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Liam F. Chicca	Omer Zafar
+39 06 5459 2462 :	+39 06 5459 2348 :
l.chicca@ifad.org :	o.zafar@ifad.org :

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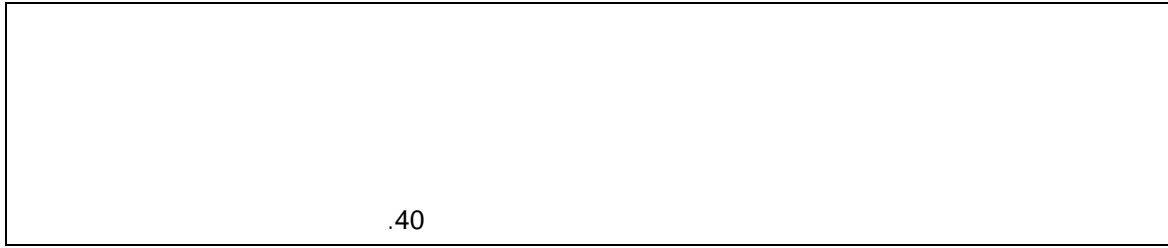
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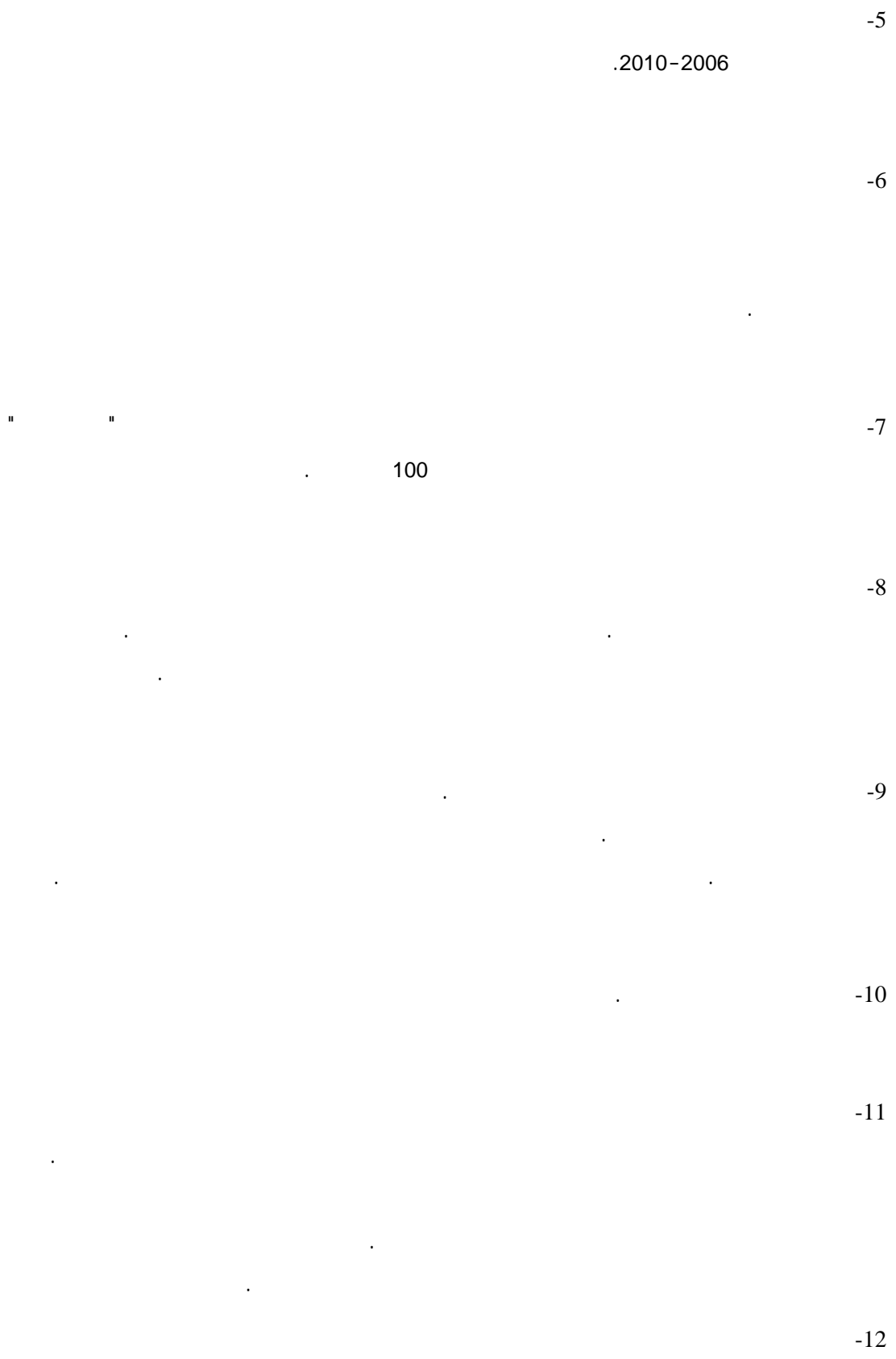
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Negotiated financing agreement: "Fisheries Investment Project"

(Negotiations concluded on 27 November 2010)

Grant Number: _____

Project Title: Fisheries Investment Project (the "Project")

The International Fund for Agricultural Development (the "Fund" or "IFAD")

and

The Republic of Yemen (the "Recipient")

(each a "Party" and both of them collectively the "Parties")

WHEREAS:

A. The Recipient has requested financing from the Fund for purposes of partially financing the Project described in schedule 1 to this Financing Agreement;

B. The Islamic Development Bank (the "IDB") intends to extend financing in the form of a loan (the IDB loan) to the Recipient of approximately eleven million three hundred thousand United States Dollars (USD 11 300 000) equivalent to assist in co-financing the Project on terms and conditions to be set forth in an Agreement (the "IDB Financing Agreement") between the Recipient and the IDB;

C. In order to provide additional financing for the implementation of the Project, the Fund will receive a contribution from the European Community which the Fund has agreed to make available to the Recipient, in the form of a Grant and in the amount of four million and five hundred thousand Euro (EUR 4 500 000 which includes IFAD's administrative and management fees), in accordance with the terms of the Contribution Agreement to be entered between the Fund and the Commission of the European Communities; and

D. The Fund adheres to the principles and guidelines as set out in the Financial and Administrative Framework agreement (FAFA) entered into between the EU and the UN of 29 April 2003 and to which the Fund acceded in 27 September 2004.

NOW THEREFORE the Parties hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.

3. The Fund shall provide a Grant to the Recipient (the "Financing"), which the Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Grant is five million eight hundred thousand special drawing rights (SDR 5 800 000).

2. The first day of the applicable Fiscal Year shall be 1st January.

3. There shall be a Designated Account in USD for the purpose of financing the Project. The Designated Account shall be opened and maintained in the Central Bank of Yemen or in a commercial bank licensed by the Central Bank of Yemen, acceptable to IFAD. Upon the Recipient's request, IFAD shall make one or more withdrawals of up to USD 1 300 000 in the aggregate from the Grant account on behalf of the Recipient and deposit such amount in the Designated Account. The Designated account shall be operated by EOF and shall be protected against set off, seizure or attachment on terms and conditions proposed by the Recipient and accepted by IFAD.

4. There shall be a Project Account in YER for the benefit of the Project in a commercial bank acceptable to the Fund or in the Central Bank. This account shall be used for local expenditures. The Chief Executive Officer and the Chief Financial Officer of the Economic Opportunities Fund (EOF) will be authorized to operate the account.

5. The Recipient shall provide counterpart financing for the Project in the amount of one hundred forty thousand United States dollars (USD 140 000) equivalent.

Section C

1. The Lead Project Agency shall be the Economic Opportunities Fund (the EOF).

2. The following are designated as additional Project Parties (stake holders): contracted service providers; pre-selected public institutions such as the Ministry of Fish Wealth (MFW), the Fisheries Research Authority (FRA), the Fisheries Authorities (FAs), the Yemen Coast Guard, the Aquaculture Research Authority, the General Investment Authority (GIA) and the Small and Medium Enterprise Promotion Service (SMEPS), as well as private sector entities such as fishers' organizations, processors/exporters, engineering companies, construction firms, microfinance institutions (particularly Al Amal Microfinance Bank) and insurance companies.

3. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

Section D

The Grant will be administered and the Project supervised by the Fund.

Section E

1. The following are designated as additional grounds for suspension of this Agreement:

- (a) The Project Implementation Manual, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project.
- (b) Any competent authority has taken action for the dissolution of the EOF, the modification of the distribution of membership between public and private sectors of the EOF's Board of Directors, or the merging of the EOF with any other institution; and the Fund has determined that any such event listed above is likely to have a material adverse effect on the Project.
2. (a) The following are designated as additional general conditions precedent to withdrawal:
- (i) The composition of the Board of Directors of EOF is approved by IFAD;
- (ii) The EOF's CEO and CFO will be selected on competitive basis, and their respective nominations are approved by IFAD.
- (b) The following is designated as an additional specific condition precedent to withdrawal under Component 1 (Sustainable Resource Management): The Fisheries Authorities (FA) and the Fisheries Research Authority (FRA) are established and staffed.
3. This Agreement is subject to ratification by the Recipient.
4. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

International Fund for
Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

For the Recipient:

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

This agreement, dated _____, has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Recipient.

For the Fund

For the Recipient

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The project's direct target groups consist of i) small fishers (small boat owners and crew members), ii) fishers' organizations and, iii) poor households (particularly with entrepreneurial young women and men) which are interested to develop aquaculture or to establish micro-businesses responding to market demand for products and services.
2. *Project Area.* The project is national in scope and covers all nine maritime governorates along the Yemeni coast, namely Hajjah, Hodeida, Taiz, Lahej, Aden, Abyan, Shabwah, Hadramaut and Al Mahara.
3. *Goal and Objective.* The project's goal is to improve the economic status of small fisher households. Its objective is to create sustainable economic opportunities for poor women and men in fishing communities.
4. *Outputs.* The project is expected to: improve knowledge on the status of fisheries resources; develop and implement plans for the sustainable management of fisheries resources; improve and expand the licensing system to all value chain actors; empower fisheries inspectors to enforce regulations; develop safety-at-sea regulations and improve safety awareness; stimulate the growth and technological improvement of the fisheries value chain and of rural businesses; link fishers' organisations with processors/exporters through contractual arrangements; promote compliance with international food quality and safety standards; develop modern economic infrastructure in support of the fisheries value chain; create a legal framework and services for aquaculture; strengthen fishers' organizations and assist fishers to form new organizations where existing organizations are weak; and, expand the rural outreach of financial institutions and enhance access to sustainable rural financial services.
5. *Components.* The Project shall consist of two components: (a) sustainable resource management; and, (b) value chain development.

A. Component 1: Sustainable Resource Management

This component aims to enable the MFW to develop, execute and enforce fisheries management measures in order to ensure the sustainability of the fisheries resource base. It will create the required legal, institutional and human resource capabilities and will support the development of fisheries research capacity to improve the scientific knowledge base on which informed fisheries management decisions can be taken.

A.1. Sub-component: Regulatory Compliance and Risk Management. This sub-component will support the improvement and expansion of the fisheries licensing system. It will also train and equip MFW fisheries inspectors and YCG officers to enforce regulations and to improve at sea and on-shore monitoring, control and surveillance. Safety-at-sea will be improved by introducing regulations on safety equipment and fishing vessel construction, and access to adapted insurance products will further reduce fishers' vulnerability to risk.

A.2 Sub-component: Fisheries Research and Management. This sub-component will support fisheries research activities and fisheries management planning. It will build FRA's capacity to provide research services and technical, scientific and strategic advice for

fisheries management. It will upgrade FRA's equipment and facilities, train research staff, and strengthen management capacity. It will support the development and execution of fisheries management plans for selected species/geographical regions of commercial and/or ecological importance which are currently threatened by fishing activities. It will also support a major stock assessment programme on commercially important species in the Red Sea and Gulf of Aden to determine the extent of over-fishing, inform sustainable resource management, and allow the long-term strategic development of the sector.

B. Component 2: Value Chain Development

This component aims to sustainably increase the incomes of poor fishers, micro and small entrepreneurs, and women and men workers in fisheries communities.

B.1 Sub-component: Value Chain Modernisation. This sub-component will invest in fisheries value chain upgrading, aquaculture, export and domestic market expansion, and micro/small enterprise development. It will support fishers to improve quality of landed fish, facilitate integration with processors/exporters, and foster contractual linkages between fishers' organisations and processors/exporters. The value chain will be upgraded by providing fishers with training, enhancing access to improved technologies, improving fish handling practices, ensuring the integrity of the cold chain, and promoting compliance with hygiene/quality standards. The project will invest, jointly with selected fishers' organisations, in mother/transport boats and ice plants using financial instruments such as venture capital financing modalities. It will also invest in grant-financed public and social infrastructure, and in equity-financed productive infrastructure, jointly with selected fishers' organisations, within selected landing sites. The productive infrastructure will be developed through financial instruments such as venture capital financing modalities. Investments will be subject to environmental impact assessment. The project will develop aquaculture in a technically sound and environmentally sustainable manner. It will assist Government to develop a proper legal and institutional framework and strategy for aquaculture. It will provide technical training and business support to poor coastal women and men interested in aquaculture, facilitate vertical integration with processors/exporters through supply chain managers, and promote joint venture investments between processors/exporters and fish farmers. The project will also promote the creation or expansion of relevant micro and small enterprises in coastal communities.

B.2 Sub-component: Fishers' Organizations and Financial Services. This sub-component will strengthen the capabilities of fishers' organisations to represent their communities at policy and strategic levels, to own and manage assets, and to provide services to their members. Based on a comprehensive due diligence exercise for fishers' cooperatives, the project will work with selected well-performing fishers' cooperatives for investments in value chain upgrading. Where existing organizations are weak, the project will assist local communities to establish new fishers' organisations. The project will also increase the outreach of microfinance institutions in coastal areas, and will support the development of new products and services adapted to fishers, their households and their organizations in order to ensure access to diversified financial products and services. The project will support licensed microfinance institutions to utilise the Post Office network to channel funds to and from fishers' communities.

II. Implementation Arrangements

A. Project Management

1. The Economic Opportunities Fund (EOF), created by Presidential Decree, will be the Lead Project Agency and will be responsible and accountable for the management and implementation of the Project. The EOF is a public-private partnership working to improve the economic status of poor women and men in rural areas. It is governed by a Board of Directors representing the public and private sectors. The Board is responsible and accountable for guiding the EOF under principles of good governance, transparency, equity, business ethics, efficiency, sustainability and corporate social responsibility. Under the Project, the MFW and a fisheries-related private sector entity will become EOF Board members. The EOF will convene regular meetings with participating fishers' organizations to ensure that its strategic and operational agenda is driven by the concerns of the target groups.

2. The EOF consists of three offices: the administration office responsible for financial management, procurement and contracting, monitoring and evaluation; the investment office responsible for managing value chain investments, economic infrastructure and financial services; and, the capacity building office responsible for mobilising beneficiary organizations and organising advisory services. A project liaison unit will be established within MFW for coordination of the sustainable resource management component. The EOF's CEO and core professional staff will be selected by the Board based on a competitive recruitment process subject to IFAD approval, and will receive highly competitive salary levels

B. Project Implementation

1. The project will be managed by the EOF and implemented by contractual service providers on performance-based contracts. The procurement and contracting of service providers for the implementation of Project activities will be subject to IFAD prior review and concurrence.

2. The annual work plan and budget (AWPB) will be prepared by office managers of the EOF through a participatory approach with stakeholders, internally reviewed and consolidated, and approved by the EOF's CEO. The proposed AWPB will subsequently be reviewed and approved by the EOF's Board of Directors, and then submitted to Recipient, IFAD and cofinanciers for review and concurrence.

Schedule 2*Allocation Table*

1. *Allocation of Grant Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the grant and the allocation of the amounts of the grant to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Grant Amount Allocated (expressed in SDR)	% of eligible expenditure to be financed
I. Vehicles, Equipment and Materials	330 000	100% net of taxes and co-financer's contributions
II. Training, TA and Contractual Services	2 190 000	100% net of taxes, co-financiers', beneficiaries' and EOF contributions
III. Financial Instruments	2 385 000	100% net of taxes, co-financiers' , beneficiaries' and MFIs' contributions
IV. Operating Costs	315 000	100% net of taxes, co-financiers' and EOF contributions
Unallocated	580 000	
TOTAL	5 800 000	

(b) The terms used in the Table above are defined as follows:

- (i) "vehicles, equipment and materials" includes the cost of vehicles, equipment, materials, inputs and similar items;
- (ii) "financial instruments" includes venture capital modalities, insurance products and other financial instruments;
- (iii) "operating costs" includes the costs of salaries, allowances and all other operating costs.

Schedule 3*Special Covenants*

For the purposes of this Agreement the Recipient shall ensure that the following provisions are complied with:

1. Gender. The Recipient shall ensure that the Project benefits are also delivered to poor rural women in the Project area. The Project AWPB and progress reports shall be disaggregated by gender as appropriate.
2. Until such time that the FAs and FRA are established and staffed, the Recipient shall indicate in each withdrawal application whether the related expenditures are linked to Component 1 (Sustainable Resource Management).

Key reference documents

Country reference documents

Development Plan for Poverty Reduction 2006-2010

IFAD reference documents

Country Strategic Opportunities Paper 2008-2013 (2007)

Project Concept Note and Key Files (2010)

Project Final Design Report (2010)

Other miscellaneous reference documents

Yemen Country Profile 2009, Economist Intelligence Unit (2009)

Yemen Country Reports, January-October 2010 (2010)

Country Assistance Strategy 2010-2013, International Development Association (2009)

FAO Yearly Statistics (FAOSTAT, AQUASTAT)

Logical framework

Objective Hierarchy	Key Performance Indicators	Monitoring Mechanisms and Information Sources	Assumptions(A)/Risks (R)
Goal			
Economic status of poor rural women and men improved	<ul style="list-style-type: none"> Households with improved asset ownership index Reduction in prevalence of malnutrition for children Households receiving project services Households with increased incomes/food security 	<ul style="list-style-type: none"> Baseline & impact surveys (gender disaggregated) M&E and impact assessments Government health/socio-economic statistics Project completion report RIMS annual reporting and impact surveys 	<ul style="list-style-type: none"> Stable internal security (A) Reduction of acts of piracy (A) Governance improves (A) Macro-economic conditions improve
Purpose/Objective			
Sustainable economic opportunities for poor fishers and fishers' households created	<ul style="list-style-type: none"> Sustainable integrated landing complexes operational Sustainable mother ships/transport boats operational Sustainable aquaculture farms in production Viable MSEs after 3 years Full-time job equivalents created by gender Beneficiaries receiving services by gender 	<ul style="list-style-type: none"> M&E evaluation and assessment Monitoring/control data from MFW Fishers' Cooperative Union/Yemen Seafood Exporters Associations data Fisheries management plans and annual reviews 	<ul style="list-style-type: none"> Stable internal security (A) Reduction of acts of piracy (A) MFW restructuring completed (A) Law for aquaculture enacted (A) Drop in fish prices market (R) Decline in fish stocks (R)
Outputs			
Ministry of Fish Wealth's capacities strengthened	<ul style="list-style-type: none"> Laws/regulations enforced by trained inspectors Licensing system strengthened and fees allocated Safety-at-sea regulations enforced MFW and YCG staff trained and equipped 	<ul style="list-style-type: none"> Enforcement statistics from MFW and YCG Licensing statistics from MFW Monitoring/control data from MFW M&E evaluation and assessment 	<ul style="list-style-type: none"> MFW restructuring completed (A)
Fisheries resources properly managed	<ul style="list-style-type: none"> Biological status of high value fish stocks updated Fisheries management plans implemented Depleted fish stocks regenerated Fishers' cooperatives involved in fisheries management 	<ul style="list-style-type: none"> Stock assessment report Fisheries management plans M&E evaluation and assessment Fishers' cooperatives reports 	<ul style="list-style-type: none"> MFW restructuring completed (A) Licensing system implemented (A) Fishers' cooperatives involved (A)
Diversified fisheries value chains developed	<ul style="list-style-type: none"> Integrated landing complexes constructed Health and quality standards are complied with Forward contracts signed by fishers' organisations Aquaculture law enacted and activities implemented Fish products exported to high value markets; 	<ul style="list-style-type: none"> M&E evaluation and assessment Landing complex reports Contracts with processors/exporters Aquaculture statistics Export statistics from Government and exporters 	<ul style="list-style-type: none"> Exporters/processors interested in contracts with fishers' organizations (A) Export markets accessible to Yemeni products (A);
Fishers' organizations capacities strengthened	<ul style="list-style-type: none"> Fishers' organizations comply with regulations Fishers' organizations participate in management Fishers' organizations own/manage landing sites Union of Fishers' Cooperatives is strengthened. 	<ul style="list-style-type: none"> M&E evaluation and assessment Ministry of Social Affairs registry Fishers' cooperatives reports Project reports 	<ul style="list-style-type: none"> Cooperatives closed by Government (R)

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