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Enabling poor rural people
to overcome poverty

President's report

Proposed grant to the Republic of Yemen for the

YemenInvest – Rural Employment Programme

Note to Executive Board representatives

Focal points:

Technical questions:

Omer Zafar
Country Programme Manager
Tel.: +39 06 5459 2348
e-mail: o.zafar@ifad.org

Dispatch of documentation:

Kelly Feenan
Head, Governing Bodies Office
Tel.: +39 06 5459 2058
e-mail: gb_office@ifad.org

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For: Approval

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Abbreviations and acronyms

| | |
|----------|---|
| CSR | corporate social responsibility |
| EOF | Economic Opportunities Fund |
| M&E | monitoring and evaluation |
| PFI | participating financial institution |
| RB-COSOP | results-based country strategic opportunities programme |

Republic of Yemen

YemenInvest - Rural Employment Programme

Design report



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.



Map compiled by IFAD

Map of the programme area

Republic of Yemen

YemenInvest – Rural Employment Programme

Financing summary

| | |
|---------------------------------------|--|
| Initiating institution: | IFAD |
| Recipient: | Republic of Yemen |
| Executing agency: | Economic Opportunities Fund (EOF) |
| Total programme cost: | US\$48.15 million |
| Amount of IFAD grant: | SDR 5.72 million (equivalent to approximately US\$9.07 million) |
| Cofinancier(s): | Cofinancier (to be confirmed) Participating financial institutions (PFIs) Private investors (PIs) Economic Opportunities Fund (EOF) |
| Amount of cofinancing: | Cofinancier: US\$21.29 million PFIs: US\$6.20 million PIs: US\$6.91 million EOF: US\$2.80 million |
| Terms of cofinancing: | Cofinancier: to be confirmed PFIs: Loan PIs: Equity contribution EOF: Various (equity contributions, loans and grants) |
| Contribution of recipient: | US\$0.94 million |
| Contribution of beneficiaries: | US\$0.95 million |
| Appraising institution: | IFAD |
| Cooperating institution: | Directly supervised by IFAD |

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed grant to the Republic of Yemen for the YemenInvest – Rural Employment Programme, as contained in paragraph 49.

Proposed grant to the Republic of Yemen for the YemenInvest – Rural Employment Programme

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Yemen is the poorest country in the Middle East, with declining oil revenues, depletion of freshwater resources and rapid population growth. The share of rural population living below the national poverty line rose from 40 per cent in 2007 to 48 per cent in 2010 as a result of the global economic and food price crises. Like other countries in the region, since March 2011 Yemen has been facing a profound political and economic crisis fuelled by complex political and social divisions. It is expected that, in 2011, real GDP will decline and poverty and unemployment will increase.
2. The agriculture and fisheries sectors face serious natural resource constraints such as the limited and declining availability of freshwater (150m³/capita/year), the shortage of arable land (averaging 0.1 ha/capita) and the overexploitation of fish stocks. While agriculture currently accounts for 30 per cent of employment and fisheries for 2 per cent, the potential for significant growth and job creation is limited. It is considered of fundamental importance for Yemen to diversify its economic base, reduce dependence on oil and agriculture, and invest in sectors with potential for market growth and job creation in which the country has a comparative advantage.
3. The population is young, with 75 per cent under the age of 30, and a median age of 22 years. While the official unemployment rate is 18 per cent, underemployment is widespread and real unemployment is estimated at 35 per cent, rising to 60-70 per cent in rural areas and among young people and graduates. Although the labour force participation rate is 42 per cent, the labour force is increasing annually by 3.3 per cent. The lack of economic and employment opportunities for these young entrants into the labour force increases rural poverty.
4. IFAD's operational experiences in Yemen, together with recent food security studies undertaken by the International Food Policy Research Institute and World Food Programme, confirm that food insecurity in rural households needs to be addressed by increasing incomes through job creation, economic diversification and access to finance. This requires investment in rural economic sectors with comparative advantage, market demand and growth potential.

B. Rationale and alignment with government priorities and RB-COSOP

5. The Yemen country programme under the 2010-2012 cycle of the performance-based allocation system consists of three investments that focus on creating sustainable and diversified economic and employment opportunities for poor rural women and men. Sectors for investment have been selected based on comparative advantage, market demand, growth potential and targeting considerations; the balanced sectoral composition of the country programme promotes a diversified and growth-oriented rural economy in support of poverty

reduction. The Economic Opportunities Programme (approved in April 2010) covers the agriculture sector, the Fisheries Investment Project (approved in December 2010) covers the fisheries sector, and the present programme covers the non-farm sector, with an open window for agriculture-related activities.

6. The programme directly addresses one of the core economic concerns in Yemen and elsewhere in the region: the creation of sustainable employment opportunities for the unemployed and underemployed labour force, which is growing rapidly as a result of the population's demographic structure. The programme should become operational in the second semester of 2012, when it is expected that the situation will have normalized and rural job creation will be a top priority.
7. The programme is considered to be highly relevant by Government, development partners and the Yemeni private sector. It is fully aligned with relevant Government strategies, particularly the Development Plan for Poverty Reduction 2011-2015, the Micro and Small Enterprise Development Strategy, and the National Food Security Strategy. Given IFAD's experience in rural areas of Yemen, the Government sees IFAD as the preferred partner for rural economic development and poverty reduction.
8. The programme is closely aligned with IFAD's policy documents, most importantly the IFAD Strategic Framework 2011-2015. It addresses one of the five core strategic objectives for the Fund's investments, namely support for profitable, sustainable and resilient farm and non-farm enterprises and decent work opportunities. It is aligned with the strategic objectives of the Yemen results-based country strategic opportunities programme (RB-COSOP) 2008-2013, particularly the promotion of sustainable rural financial services and pro-poor rural small and medium-sized enterprises, and the improvement of household food security.

II. Programme description

A. Programme area and target group

9. The programme is national in scope, in line with the 2010-2012 country programme and the operational mandate of the Economic Opportunities Fund (EOF), which is its management entity. However, considering locations of comparative advantage for selected value chains, and the incidence of unemployment and rural poverty, it will focus initially on seven governorates: Abyan, Al Baida, Dhamar, Hajjah, Hodeidah, Lahj and Taiz. Expansion to others will be based on the business case and security considerations.
10. The programme's target groups are unemployed and underemployed women and men in rural areas living below the poverty line. Within these target groups, priority will be given to women and young labour market entrants.

B. Programme development objective

11. The programme's overarching goal is to improve the economic status of poor rural households. Its development objective is to create sustainable and diversified employment opportunities for unemployed and underemployed women and men in rural communities. The expected outcomes are: (i) growth and profitability of business in targeted sectors increased; (ii) rural entrepreneurs' access to a range of financial services increased; (iii) target group's access to employment and training opportunities improved; and (iv) corporate social responsibility (CSR) and the Decent Work Agenda promoted by the International Labour Organization (ILO)¹ gradually implemented. Two non-farm sectors – natural stone processing and handloom textiles – that have market demand and growth potential, and provide

¹ The ILO's Decent Work Agenda aims to ensure the availability of employment in conditions of freedom, equity, security and dignity. It has four key aspects: (i) creating jobs; (ii) guaranteeing rights at work; (iii) extending social protection; and (iv) promoting social dialogue.

jobs for substantial numbers of rural workers, have been selected for value chain upgrading, while agriculture and off-farm sectors are selected for general enterprise financing.

C. Components/outcomes

12. **Component 1 – Value chain upgrading.** Investments will be made in the establishment of modern clusters (with common infrastructure and services) for the natural stone processing and handloom textiles sectors. Demand-driven and cost-shared business services and training will be provided to these and other agricultural and non-farm rural sectors, and markets will be promoted at the domestic, regional and international levels.
13. **Component 2 – Rural investment financing.** Financing options will be provided to enable viable small and medium-sized enterprises in targeted sectors and in the broader rural economy to expand sustainably. Key financing instruments are equity investments in enterprises and loan refinancing for partnering financial institutions. The EOF's equity investment in any enterprise will not exceed 49 per cent, ensuring it serves as a minority shareholder. The EOF will engage a qualified third party, such as an audit firm, to review due diligence assessments and business plans prepared for each equity investment and confirm that they have been undertaken in accordance with international best practices. The EOF will also establish an independent investment committee, on which IFAD will be a non-voting member, to evaluate each equity investment proposal before it goes to the EOF's management board for final approval. Community-managed revolving facilities will be established in communities close to natural stone clusters, and financed by dividends from the EOF investments in natural stone processing enterprises, to enable poor women and young people to access uncollateralized microloans.
14. **Component 3 – Rural labour market intermediation.** Measures will be implemented to enhance access by the target groups to training and employment, improve the balance between rural labour and skills demand and supply, and develop improved training courses and build the capacities of training providers. Specific emphasis will be placed on promoting women's access to training and job opportunities.
15. **Component 4 – Policy and partnerships.** The EOF will be empowered to serve as a catalyst for the gradual introduction and adoption of the CSR and the Decent Work Agenda in Yemen. It will facilitate policy development and partnerships to mainstream these social agendas into the national legal framework and within the business community.

III. Programme implementation

A. Approach

16. The programme will be managed by the EOF, a public-private partnership managing IFAD's 2010-2012 country programme in Yemen. As the programme's components are consistent with the institutional structure of the EOF, the definition of roles, responsibility and accountability for programme management is clear, simple and measurable. The EOF's capacity will be strengthened to enable it to effectively and efficiently manage this programme.

B. Organizational framework

17. The programme will be implemented by contractual service providers on performance-based and results-oriented contracts. These will include pre-selected public institutions such as the Yemen Geological Survey and Mineral Resources Board and Yemen Standardization, Metrology and Quality Control Organization, and competitively-selected private sector entities such as NGOs, producers' associations, engineering firms, microfinance banks and training institutes. ILO will be a key partner for the introduction of the Decent Work Agenda.

C. Planning, monitoring and evaluation, and learning and knowledge management

18. Annual work plans and budgets will be prepared annually by the EOF through a participatory approach with stakeholders and an internal quality assurance process. They will then be submitted to Government, IFAD and cofinanciers for concurrence. The EOF management board will ensure synergy is achieved among the projects managed by the EOF. The EOF will convene regular stakeholder meetings to ensure that its strategic and operational agenda is driven by target group concerns.
19. The EOF's monitoring and evaluation (M&E) system will provide comprehensive and reliable information for results-based planning, decision-making and management. The system will have a three-tier structure: (i) output monitoring; (ii) outcome monitoring; and (iii) impact assessment. It will be participatory and decentralized, involving target groups and implementing partners. The logical framework will provide the basis for results-based M&E. All M&E data, analysis and reporting will be disaggregated by gender and age.
20. Operational experiences will create valuable knowledge that will be captured by the EOF and used to generate lessons and best practices to be shared with public institutions, the IFAD country team, partners and others. The results of support for a private sector social agenda, for microfinance banks and for enterprises will be widely publicized as part of the EOF's policy support on CSR and Decent Work.

D. Financial management, procurement and governance

21. The EOF will open separate designated accounts and programme accounts for the funds of IFAD and other external financiers. It will also open and maintain an equity account for equity investments in selected small and medium-sized enterprises. All accounts will be operated by the EOF's chief executive officer and chief financial officer. Proceeds from the buy-back mechanism applied to EOF equity shares will be revolved to finance additional equity investments, while the returns will be used to cover EOF operating costs.
22. The EOF will adopt accounting systems consistent with international accounting standards and Government requirements. In line with the IFAD Guidelines on Project Audits, and in accordance with the requirements of Article IX of the IFAD General Conditions for Agricultural Development Financing, the EOF will annually appoint independent auditors, subject to the concurrence of financiers, to audit accounts and consolidated financial statements for each fiscal year. The auditors will also review the financial statements of the enterprises in which the EOF is holding equity.
23. The EOF will execute procurement and contracting based on the guidelines of the Government, IFAD and cofinanciers. Procurement of goods, works and services to be financed through IFAD financing will be undertaken in accordance with the IFAD Project Procurement Guidelines. The EOF will prepare 18-month procurement plans to ensure sufficient advance planning for procurement actions.
24. The programme's measures to ensure transparency and good governance include: (i) public-private management based on principles of transparency, equity, efficiency and sustainability; (ii) application of ethical business principles and a CSR strategy; (iii) gradual introduction of the Decent Work Agenda; (iv) regular internal and independent external audit; and (v) direct supervision by IFAD.

E. Supervision

25. The programme will be directly supervised by IFAD. Direct supervision will encompass three discrete processes: (i) loan administration; (ii) programme supervision; and (iii) implementation support. Supervision missions will be undertaken annually and complemented by short and focused follow-up missions as appropriate. The process of supervision will guide the programme towards the

achievement of strategic objectives and broader poverty reduction outcomes, while ensuring fiduciary compliance and responsiveness to the accountability framework.

IV. Programme costs, financing, benefits

A. Programme costs

26. The total programme cost amounts to US\$48.15 million over an implementation period of five years. Total base costs amount to US\$46.10 million, while physical and price contingencies are estimated at US\$2.06 million (5 per cent of base costs). Investment costs account for 92 per cent and recurrent costs account for 8 per cent of the base costs.
27. Programme base costs by component are: (i) value chain upgrading – US\$4.96 million (11 per cent of total base costs); (ii) rural investment financing – US\$35.49 million (77 per cent); (iii) rural labour market intermediation – US\$0.76 million (2 per cent); (iv) policy and partnerships – US\$0.64 million (1 per cent). Programme management by the EOF is costed at US\$4.25 million (9 per cent).
28. Costs have been estimated on the basis of prices prevailing at the time of design. A physical contingency of 5 per cent has been applied to civil works, studies, training and technical assistance. Price contingencies have been applied on all costs apart from financial instruments. The exchange rate at the time of design was 230 Yemeni rials to one United States dollar. Local inflation rates are based on the forecasts of the Central Bank of Yemen.

B. Programme financing

29. The programme will be financed by: IFAD (grant of US\$9.07 million); cofinancier(s) (to be confirmed) (US\$21.29 million); participating financial institutions (US\$6.20 million); private investors (US\$6.91 million); the EOF (US\$2.80 million); beneficiaries (US\$0.95 million); and Government (US\$0.94 million). All physical investments in the natural stone value chain under financing categories “civil works” and “financial instruments” will be financed by the cofinanciers.
30. The contributions of participating financial institutions, private investors and beneficiaries consist of their own funds and may vary based on actual financing requirements during implementation. The contribution of the EOF will be obtained through income from its investments under this and other programmes that it is managing.

Table

Programme financing plan (millions of United States dollars) – By Component (incl. contingencies)

| Components | IFAD | | Cofinancier | | PFIs | | Investors | | Beneficiaries | | EOF | | GOY | | Total | |
|--|--------|----------|-------------|----------|--------|----------|-----------|----------|---------------|----------|--------|----------|--------|----------|--------|-------|
| | Amount | % Amount | Amount | % Amount | Amount | % Amount | Amount | % Amount | Amount | % Amount | Amount | % Amount | Amount | % Amount | Amount | % |
| 1. Value Chain Upgrading | 4.27 | 77.8 | 0.23 | 4.2 | - | - | - | - | 0.60 | 11.0 | - | - | 0.38 | 7.0 | 5.49 | 11.4 |
| 2. Rural Investment Financing | 1.32 | 3.7 | 21.06 | 58.8 | 6.20 | 17.3 | 6.91 | 19.3 | 0.34 | 1.0 | - | - | - | - | 35.82 | 74.4 |
| 3. Rural Labour Market Intermediation | 0.84 | 93.0 | - | - | - | - | - | - | - | - | - | 0.06 | 7.0 | 0.90 | 1.9 | |
| 4. Policy and Partnerships | 0.72 | 93.0 | - | - | - | - | - | - | - | - | - | 0.05 | 7.0 | 0.77 | 1.6 | |
| Economic Opportunities Fund (EOF) | 1.92 | 37.2 | - | - | - | - | - | - | - | 2.80 | 54.3 | 0.44 | 8.5 | 5.17 | 10.7 | |
| Total programme costs | 9.07 | 18.8 | 21.29 | 44.2 | 6.20 | 12.9 | 6.91 | 14.3 | 0.95 | 2.0 | 2.80 | 5.8 | 0.94 | 2.0 | 48.15 | 100.0 |

C. Summary benefit and economic analysis

31. The programme will create 28,670 full-time sustainable jobs in 12,480 enterprises. Given average household sizes, the programme will directly benefit some 220,000 poor rural individuals. Across the entire programme, the cost per job created/direct beneficiary household will be US\$1,700, or US\$220 per capita. Estimated daily wages in jobs to be created under the programme range from US\$5.0 to US\$16.0. Employees will benefit from training, cost-shared by the EOF and employers, and improved working conditions from implementation of the Decent Work principles.
32. Indirect beneficiaries include a wide range of actors within the target value chains (input suppliers, transporters, traders, exporters, service providers), members of

the rural communities in the target governorates, and the employees and communities across Yemen who will benefit from the introduction of decent work.

33. The programme will generate a broad range of other financial, economic, social and policy benefits including increased and diversified Government tax and export revenue, diversified and resilient rural economies, reduced burdens on social safety nets, a more skilled rural labour force and improved access to financial services.
34. The programme's economic internal rate of return is conservatively estimated at 24 per cent. Sensitivity analysis indicates that it is fairly robust in the event of delays in the flow of benefits or unforeseen cost overruns.

D. Sustainability

35. The programme's exit strategy and sustainability considerations are built into the design: (i) institutional sustainability – the EOF is a financially and administratively autonomous institution; its public-private framework ensures stability of governance and decision-making equity; its investments will make it financially sustainable in the medium-term; (ii) value chains – value chain upgrading and improved vertical integration will create a framework of financial incentives and profitability for all stakeholders; (iii) equity financing – ownership of companies financed under equity instruments will gradually be bought back by private investors, their sustainability ensured by the managerial and technical support provided; and (iv) social advantages – the introduction of CSR and the Decent Work concept will have positive implications for the target group and others.

E. Risk identification and mitigation

36. The programme's risks have been assessed and mitigated in design; residual risk is moderate and exogenous. Key risks relate to: (i) poor security conditions in particular governorates and cities, mitigated by the programme's national scope; (ii) political instability and governance weakness, mitigated by EOF management; (iii) delays in the flow of funds, mitigated by establishing a designated account with a sizeable authorized allocation; and (iv) commitment of partners to remain engaged and operational through difficult periods, mitigated by maintaining close contact and coordinating risk management and contingency planning.

V. Corporate considerations

A. Compliance with IFAD policies

37. The programme complies fully with relevant IFAD policies, including the Private Sector Development and Partnership Strategy, by partnering with the private sector to leverage additional investment and knowledge in rural areas; the Rural Enterprise Policy, by increasing access to both financial and non-financial services; and the Rural Finance Policy, by supporting demand-driven access to a diversified and innovative range of financial products, through a variety of channels.
38. The programme's approach to gender equality includes: (i) capacity-building on gender issues for stakeholders and service providers; (ii) promotion of gender equality and women's rights through the Decent Work Agenda; (iii) encouragement of entrepreneurship among rural women through limited non-reimbursable cofinancing and generous cost-sharing of advisory services for enterprise development; and (iv) enhancing women's participation in the labour force through skills training and labour market intermediation. Women are expected to obtain 57 per cent of the jobs created under the programme; employers will be incentivized to hire and train women.
39. The programme is classified as Category B under IFAD's Environmental and Social Assessment Procedures. Environmental impact assessments have been budgeted for and will be undertaken prior to the approval of investments. The criteria for selection of the targeted sectors included their low vulnerability to climate change.

B. Alignment and harmonization

40. The programme is harmonized and aligned with the priorities of the Government's Development Plan for Poverty Reduction 2011-2015: (i) to stimulate economic growth and reduce unemployment; (ii) to strengthen social protection; (iii) to accelerate progress on the Millennium Development Goals; and (iv) to enhance governance. It is an integral part of the 2012-2015 United Nations Development Assistance Framework for Yemen.
41. The EOF, which will manage the programme, is a public-private partnership. It will develop strong partnerships with the Small and Micro Enterprise Promotion Service, the lead agency for the Micro and Small Enterprise Development Strategy, and with the Social Fund for Development, particularly in relation to the delivery of business services and training. Additional key government partners in implementation will be the Yemen Geological Survey and Mineral Resources Board, Yemen Standardization, Metrology and Quality Control Organization, and the General Investment Authority.
42. The strategy, approach and sectoral focus of the programme have been informed by studies, reviews and projects conducted by International Finance Corporation (IFC), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), World Bank, International Food Policy Research Institute and World Food Programme, among others. The 2010-2012 IFAD country programme is closely aligned with Agence Française de Développement, GIZ, IFC and Kreditanstalt für Wiederaufbau Bankengruppe on private sector development and microfinance.

C. Innovations and scaling up

43. Building on opportunities for innovation identified in the RB-COSOP, the programme is innovative at the three levels of intensity identified in IFAD's innovation strategy (adoption, adaptation and creation). The EOF management arrangement, based on public-private partnership, is considered a key institutional innovation for poverty reduction in Yemen. The introduction of cost-shared delivery of business services and training will ensure the services are demand-driven. The application of equity financing for investments in small and medium-sized rural enterprises, consistent with *musharaka* (joint venture) Islamic banking principles, builds on lessons learned from innovation in other IFAD programmes in the region. The promotion of CSR and the Decent Work Agenda at the policy, programmatic and operational levels is an innovation in IFAD and in Yemen.
44. In terms of scaling up, the programme is designed to create the potential for systematically expanding, replicating, adapting and sustaining successful investments. Through its investment financing tools, business services scheme and forward-looking policy support, the programme will create the pathways, drivers and spaces for scaling up. Potential barriers to scaling up within the EOF will be removed by strengthening institutional capacity and implementing scalable approaches to the creation of rural economic and employment opportunities, and within the targeted sectors by promoting efficient modern production processes and expanding market access. The EOF's public-private partnership nature is configured to mobilize cofinancing resources and has already succeeded in doing so.

D. Policy engagement

45. The programme includes a specific component on policy and partnerships that will support the Government in mainstreaming CSR and the Decent Work Agenda within the national legal framework and the business community. Apex organizations in the selected value chains will be supported, providing a mechanism for stakeholders to influence policy. The programme will demonstrate, at the national level, the value of public-private partnerships as development instruments, and the application of a market-led value chain approach for the creation of economic and employment opportunities for the rural poor.

VI. Legal instruments and authority

46. A programme financing agreement between the Republic of Yemen and IFAD will constitute the legal instrument for extending the proposed financing to the recipient. A copy of the negotiated financing agreement is attached as an annex.
47. The Republic of Yemen is empowered under its laws to receive financing from IFAD.
48. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

VII. Recommendation

49. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a grant to the Republic of Yemen in an amount equivalent to five million seven hundred and twenty thousand special drawing rights (SDR 5,720,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement: "YemenInvest-Rural Employment Programme"

(Negotiations concluded on 10 November 2011)

FINANCING AGREEMENT

Grant Number:

Programme Title: YemenInvest - Rural Employment Programme (the "Programme")

The Republic of Yemen (the "Recipient")

and

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

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

hereby agree as follows:

- A) The Recipient has requested financing from the Fund for purposes of partially financing the Programme described in Schedule 1.
- B) The Fund and the Recipient will seek to identify additional external financing of approximately twenty-one million two hundred and ninety thousand United States Dollars (USD 21 290 000) equivalent to assist in cofinancing the Programme, on terms and conditions to be set forth in an Agreement between the Recipient and the cofinancier(s).
- C) Additional financing for the Programme is expected to be provided by domestic sources including the Economic Opportunities Fund (EOF), commercial banks and microfinance institutions, private investors and beneficiaries.

Section A

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), the Special Covenants (Schedule 3) and the Fund's General Conditions.
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 Programme in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Grant is five million seven hundred twenty thousand special drawing rights (5 720 000 SDR).
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 Programme. 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 2 000 000 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 the 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 two Programme Accounts, one in YER and other in USD for the benefit of the Programme in a commercial bank acceptable to the Fund or in the Central Bank. The Chief Executive Officer and the Chief Financial Officer of the EOF will be authorized to operate these Accounts.
5. The Recipient shall provide counterpart financing for the Programme in the amount of nine hundred and forty thousand United States Dollars (USD 940 000) equivalent.

Section C

1. The Lead Programme Agency shall be the Economic Opportunities Fund (the EOF).
2. The following are designated as additional Programme Parties: the International Labour Organisation (ILO), the Yemen Geological Survey and Mineral Resources Board (YGSMRB), the Yemen Standardisation and Metrology Organisation (YSMO); interested microfinance banks/institutions and commercial banks licensed by the Central Bank of Yemen, and contracted service providers such as engineering firms, contractors, consulting firms, NGOs and business service providers.
3. The Programme Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.

Section D

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

Section E

1. The following are designated as additional grounds for suspension or cancellation of this Agreement:
 - (a) The Programme 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 Programme.
 - (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, following consultation with the Recipient, that any such event listed above is likely to have a material adverse effect on the Programme.

2. (a) The following are designated as additional general conditions precedent to withdrawal:

- (i) The composition of the Board of Directors of Economic Opportunities Fund (EOF) is approved by IFAD;
- (ii) The Designated Account and Programme Accounts have been duly opened;

(b) The following is designated as an additional specific condition precedent to withdrawal under categories III (Training, TA and Contractual Services), IV (Financial Instruments), and V (Studies): The framework for the EOF's Programme Implementation Manual has been completed to the satisfaction of the Fund.

(c) The following is designated as an additional specific condition precedent to withdrawal under category IV (Financial Instruments) for the purpose of making an equity investment:

- (i) the EOF has prepared written guidelines governing the process of preparing, making and managing an equity investment, and these have been approved by the Fund.

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 Recipient:

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

For the Fund:

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

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.

THE REPUBLIC OF YEMEN

Authorised Representative

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. *Target Population.* The Programme shall benefit unemployed and underemployed women and men in rural areas living below the poverty line. Within these target groups, priority will be allocated to women and young labour market entrants whose participation will be supported through specific targeting measures. The Programme will be national in scope but will initially focus on seven governorates – namely Abyan, Al Baida, Dhamar, Hajjah, Hodeidah, Lahj and Taiz (the “Programme Area”). Expansion to other Governorates will be based on the business case and security considerations.
2. *Goal.* The goal of the Programme is to improve the economic status of poor rural households.
3. *Objectives and outcomes.* The objectives of the Programme are to create sustainable and diversified employment opportunities for unemployed and underemployed women and men in rural communities. The expected outcomes are: (i) growth and profitability of business in targeted sectors increased; (ii) rural entrepreneur’s access to a range of financial services increased; (iii) target group’s access to employment and training opportunities improved; and (iv) Corporate Social Responsibility (CRS) and Decent Work agendas gradually implemented.
4. *Components.* The Programme shall consist of the four components: (a) value chain upgrading; (b) rural investment financing; (c) rural labour market intermediation; and, (d) policy and partnerships.

Component 1: Value Chain Upgrading

This component will invest in three core activities: cluster establishment; business capacity development; and market promotion. Establishment of clusters with common infrastructure and services will generally focus on the natural stone and handloom textile sectors, while business capacity development and market promotion will cover all rural sectors and enterprises accessing programme-supported financing packages. Appropriate legal arrangements will be made for participating investors to own and manage each cluster site and its assets. Cluster management procedures will be elaborated and the capacity of cluster management staff built. The Programme will support the EOF to establish and administer a business services delivery scheme designed to make demand-driven business services and training available to enterprises receiving Programme financing. Market promotion initiatives will be undertaken including market studies, participation in domestic and international trade fairs, trial shipments, promotion of compliance with international product and process standards and improving available of trade information in order to enhance market access. Support will be provided for the product research and development and for stakeholder-driven apex organisations in supported sectors.

Component 2: Rural Investment Financing

This component will improve availability of appropriate financing options for the sustainable expansion of rural micro, small and medium-sized enterprises with market growth and job creation potential. The Programme will support the EOF to make equity investments in rural enterprises with market growth and job creation potential; these investments will amount to a maximum of 49% of the equity in any enterprise. The EOF will engage a

qualified third party to review due diligence assessments and business plans prepared for each equity investment. The EOF will establish an independent investment committee to evaluate each equity investment proposal prior to final approval; where IFAD financing is to be used, IFAD will serve as a non-voting member on this committee. The Programme will also support a refinancing 'Open Window', managed by the EOF, to provide refinancing of medium-long term loans extended by participating financial institutions (PFIs) to eligible rural enterprises with market growth and job creation potential. Refinancing agreements will be signed between the EOF and PFIs whose eligibility to participate will be determined through due diligence assessment and comprehensive audit undertaken by a local reputable audit firm. The deposit in the shareholder's account of Al Amal Bank will also be increased.

The EOF will support the establishment of community managed revolving facilities (CRFs), financed by dividends from the EOF investments. These will provide poor women and young people with access to financing for micro-enterprises and income-generating activities. A limited amount of non-reimbursable matching cofinancing will also be provided to poor women and young people accessing Programme-refinanced loans from PFIs and financing from CRFs. A limited amount of capacity building support will be provided to partnering financial institutions and CRFs on demand.

Component 3: Rural Labour Market Intermediation

This component aims to improve the target groups' access to employment and training opportunities. A labour force needs assessment and an assessment of existing training opportunities and institutions will be conducted. Curricula related to the targeted sectors will be developed, together with the relevant partner organisations, and the Programme will provide training of trainers support to selected training institutes/providers interested to implement the new curriculum. Twinning arrangements, exchanges and overseas study visits between the training institutes, enterprises and overseas specialised institutes will be promoted. A range of additional measures will be implemented to improve availability within target rural communities of information on available employment and training opportunities. Specific emphasis will be placed on promoting women's and youth's access to training and employment opportunities. Specific efforts will be made to promote youth enterprise and enable young people in rural areas to access business and financial services offered by the Programme.

Component 4: Policy and Partnerships

This component will empower the Economic Opportunities Fund to serve as a catalyst for the gradual introduction and adoption of CSR and the Decent Work agenda in Yemen. It will facilitate policy development and build partnerships to mainstream these social agendas into the national legal framework and within the business community through training sessions, workshops and the production of focused knowledge products. Activities may include the preparation of CSR strategies, workshops and awards. The Programme will work closely with the International Labour Organisation to support the Government to incorporate the Decent Work agenda in the legal and regulatory framework on employment and working conditions and will develop a 'Letter of Commitment' to implement specified principles of the Decent Work agenda to be signed by all investors with which the EOF enters into equity investments. The EOF will develop appropriate partnerships with relevant public, private, civil society and community organisations and with international institutions and financiers, and participate in relevant workshops and knowledge networks in which it has strategic interest.

II. Implementation Arrangements

Programme Management

1. The Economic Opportunities Fund, created by Presidential Decree 183/2010, will be the Lead Programme Agency and will be responsible and accountable for the management and implementation of the Programme. 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 operations of the EOF under principles of good governance, business ethics, transparency, equity, efficiency, sustainability and corporate social responsibility. The EOF will convene regular meetings with stakeholders to ensure that the EOF's strategic and operational agenda is driven by the concerns of target groups. The EOF's CEO and core professional staff will be selected by the Board of Directors based on a competitive recruitment process subject to IFAD approval, and will receive highly competitive salary levels. As the quality of staff is of fundamental importance in determining the quality of EOF's performance, the Board will closely monitor staff performance.

2. Under this Programme, the EOF and links with key Ministries will be strengthened. Programme coordination units will be established within the Ministry of Agriculture and Irrigation and within the Ministry of Oil and Minerals, for coordination of relevant aspects of EOF-managed projects and programmes. As necessary, additional staff with relevant skills and experience will be recruited on a competitive basis to ensure the effective management of this Programme.

Organisational Framework

1. The Programme will be implemented by public and private sector service providers contracted by the EOF on a performance-basis. The procurement and contracting of service providers for the implementation of Programme activities will be subject to IFAD prior review and concurrence. With respect to the business services voucher scheme, inclusion of service providers in the approved service providers directory will not be subject to IFAD prior review or concurrence but strong feedback mechanisms will be included in the scheme and poorly performing service providers will be removed from the directory.

2. The annual work plan and budget will be prepared by the Management Team of the EOF through a participatory process with stakeholders, internally reviewed, 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 and IFAD for review and approval in relation to IFAD financing.

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. Civil Works | 500 000 | 100% net of taxes |
| II. Vehicles, Equipment and Materials | 120 000 | 100% net of taxes |
| III. Training, TA and Contractual Services | 1 530 000 | 100% net of taxes and beneficiaries' contribution and other cofinancers |
| IV. Financial Instruments | 1 940 000 | 100% net of beneficiaries' contribution and other cofinancers |
| V. Studies | 670 000 | 100% net of taxes |
| VI. Recurrent Costs | 390 000 | 100% net of taxes and EOF's contribution |
| Unallocated | 570 000 | |
| TOTAL | 5 720 000 | |

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

- i) *Civil works* includes the costs of infrastructure feasibility studies, engineering design, physical works and site supervision of Programme activities with the exclusion of those related to the natural stone sector.
- ii) *Financial Instruments* includes equity financing, debt financing, refinancing, grant financing and other financial instruments. It excludes physical investments in the natural stone sector.
- iii) *Recurrent 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 Programme benefits are also delivered to poor rural women in the Programme area. The Programme AWPB and progress reports shall be disaggregated by gender as appropriate.
2. Until such time as Specific Condition 2(c)(i) in Section E of the Financing Agreement is met, the Recipient shall indicate, in each withdrawal application requesting funds under category IV (Financial Instruments), whether the related expenditures are for equity investments.

Logical framework

| Objective Hierarchy | Key Performance Indicators (at programme completion, disaggregated by age/gender/sector) | Means of Verification |
|--|---|---|
| Goal <i>Economic status of poor rural households improved</i> | <ul style="list-style-type: none"> • Increase in asset ownership index • Reduction in prevalence of child malnutrition • Reduction in % of food insecure rural households, from 38.1% (2010) • Increase in secondary school enrolment rates (%) | <ul style="list-style-type: none"> • Baseline & impact surveys • WFP data • UNESCO/government data |
| Development Objective <i>Sustainable and diversified employment opportunities for unemployed and underemployed women and men in rural communities created.</i> | <ul style="list-style-type: none"> • 28 000 jobs created by programme completion • 80% of enterprises supported, operating 3 years after receiving financing | <ul style="list-style-type: none"> • Enterprise reports & MOSAL surveys • Financial statements of MSMEs |
| Programme Outcomes and Outputs | | |
| Outcome 1: <i>Growth and profitability of businesses in targeted sectors increased.</i> | <ul style="list-style-type: none"> • Increase in number of registered businesses in target sectors • Increase in value of total domestic production of NS and handloom textiles • Increase in average profitability of businesses after 3 years | <ul style="list-style-type: none"> • GIA data • GSMRB, YTC, apex organisations • Financial statements of MSMEs |
| Output 1.1 – Value chain clusters operational | <ul style="list-style-type: none"> • # of enterprises operating on cluster sites • By YR3, 100% of cluster O&M costs covered by rents/service charges | <ul style="list-style-type: none"> • Cluster management reports |
| Output 1.2 – Business services support scheme operational | <ul style="list-style-type: none"> • Vouchers (for services) redeemed (#/value/av. cost sharing at least 25%) • People accessing advisory services facilitated by the programme • People receiving training (vocational/business and entrepreneurship) | <ul style="list-style-type: none"> • Service provider records • EOF administrative records |
| Output 1.3 – Access to domestic and export markets increased | <ul style="list-style-type: none"> • Value of sales through programme supported retail outlets • Increase in sales of programme supported enterprises to export markets | <ul style="list-style-type: none"> • GSMRB, YTC, apex organisations • Retailers records |
| Outcome 2: <i>Rural entrepreneurs have improved access to a range of sustainable financial services</i> | <ul style="list-style-type: none"> • Financial institutions participating in the programme • At least 30% increase in PFI's short-term rural lending • At least 15% increase in PFI's long-term rural lending and <i>musharaka</i> | <ul style="list-style-type: none"> • PFI records • EOF financial statements |
| Output 2.1 – EOF's equity and refinancing facilities operational | <ul style="list-style-type: none"> • Return on EOF investment activities (100% repayment of EOF refinancing) • Value of the gross refinanced loans portfolio (individuals/enterprises) | <ul style="list-style-type: none"> • EOF financial statements and data • Equity financing contracts |
| Output 2.2 – Alternative financing mechanisms for poor rural communities operational | <ul style="list-style-type: none"> • 6000 CRF loans and 6000 EOF co-financed loans issued by completion • 100% repayment of CRF credit | <ul style="list-style-type: none"> • CRF and EOF reports and financial statements |
| Outcome 3: <i>Target groups' access to employment and training opportunities improved</i> | <ul style="list-style-type: none"> • Reduction in average job search time reported in rural communities • 100% of new employees in supported enterprises receive training | <ul style="list-style-type: none"> • Household/focus group interviews • MOSAL reports |
| Output 3.1 – Increased rural availability of information on training and employment | <ul style="list-style-type: none"> • % of target group with regular (at least monthly) access to information on training and employment opportunities | <ul style="list-style-type: none"> • Service provider records • Focus groups |
| Output 3.2 – Increased availability of market-demanded training opportunities | <ul style="list-style-type: none"> • # of staff of service providers certified to deliver new curricula • # of employees of enterprises attending targeted training | <ul style="list-style-type: none"> • Service providers, including TOT • Focus groups/reports |
| Outcome 4: <i>CSR and Decent Work Agendas are gradually implemented</i> | <ul style="list-style-type: none"> • % of Yemeni businesses with approved CSR strategy • Increased % of employees with positive perceptions of working conditions | <ul style="list-style-type: none"> • Yemeni Businessmen's Club • Focus groups/enterprise visits |
| Output 4.1 - Awareness of the CSR and Decent Work Agendas is increased | <ul style="list-style-type: none"> • Participants in CSR and Decent Work workshops (#) • Decent Work "Letters of Commitment" signed (100% of equity investments) | <ul style="list-style-type: none"> • Workshop reports • Letters of commitment |
| Output 4.2 – EOF partnerships with relevant organizations strengthened | <ul style="list-style-type: none"> • Memoranda of Understanding entered into (#) • Formal networks/communities joined (#) | <ul style="list-style-type: none"> • EOF annual reports • Memoranda of Understanding |