MULTI-DONOR TRUST FUND
GRANT AGREEMENT

(Basic Education Development Project)

between

REPUBLIC OF YEMEN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
(acting as Administrator of the Multi-Donor Trust Fund)

Dated April 9, 2005
AGREEMENT, dated April 9, 2005, between the REPUBLIC OF YEMEN (the “Recipient”) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association), acting as administrator (the “Administrator”) of grant funds (the “Multi-Donor Trust Fund Grant”) provided by various donors (collectively the “Donors”) to a Multi-Donor Trust Fund.

WHEREAS (A) pursuant to a Development Credit Agreement dated October 2, 2004, between the Recipient and the Association (the Development Credit Agreement) for the financing of the Basic Education Development Project (Credit Number 3988-YEM) (the Project) the Association has agreed to provide to the Recipient a credit in an amount in various currencies equivalent to forty four million three hundred thousand Special Drawing Rights (SDR44,300,000) on the terms and conditions set forth in the Development Credit Agreement, and the Recipient has declared its commitment to the objectives of the Project and has agreed to carry out the Project in accordance with the terms of the Development Credit Agreement;

(B) pursuant to the Memoranda of Understanding between the Donors and the Administrator (MOU), the Donors have agreed to make available the Multi-Donor Trust Fund Grant, to assist the Recipient in financing part of the costs of carrying out the Project; and

WHEREAS the Administrator has agreed, on the basis of the foregoing, to extend the Multi-Donor Trust Fund Grant to the Recipient upon the terms and conditions set forth in this Agreement;

NOW, THEREFORE, the parties hereto, hereby, agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. (a) The following provisions of the General Conditions Applicable to Development Credit Agreements of the Administrator, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth in paragraph (b) of this Section (the General Conditions), constitute an integral part of this Agreement:

(i) Article I;
(ii) Article II;
(iii) Section 3.01;
(iv) Sections 4.01, 4.04 and 4.05;
(v) Article V;
(vi) Sections 6.01, 6.02, 6.03, 6.04 and 6.06;
(vii) Article VIII;
(viii) Article IX;
(ix) Article X;
(x) Article XI; and
(xi) Section 12.01(b).

(b) The General Conditions shall be modified as follows:
(i) the term “Association”, wherever used in the General Conditions, other than in Section 6.02(e) thereof, means the International Development Association acting as Administrator of the Multi-Donor Trust Fund, except that in Section 6.02, the term “Association” shall also include the Association acting in its own capacity;
(ii) the term “Borrower”, wherever used in the General Conditions, means the Recipient;
(iii) the term “Credit”, wherever used in the General Conditions, means the Multi-Donor Trust Fund Grant;
(iv) the term “Credit Account”, wherever used in the General Conditions, means the Multi-Donor Trust Fund Grant Account, an account opened by the Administrator on its books in the name of the Recipient to which the amount of the Multi-Donor Trust Fund Grant is credited;
(v) the term “Development Credit Agreement”, wherever used in the General Conditions, means this Agreement;
(vi) the term “Project”, wherever used in the General Conditions, means the Project for which the Multi-Donor Trust Fund Grant is granted, as defined in Schedule 2 to the Development Credit Agreement; and

(vii) Section 4.01 shall be modified to read:

“Withdrawals from the Multi-Donor Trust Fund Grant Account shall be made in Dollars; provided, however, that if the expenditures to be financed out of the proceeds of the Multi-Donor Trust Fund Grant have been paid or are payable in another currency, the Administrator shall, at the request of the Recipient, purchase such currency with the proceeds of such withdrawal.”

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions, in the Development Credit Agreement and in the Preamble to this Agreement have the respective meanings therein set forth and the term “Special Account” means the account referred to in Section 2.02(b) of this Agreement.

ARTICLE II

The Multi-Donor Trust Fund Grant

Section 2.01. (a) The Administrator agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the Multi-Donor Trust Fund Grant in an amount of twenty two million four hundred twenty eight thousand three hundred thirty eight United States dollars (US$22,428,338).

(b) Additional grant funds may be added to the Multi-Donor Trust Fund Grant as Donor contributions are made to the Multi-Donor Trust Fund from time to time. The Administrator shall promptly notify the Recipient of such contributions and any ensuing increase in the amount of the Multi-Donor Trust Fund Grant, and shall take all necessary action required on its part to modify this Grant Agreement in order to reflect the increase in available Multi-Donor Trust Fund Grant.

(c) The Administrator shall periodically revise the allocations among various categories in Schedule 1 to: (i) reapportion amounts presently allocated to each category; and (ii) allocate additional grant funds that may be added to the Multi-Donor Trust Fund Grant in accordance with Section 2.01(b), above, to various categories in Schedule 1.

Section 2.02. (a) The amount of the Multi-Donor Trust Fund Grant may be withdrawn from the Multi-Donor Trust Fund Grant Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Administrator shall so agree, to be made) in respect of the reasonable cost of goods,
works, and services required for the Project and to be financed out of the proceeds of the Multi-Donor Trust Fund Grant.

(b) The Recipient may, for the purposes of the Project, open and maintain in United States dollars a special deposit account in its Central Bank, on terms and conditions satisfactory to the Administrator. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Part B of Schedule 1 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2010, or such later date as the Administrator shall establish. The Administrator shall promptly notify the Recipient of such later date.

Section 2.04. Disbursement from the proceeds of the Multi-Donor Trust Fund Grant (including deposits into the Special Account) shall be made only to the extent that, in the opinion of the Administrator, adequate resources to meet such disbursement have been transferred from the Donors to the Multi-Donor Trust Fund.

ARTICLE III

Execution of the Project

Section 3.01. Except as the context may otherwise require, Articles III and IV of, and Schedules 2, 3 and 4 to the Development Credit Agreement are hereby incorporated into this Agreement with the same force and effect as if they are fully set forth herein. For this purpose, all references in said Articles and Schedules to the term “Association” shall read as “Administrator”.

ARTICLE IV

Effective Date; Termination

Section 4.01. This Agreement shall become effective as of the date of countersignature thereof by the duly authorized representative of the Recipient and shall continue in effect until the Multi-Donor Trust Fund Grant has been fully disbursed and the parties to this Agreement have fulfilled all their obligations hereunder, provided, however, that if the Development Credit Agreement terminates prior to the termination of this Agreement, or the MOU terminate prior to the termination of this Agreement, this Agreement shall terminate automatically and shall cease to have any further force or effect.

Section 4.02. It is the Administrator’s policy to make publicly available this Grant Agreement and any information related thereto, after this Grant Agreement has become effective and the Recipient has given its consent to such disclosure. The
Recipient, by countersigning this Grant Agreement, confirms its consent to such disclosure.

ARTICLE V

Representatives of the Recipient; Addresses

Section 5.01. The Minister of Planning and International Cooperation of the Recipient shall be the representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 5.02 The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

Ministry of Planning and International Cooperation
P.O. Box 175
Sana’a
Republic of Yemen

Cable address: CENPLAN
Sana’a
Facsimile: 967-1-250-665

For the Administrator:

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

Cable address: INDEVAS
Telex: MCI 24823
Facsimile: (202) 477-6391
MCI 64145

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

REPUBLIC OF YEMEN
By /s/ Ahmed Sofan
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION
(acting as Administrator of the Multi-Donor Trust Fund)

By
Authorized Representative
SCHEDULE 1

Withdrawal of the Proceeds of the Multi-Donor Trust Fund Grant

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Multi-Donor Trust Fund Grant, the allocation of the amounts of the Multi-Donor Trust Fund Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Multi-Donor Trust Fund Grant Allocated (Expressed in United States dollars)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works</td>
<td>8,000,000</td>
<td>90%</td>
</tr>
<tr>
<td>(2) Goods</td>
<td>2,800,000</td>
<td>100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally</td>
</tr>
<tr>
<td>(3) Consultants’ services including audit</td>
<td>2,200,000</td>
<td>90% for consulting firms and 87% for individual consultants</td>
</tr>
<tr>
<td>(4) Training</td>
<td>7,780,000</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Incremental Operating Costs</td>
<td>620,000</td>
<td>90%</td>
</tr>
<tr>
<td>(6) Capitation Grants</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>(7) Unallocated</td>
<td>1,028,338</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>22,428,338</td>
<td></td>
</tr>
</tbody>
</table>

2. For purposes of this paragraph, the term:
(a) “foreign expenditures” means expenditures in the currency of any country other than that of the Recipient for goods, works or services supplied from the territory of any country other than that of the Recipient;

(b) “local expenditures” means expenditures in the currency of the Recipient or for goods, works or services supplied from the territory of the Recipient;

(c) “Incremental Operating Costs” means expenditures incurred by the Recipient on account of the implementation of the Project management and monitoring, including office rental, office supplies, vehicles maintenance, utilities, communications expenses, translation costs, travel costs and per diem, excluding salaries of officials of the Recipient’s civil service; and

(d) “Capitation Grant” means grants provided to schools to strengthen quality elements of education and to encourage girls’ participation.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Administrator may require withdrawals from the Multi-Donor Trust Fund Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than $350,000 equivalent per contract; (b) works costing less than $350,000 equivalent per contract; (c) services of individual consultants costing less than $50,000 equivalent per contract; (d) services of consulting firms under contracts costing less than $100,000 equivalent per contract; (e) training; (f) Incremental Operating Costs; and (g) Capitation Grants, all under such terms and conditions as the Administrator shall specify by notice to the Recipient.

5. The Recipient may request withdrawals from the Multi-Donor Trust Fund Grant Account to be made on the basis of reports to be submitted to the Administrator in form and substance satisfactory to the Administrator, such reports to include the FMR and any other information as the Administrator shall specify by notice to the Recipient (Report-based Disbursements). In the case of the first such request submitted to the Administrator before any withdrawal has been made from the Multi-Donor Trust Fund Grant Account, the Recipient shall submit to the Administrator only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Recipient may open and maintain in Dollars a special deposit account in its Central Bank, on terms and conditions satisfactory to the Administrator.
2. After the Administrator has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Multi-Donor Trust Fund Grant Account of amounts to be deposited into the Special Account shall be made as follows:

   (a) if the Recipient is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

   (b) if the Recipient is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Recipient out of the Special Account, the Recipient shall, at such time as the Administrator shall reasonably request, furnish to the Administrator such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Administrator shall not be required to make further deposits into the Special Account:

   (a) if the Administrator, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

   (b) if the Administrator determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Recipient directly from the Multi-Donor Trust Fund Grant Account; or

   (c) if the Recipient shall have failed to furnish to the Administrator, within the period of time specified in Section 4.01(b)(ii) of the Development Credit Agreement, any of the audit reports required to be furnished to the Administrator pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Administrator shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Administrator shall have notified the Recipient and the Guarantor of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Multi-Donor Trust Fund Grant Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Administrator shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Recipient and the Guarantor of its determination.
6. (a) If the Administrator determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Administrator, the Recipient shall, promptly upon notice from the Administrator, provide such additional evidence as the Administrator may request, or deposit into the Special Account (or, if the Administrator shall so request, refund to the Administrator) an amount equal to the amount of such payment. Unless the Administrator shall otherwise agree, no further deposit by the Administrator into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Administrator determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Recipient shall, promptly upon notice from the Administrator, refund to the Administrator such outstanding amount.

(c) The Recipient may, upon notice to the Administrator, refund to the Administrator all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Administrator made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Multi-Donor Trust Fund Grant Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Grant Agreement.
Annex A

to

SCHEDULE 1

Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements

1. For the purposes of this Annex, the “Authorized Allocation” means an amount equivalent to $2,000,000 to be withdrawn from the Multi-Donor Trust Fund Grant Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

   (a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Administrator a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Administrator shall, on behalf of the Recipient, withdraw from the Multi-Donor Trust Fund Grant Account and deposit into the Special Account such amount as the Recipient shall have requested.

   (b) For replenishment of the Special Account, the Recipient shall furnish to the Administrator requests for deposit into the Special Account at such intervals as the Administrator shall specify. Prior to or at the time of each such request, the Recipient shall furnish to the Administrator the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Administrator shall, on behalf of the Recipient, withdraw from the Multi-Donor Trust Fund Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Administrator from the Multi-Donor Trust Fund Grant Account under one or more of the Eligible Categories.

3. The Administrator shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Multi-Donor Trust Fund Grant minus the total amount of all outstanding special commitments entered into by the Administrator pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Multi-Donor Trust Fund Grant Account of the remaining unwithdrawn amount of the Multi-Donor Trust Fund Grant shall follow such procedures as the Administrator shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Administrator shall have been satisfied that all such
amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.
Annex B  
to  
SCHEDULE 1  

Operation of Special Account  
When Withdrawals Are  
Report-based Disbursements  

1. Withdrawals from the Multi-Donor Trust Fund Grant Account shall be deposited by the Administrator into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Administrator from the Multi-Donor Trust Fund Grant Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Multi-Donor Trust Fund Grant, the Administrator shall, on behalf of the Recipient, withdraw from the Multi-Donor Trust Fund Grant Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Administrator has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.