of Yemen; and

(f) the performance by the Recipient or the Central Bank of Yemen of their respective obligations under the Eligible Debt Agreements will not create any obligation or commitment on the part of the Recipient or the Central Bank of Yemen or the Association to any creditor of the Recipient or the Central Bank of Yemen that does not make an Eligible Debt Offer.

Section 5.03. Except as the Association shall otherwise agree, this Agreement shall enter into effect on the date on which the Association dispatches to the Recipient notice of its acceptance of the evidence required by Sections 5.01 and 5.02 of this Agreement.

Section 5.04. This Agreement shall terminate upon performance by the Recipient of all its obligations hereunder; provided that if the Recipient shall not have made any withdrawal from the Grant Account on or before the Termination Date (because of the failure of this Agreement to become effective or for any other reason), this Agreement shall terminate immediately thereafter.

ARTICLE VI

Enforceability of the Grant Agreement;

Failure to Exercise Rights; Arbitration

Section 6.01. The rights and obligations of the Recipient and the Association under this Agreement shall be valid and enforceable in accordance with their terms notwithstanding the law of any State or political subdivision thereof to the contrary. Neither the Recipient, nor the Association shall be entitled in any proceeding under this Article to assert any claim that any provision of this Agreement is invalid or unenforceable because of any provision of the Articles of Agreement of the Association or of the Resolutions mentioned in Clause A of the Preamble to this Agreement.

Section 6.02. No delay in exercising, or omission to exercise, any right, power or remedy accruing to any party under this Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default. No action of such party in respect of any default, or any acquiescence by it in any default, shall affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

Section 6.03. (a) Any controversy between the parties to this Agreement and any claim by either such party against the other arising under this Agreement which has not been settled by agreement of the parties shall be submitted to arbitration by an Arbitral Tribunal as hereinafter provided.

(b) The parties to such arbitration shall be the Recipient on one side and the Association on the other side.

(c) The Arbitral Tribunal shall consist of three arbitrators appointed as follows: one arbitrator shall be appointed by the Association; a second arbitrator shall be appointed by the Recipient; and the third arbitrator (hereinafter sometimes called the Umpire) shall be appointed by agreement of the parties or, if they shall not agree, by the President of the International Court of Justice or, failing appointment by said President, by the Secretary General of the United Nations. If either of the parties shall fail to appoint an arbitrator, such arbitrator shall be appointed by the Umpire. In case any arbitrator appointed in accordance with this Section shall resign, die or become unable to act, a successor arbitrator shall be appointed in the same manner as herein prescribed for the appointment of the original arbitrator and such successor arbitrator shall have all the powers and duties of such original arbitrator.

(d) An arbitration proceeding may be instituted under this Section upon notice by the party instituting such proceeding to the other party. Such notice shall contain a statement setting forth the nature of the controversy or claim to be submitted to

arbitration, the nature of the relief sought, and the name of the arbitrator appointed by the party instituting such proceeding. Within thirty (30) days after such notice, the other party shall notify to the party instituting the proceeding the name of the arbitrator appointed by such other party.

(e) If within sixty (60) days after the notice instituting the arbitration proceeding, the parties shall not have agreed upon an Umpire, either party may request the appointment of an Umpire as provided in paragraph (c) of this Section.

(f) The Arbitral Tribunal shall convene at such time and place as shall be fixed by the Umpire. Thereafter, the Arbitral Tribunal shall determine where and when it shall sit.

(g) The Arbitral Tribunal shall decide all questions relating to its competence and shall, subject to the provisions of this Section and except as the parties shall otherwise agree, determine its procedure. All decisions of the Arbitral Tribunal shall be by majority vote.

(h) The Arbitral Tribunal shall afford to the parties a fair hearing and shall render its award in writing. Such award may be rendered by default. An award signed by a majority of the Arbitral Tribunal shall constitute the award of such Tribunal. A signed counterpart of the award shall be transmitted to each party. Any such award rendered in accordance with the provisions of this Section shall be final and binding upon the parties to this Agreement. Each party shall abide by and comply with any such award rendered by the Arbitral Tribunal in accordance with the provisions of this Section.

(i) The parties shall fix the amount of the remuneration of the arbitrators and such other persons as shall be required for the conduct of the arbitration proceedings. If the parties shall not agree on such amount before the Arbitral Tribunal shall convene, the Arbitral Tribunal shall fix such amount as shall be reasonable under the circumstances. Each party shall defray its own expenses in the arbitration proceedings. The costs of the Arbitral Tribunal shall be divided between and borne equally by the parties. Any question concerning the division of the costs of the Arbitral Tribunal or the procedure for payment of such costs shall be determined by the Arbitral Tribunal.

(j) The provisions for arbitration set forth in this Section shall be in lieu of any other procedure for the settlement of controversies between the parties to this Agreement or of any claims by either party against the other party arising hereunder.

(k) The Association shall not be entitled to enter judgment against the Recipient upon the award, to enforce the award against the Recipient by execution or to pursue any other remedy against the Recipient for the enforcement of the award, except as such procedure may be available against the Recipient otherwise than by reason of the

provisions of this Section. If, within thirty (30) days after counterparts of the award shall have been delivered to the parties, the award shall not be complied with by the Association, the Recipient may take any such action for the enforcement of the award against the Association.

(1) Service of any notice or process in connection with any proceeding under this Section or in connection with any proceeding to enforce any award rendered pursuant to this Section may be made in the manner provided in Section 7.01 of this Agreement. The parties to this Agreement waive any and all other requirements for the service of any such notice or process.

ARTICLE VII

Miscellaneous Provisions

Section 7.01. (a) Any notice or request required or permitted to be given or made under this Agreement shall be in writing. Except as otherwise provided in Section 5.03 of this Agreement, such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable or telex 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.

(b) The following addresses are specified for the purposes of paragraph (a) above:

For the Recipient:

Ministry of Planning and Development
P. O. Box 175
Sana'a
Republic of Yemen

Cable address

Telex

CEN PLAN
Sana'a

2266
CEN PLAN YE

With a copy to the Central Bank of Yemen
P. O. Box 59
Sana'a, Republic of Yemen

For the Association:

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

Cable Address:

Telex:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

Section 7.02. The Minister of Planning and Development of the Recipient or any person authorized in writing by said person is designated as the representative of the Recipient for the purposes of taking any action required or permitted to be taken by the Recipient under the provisions of this Agreement.

Section 7.03. The Recipient shall furnish to the Association sufficient evidence of the authority of the person or persons who will, on their respective behalf, take any action or execute any documents required to be taken or executed by the Recipient under this Agreement (including withdrawal applications) together with the authenticated specimen signature of each such person.

Section 7.04. This Agreement shall be free from any Taxes levied by, or in the territory of, the Recipient on or in connection with the execution, delivery or registration hereof.

Section 7.05. This Agreement may be executed in several counterparts, each of which shall be an original.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Washington, United States of America, as of the day and year first above written.

REPUBLIC OF YEMEN

By /s/ Abdulwahab Al-Hajjri

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION
as Trustee of the Debt Reduction Facility for IDA-Only
Countries

By /s/ Tufan Kolan

Authorized Representative
Acting Vice President
Middle East and North Africa Region

SCHEDULE

Withdrawal of the Proceeds of the Grant

1. (a) The proceeds of the Grant may be withdrawn from the Grant Account to pay:
 - (i) the Eligible Debt Purchase price payable to Creditors as set forth in the Invitation to Creditors; and
 - (ii) an amount not exceeding one million Dollars (US\$1,000,000) for incidental costs (including fees of legal and financial consultants) incurred by the Recipient and approved by the Association in order to complete the Debt Reduction Program.

Withdrawals pursuant to subparagraph (i) of this paragraph may be made not earlier than two (2) business days in advance of the closing dates established under the Invitation to Creditors for making payments to settle each of the corresponding Eligible Debt Agreements in accordance with the procedures described in paragraph 1 (c) of this Schedule. Except as the Recipient and the Association shall so agree, no withdrawals pursuant to: (A) subparagraphs (i) and (ii) of this paragraph shall be made for the purpose of any payment to persons or entities, if such payment, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; or (B) subparagraph (ii) of this paragraph shall be made on account of expenditures or payments to be made in the territories of any country which is not a member of the International Bank for Reconstruction and Development or for goods produced in, or services supplied from, such territories.

(b) Withdrawals pursuant to paragraph 1(a) of this Schedule shall be made in Dollars; provided, however, that if the expenditures to be financed out of the Grant have been paid or are payable in another currency, the Association shall, at the request of the Recipient, purchase such currency with the proceeds of such withdrawal and provided further, that, whenever it shall be necessary for purposes of this Agreement to determine the value of any currency in terms of Dollars, such value shall be as reasonably determined by the Association.

(c) Withdrawals from the Grant Account by the Recipient shall be made only on the order of the Recipient and in accordance with procedures acceptable to the Association, including, in the event proceeds of the Grant are withdrawn prior to the closing date or dates established under the Invitation to Creditors, procedures for the maintenance of all such withdrawals in a trust account with an independent trustee acceptable to the Association, as provided for under the Paying Agent Agreement, and

for the refund by such trustee to the Association of all such proceeds in the event the corresponding Eligible Debt Agreements are not settled.

(d) Requests for all withdrawals shall be made by delivery to the Association of a written application from the representative of the Recipient designated in Section 7.02 of this Agreement (or the authorized delegate of such representative pursuant to such Section), in such form, and containing such statements and agreements and accompanied by such supporting evidence, as the Association shall reasonably request, including, without limitation, confirmation of the continuing validity of the opinions furnished to the Association pursuant to Section 5.02 of this Agreement. Without prejudice to the foregoing, requests for withdrawals pursuant to: (i) paragraph (a)(i) above, shall be accompanied by a description of the Creditors and the corresponding Eligible Debt Offers that the Recipient wishes to accept, of such scope and in such detail as the Association shall reasonably request; and (ii) paragraph (a)(ii) above shall be accompanied by documentary evidence in the form of invoices and other appropriate vouchers.

2. Notwithstanding the provisions of paragraph 1 above, no withdrawal from the Grant Account by the Recipient shall be permitted unless the Association has received evidence satisfactory to it establishing that, as the case may be: (i) the Eligible Debt Offers remain in full force and effect and no party thereto has breached any of its obligations thereunder; and (ii) the Recipient has no reason to believe that the conditions precedent to the performance by the parties of their obligations under the Eligible Debt Offers and the Invitation to Creditors, respectively, if any, will not be satisfied.

3. The Recipient shall not be entitled to make any withdrawal from the Grant Account after the Termination Date unless the Association has, by written notice to the Recipient, extended to a later date the period within which such withdrawals may be made.