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**GRANT NUMBER H336-YEM**

# **Financing Agreement**

**(Institutional Reform Development Policy Financing)**

**between**

**REPUBLIC OF YEMEN**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated January 14, 2008**

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**GRANT NUMBER H336-YEM**

**FINANCING AGREEMENT**

Agreement dated January 14, 2008, entered into between REPUBLIC OF YEMEN (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of: (a) the actions which the Recipient has already taken under the Program and which are described in Section I.A of Schedule 1 to this Agreement, and (b) the Recipient’s maintenance of an appropriate macro-economic policy framework. The Recipient and the Association therefore hereby agree as follows:

**ARTICLE I - GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

**ARTICLE II - FINANCING**

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to thirty two million and eight hundred thousand Special Drawing Rights (SDR32,800,000) (“Financing”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Payment Dates are March 1 and September 1 in each year.
- 2.05. The Payment Currency is United States dollars.

**ARTICLE III - PROGRAM**

- 3.01 The Recipient declares its commitment to the Program and its implementation. To this end:
- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Section I of Schedule 1 to this Agreement;
  - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
  - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall exchange views with the Association on any proposed action to be taken after the disbursement of the Financing which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

**ARTICLE IV - REMEDIES OF THE ASSOCIATION**

- 4.01. The Additional Event of Suspension consists of the following:
- (a) A situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.
- 4.02. The Additional Events of Acceleration consists of the following:
- (a) The event specified in paragraph (a) of Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient.

**ARTICLE V - TERMINATION**

- 5.01. The Effectiveness Deadline is the date one hundred and twenty (120) days after the date of this Agreement.

**ARTICLE VI - REPRESENTATIVE; ADDRESSES**

- 6.01. The Recipient's Representative is the Minister of Planning and International Cooperation.

6.02. The Recipient's Address is:

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

Facsimile:

967.1.250.665  
or 976.1.250.605

6.03. The Association's Address is:

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

Cable address:

Telex:

Facsimile:

INDEVAS  
Washington, D.C.

248423(MCI)

1-202-477-6391

AGREED at Washington, District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF YEMEN

By /s/ Abdulwahab Abdulla Al-Hajjri

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Daniela Gressani

Authorized Representative

**SCHEDULE 1****Program Actions; Availability of Financing Proceeds****Section I. Actions under the Program**

- A. Actions Taken Under the Program.** The actions taken by the Recipient under the Program include the following:
1. A new corporate income tax law, reflecting international norms of treatment of corporate income, investments and expenses has been submitted to the Recipient's Council of Ministers.
  2. A new land registration law encompassing the recommendations of the Land Policy Task Force has been submitted to Parliament.
  3. A draft procurement law has been submitted to Parliament by the Recipient's Council of Ministers.
  4. The Recipient has declared its commitment to the Extractive Industries Transparency Initiative (EITI) principles by virtue of a letter submitted by the Recipient to the EITI Secretariat.
  5. The Recipient's Council of Ministers has approved the Civil Service Fund program for 2008-2010 and the alignment of the budgetary allocation for 2008 to the said program.
- B. Actions to be Taken Under the Program.** The actions to be taken by the Recipient under the Program include the following:
1. The Executive Regulations for the newly enacted corporate income tax law, satisfactory in substance to the Association, have been issued.
  2. The Council of Ministers of the Recipient has issued a decree whose substance is satisfactory to the Association, defining the mandate and functions of the General Authority for Lands, Survey and Urban Planning of the Recipient.
  3. The Recipient has taken all action necessary, including regulatory action, to establish a procurement policy monitoring board to monitor procurement policy and undertake its regulatory functions utilizing a procurement management information system satisfactory to the Association.
  4. The Recipient has complied with the EITI principles and criteria by publishing the independently audited accounts of the Recipient documenting all material payments made to the Recipient by oil, gas and mining companies operating in

the Republic of Yemen (“payments”) and all material revenues received by the Recipient from such oil, gas and mining companies (“revenues”) in a publicly accessible, comprehensive and comprehensible manner.

5. The Recipient has completed the implementation of the Recipient’s civil service fund program for the period June 2007-May 2008.
6. The Recipient has consistently applied the provisions of the 2005 Wage Law which requires government agencies of the Recipient to meet defined reform criteria before making any future salary increases.
7. The Recipient has taken all actions necessary for the establishment of a computerized employee databases including biometric identification information system, all satisfactory to the Association, with coverage extended to all employees on the state payroll in all sectors.

**Section II. Availability of Financing Proceeds**

- A. **General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
- B. **Allocation of Financing Amounts.** The Financing shall be withdrawn in two tranches. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Financing Allocated (expressed in SDR)
First Tranche	16,400,000
Second Tranche	16,400,000
TOTAL AMOUNT	<u>32,800,000</u>

- C. **Tranche Release Conditions.** No withdrawal shall be made of the Second Tranche unless the Association is satisfied, after an exchange of views as described in Sections 3.01 (a) and (b) of this Agreement based on evidence satisfactory to the Association:
  1. with the progress achieved by the Recipient in carrying out the Program;

2. that the macroeconomic policy framework of the Recipient is appropriate; and
3. that the actions described in Part B of Section I of this Schedule have been taken.

If, after this exchange of views, the Association is not so satisfied, it may give notice to the Recipient to that effect and, if within ninety (90) days after the notice, the Recipient has not taken steps satisfactory to the Association with respect to paragraphs 1, 2 and 3 above, then the Association may, by notice to the Recipient, cancel all or any part of the Unwithdrawn Financing Balance.

**D. Deposits of Financing Amounts.** Except as the Association may otherwise agree:

1. all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and
2. the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.

**E. Excluded Expenditures.** The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

**F. Closing Date.** The Closing Date is June 30, 2010.

## APPENDIX

### **Section I. Definitions**

1. “Civil Service Fund” means the Recipient’s redundancy facility established by the Recipient by virtue of Law No. 1 of 2004 for the purpose of processing redundant employees.
2. “Extractive Industries Transparency Initiative” or “EITI” means the international compact of resource-exporting nations willing to abide by agreed international standards.
3. “Excluded Expenditure” means any expenditure:
  - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;
  - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones,



Group	Sub-group	Description of Item
		unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
- (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
- (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
- (f) under a contract with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds during the procurement or execution of such contract, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to remedy the situation.

4. “First Tranche” means the amount of the Financing allocated to the category entitled “First Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 with the modifications set forth in Section II of this Appendix.
6. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated October 6, 2007 from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
7. “Second Tranche” means the amount of the Financing allocated to the category entitled “Second Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

**Section II. Modifications to the General Conditions**

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures

under the Financing until two years after the Closing Date. The Recipient shall enable the Association's representatives to examine such records."

6. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

*Section 4.07. Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term "Eligible Expenditure" is modified to read as follows:

"'Eligible Expenditure' means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement."

- (b) The term "Financial Statements" and its definition as set forth in the Appendix are deleted in their entirety.

- (c) The term "Project" is modified to read "Program" and its definition is modified to read as follows:

"'Program' means the program referred to in the Financing Agreement in support of which the Financing is made." All references to "Project" throughout these General Conditions are deemed to be references to "Program".