

CONFORMED COPY

TRUST FUND GRANT NUMBER TF027835-YEM

Grant Agreement

(Commercial Debt Reduction Program)

between

REPUBLIC OF YEMEN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

as Trustee of

the Netherlands Trust Fund for Yemen Debt Reduction Program

Dated February 27, 2001

TF027835-YEM

GRANT AGREEMENT

This AGREEMENT, dated February 27, 2001 is entered into between the REPUBLIC OF YEMEN (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) acting as trustee of the Netherlands Trust Fund for Yemen's Debt Reduction Program (the Program).

WHEREAS (A) 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 under this Grant Agreement and other available resources (the Debt Reduction Program); and (ii) will materially enhance the Recipient's growth and development prospects; and

WHEREAS (B) 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 funds under this Grant Agreement 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 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 terms and conditions acceptable to the Association;

(o) "Offering Communication" means the letter or facsimile, substantially in the form of Part 7, including Schedule 1 thereto, of the Invitation to Creditors 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;

(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 March 31, 2001, 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 four million sixty four thousand seven hundred ninety three United States dollars and fifty four cents (US\$4,064,793.54).

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 Grant 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

Miscellaneous Provisions

Section 4.01. (a) Any notice or request required or permitted to be given or made under 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, 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 4.02. 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 4.03. 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 4.04. 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 4.05. 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 the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF YEMEN

By /s/ Alshawkani Yahya

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION
as Trustee of the Debt Reduction Program

By /s/ Ngozi N. Okonjo-Iweala

Regional 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 two hundred fifty United States dollars (US\$250) for incidental costs 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 4.02 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. 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.

