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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

REPUBLIC OF YEMEN

FOR THE

DHAMAR PARTICIPATORY RURAL DEVELOPMENT PROJECT



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CURRENCY EQUIVALENTS

Currency Unit	=	Yemeni Rial (YER)
USD 1.00	=	YER 173
YER 1.00	=	USD 0.006

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

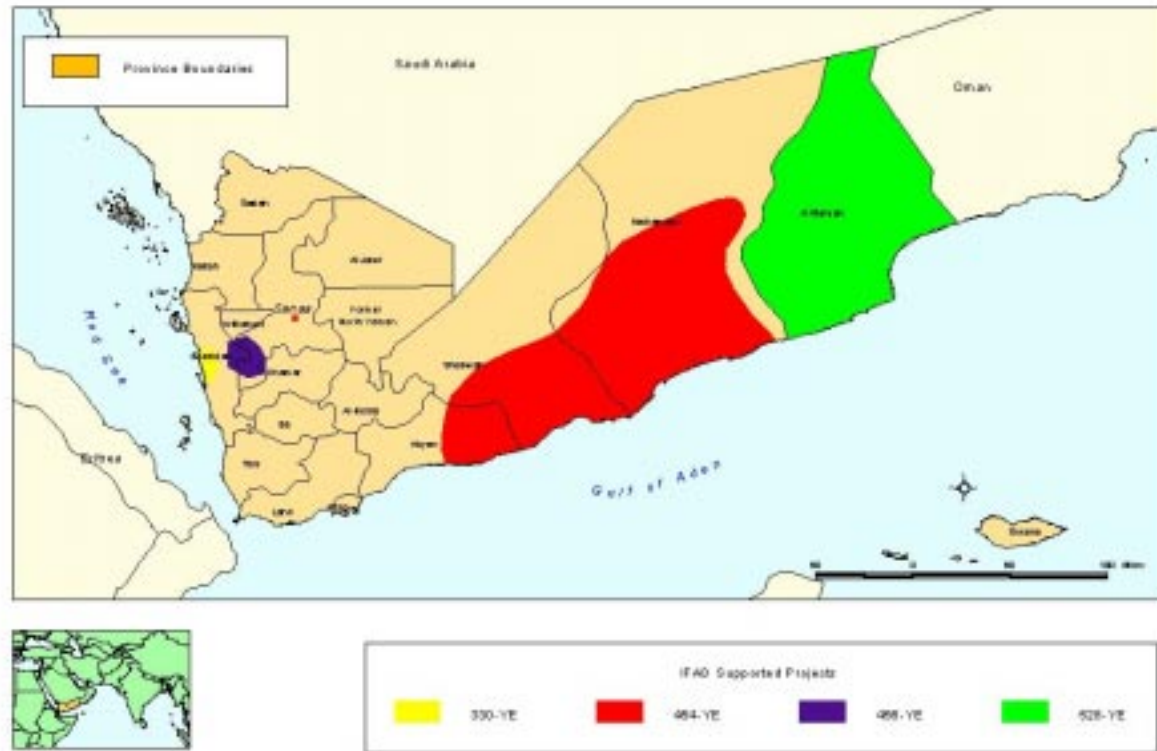
AIO	Agriculture and Irrigation Office
AWP/B	Annual Workplan and Budget
CACB	Cooperative and Agriculture Credit Bank
M&E	Monitoring and Evaluation
NGO	Non-Governmental Organization
PMO	Project Management Office
PSC	Project Steering Committee
SCA	Savings and Credit Association
TA	Technical Assistance
WFP	World Food Programme
WUA	Water Users' Association

GOVERNMENT OF THE REPUBLIC OF YEMEN

Fiscal Year

1 January-31 December

MAP OF THE PROJECT AREA



Source: IFAD

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.





REPUBLIC OF YEMEN

DHAMAR PARTICIPATORY RURAL DEVELOPMENT PROJECT

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Republic of Yemen
EXECUTING AGENCY:	Ministry of Agriculture and Irrigation
TOTAL PROJECT COST:	USD 22.66 million ^a
AMOUNT OF IFAD LOAN:	SDR 10 900 000 (equivalent to approximately USD 14.01 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIERS:	The Netherlands World Food Programme (WFP)
AMOUNT OF COFINANCING:	The Netherlands: USD 2.16 million WFP: USD 4.36 million
TERMS OF COFINANCING:	The Netherlands: Grant WFP: Food assistance
CONTRIBUTION OF BORROWER:	USD 1.49 million
CONTRIBUTION OF BENEFICIARIES:	USD 628 680
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	Arab Fund for Economic and Social Development (AFESD)

^a Figures rounded up.



PROJECT BRIEF

Who are the beneficiaries? The target group mainly comprises households living below the poverty line in the seven western mountain districts of Jabal Al-Sharq, Maghrib Ans, Utmah, Wusab Al-Ali, Wusab Al-Safil, Manar and the more remote areas of Dawran, and 15% of all rural households in the montane plains districts (Hada, Meifa'a Ans, Ans, Jahran and the lowland area of Dawran). The total number of households involved is estimated at 55 632 in 3 127 villages.

Why are they poor? Limited natural resources and poor facilities and services in the remote rural areas are the main factors contributing to rural poverty in Yemen as a whole. These constraints characterize Dhamar, where up to 70% of the population in highland, rainfed villages live below the poverty line. Entire communities live in conditions of poverty and deprivation, with a standard of living that in some cases has remained unchanged for hundred of years. Women, who are the main livestock rearers, agricultural producers and household and family managers, are constrained by pervasive illiteracy, limited rights of ownership or control of assets, and restricted participation in social and civic affairs.

What will the project do for them? The overall goal of the project is to enhance the food security of subsistence farmers, raise family incomes and improve the living conditions and development participation of small farm households and village communities in Dhamar. To that end, the project will: empower communities, including women and the poor, to mobilize and organize themselves to participate in, and gain direct benefit from, development planning and project execution; remove critical physical, infrastructural and social constraints to productivity and advancement; and equip and support farming households with a view to increasing their output, thereby enabling them to secure basic food supplies, produce marketable surpluses and pursue income-generating activities.

How will the beneficiaries participate in the project? The implementation strategy for the project recognizes the need for greater civic cohesion and improved community-level organization in the interests of realistic participatory planning for clearly defining the roles and responsibilities of all stakeholders and for judicious allocation of project resources. During implementation, therefore, the project will support and operationalize the principles of improved management and accountability in the delivery of services by the public or private sectors. Thus, project activities will be executed by agencies/institutions from the public/private sectors on the basis of yearly contracts that are renewable subject to good performance. Payments, together with a system of rewards and penalties, will be linked to delivery performance.

Project costs and cofinancing. Total project costs are estimated at USD 22.66 million (YER 4 236 million) over a seven-year period. Base costs amount to USD 20.07 million, while physical and price contingencies are valued at USD 324 044 and USD 2.26 million, respectively. IFAD financing will amount to USD 14.01 million, or 61.9% of total project costs. Cofinancing will be provided by The Netherlands and World Food Programme in the amounts of USD 2.16 million (9.5%) and USD 4.36 million (19.3%), respectively. The Government will contribute USD 1.49 million (6.6%) and the beneficiaries USD 628 680 (2.8%).



**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE
REPUBLIC OF YEMEN
FOR THE
DHAMAR PARTICIPATORY RURAL DEVELOPMENT PROJECT**

I submit the following Report and Recommendation on a proposed loan to the Republic of Yemen for SDR 10.90 million (equivalent to approximately USD 14.01 million) on highly concessional terms to help finance the Dhamar Participatory Rural Development Project. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the Arab Fund for Economic and Social Development (AFESD) as IFAD's cooperating institution.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and the Agricultural Sector

1. As a least developed, low-income, food-deficit country, Yemen is one of the world's poorest countries, both in terms of its per capita gross domestic product (GDP), which decreased from USD 525 in 1990 to the current USD 350, and by most indices of standards of living. Around 52% of all children under the age of five are stunted as a result of chronic malnutrition. Only 16% of the population has access to health care and 61% to safe drinking water. Infant mortality is high at 76 per 1 000 live births and, at 1 400 per 100 000 births, the maternal mortality rate is one of the highest in the world. The overall literacy rate is estimated at about 40%, whereas that for rural women is only 15% – the lowest in the Middle East Region. The overall school enrolment rate is 55% but, by age ten, more than 20% of all boys and 50% of girls have never attended school.

2. The Government succeeded in arresting the serious economic decline that occurred following unification thanks to a series of bold reforms to address economic imbalances and promote democracy. Between 1995 and 1997, the economy grew at 6.4% and, in 2000, inflation dropped from 71% to 3.9%. However, the economy remains highly dependent on oil (with its international price fluctuations) and, to a lesser extent, on remittances from Yemenis working abroad.

3. The Government's policy and strategy for economic development now focus on: greater autonomy for local administrations through decentralization; creating the climate for private-sector investment; and improving both resource allocations and economic and financial stability. However, reforms in the civil service and in the financial, administrative and judiciary sectors are proceeding slowly.

4. Yemen is a predominantly rural country. Agriculture provides 58% of all employment but accounts for only 17% of GDP, which has fallen from 30% in the 1990s owing to the increasing importance of oil. Agricultural-sector growth averaged only 2% per year during the late 1990s – well

¹ See Appendix I for additional information.



below population growth. Food availability mostly depends on imports, which account for 78% of cereal supplies despite the fact that 81% of all cultivated land is sown to cereals. Basic staples are widely available due to an unconstrained import policy, but access to food is a problem for 34% of the rural population.

5. Yemeni agriculture remained overwhelmingly traditional until the 1960s. Following the oil boom of 1970, the agricultural sector grew rapidly during the rest of that decade and in the 1980s and changed structurally under the influence of considerable investment, market expansion and protectionist policies. Today, the sector is characterized by a generally market-oriented agriculture; widespread groundwater irrigation that has brought self-sufficiency in fruit and vegetables (helped by an import ban) but which is subject to growing water constraints; explosion of *qat* (a local plant) cultivation, which now covers one tenth of all prime farm land; heavy dependence on imported cereals, accompanied by marginalization of the cereals economy, reduced areas planted to cereals and consequent deterioration of watersheds and terraces; stagnation in the traditional livestock economy; absence of recent productivity breakthroughs and generally poor levels of husbandry and productivity; weak links to industry; an inward-looking orientation; and very few exports.

6. Although the country's 1.7 million ha of cultivable land represents only 3% of the total land area, there is good potential for agricultural growth. Many crops, including cotton, grapes, papaya, coffee, sesame, saffron, dyes, groundnut and medicinal plants (for which Yemen has a long history but has not developed markets), hold promise of improved productivity and have good economic and technical potential for further growth. There is considerable scope for improving water use and crop husbandry, as well as for genetic improvement and for eliminating post-harvest and marketing inefficiencies to increase value added. The efficiency of smallholder livestock production could be greatly increased through the introduction of mineral supplements, disease-control measures, improved animal housing and better fodder plants. With the country's high population growth, the large domestic market for agricultural produce is growing rapidly and there is likely to be a demand for higher-value food as urbanization continues and incomes gradually increase. Given its natural resource constraints, the country's comparative advantage lies in high-value produce, and its best export opportunities are in niche markets – original Mocha coffee, frankincense, saffron, myrrh, etc.

7. Yemen's already limited natural resource base is under pressure, with rapidly declining groundwater tables coupled with watershed and upstream range degradation that both provoke erosion and reduce groundwater recharge. The key to tapping sources of growth in agriculture, therefore, will be to improve productivity, using technology, capital and Yemen's relatively cheap labour, to generate more value added from the existing resource base. However, growth will be sustainable and equitable only if care is given to preserving the resource base. Excessive groundwater use, deterioration of upper watersheds and floods constitute the major threats to sustainability. The extraction of groundwater for irrigated agriculture, without recharge, is depleting aquifers beyond recoverable levels, particularly since rainfall in Yemen also appears to be decreasing. On the other hand, the rainfed sector, which involves by far the most sustainable production systems and is open to improved water harvesting and use, has been neglected to date.

B. Lessons Learned from Previous IFAD Experience²

8. To date, IFAD has financed 15 projects in Yemen for a total of USD 139.0 million, covering area development, agricultural services, spate irrigation, credit and fisheries. The key lessons emerging from IFAD operations in Yemen over the past two decades can be summarized as follows:

- (a) **Complexity of projects.** The constraints imposed by bureaucracy and difficulties encountered in terms of inter-ministerial and inter-agency coordination all suggest that

² See Appendix II for additional details.



projects should be simple in design and have clear objectives, good targeting arrangements, a precise geographic focus and well-defined implementation procedures and responsibilities.

- (b) **Participatory irrigation management.** Farmers are aware that a reliable, consistent supply of water is the major determinant of successful farming. The importance of water users' associations (WUAs) is increasingly recognized inasmuch as such associations represent the farmers' rights and manage farm irrigation. Projects need to capitalize on WUAs and similar participatory groups as agents of empowerment and for implementation.
- (c) **Credit.** Projects can act as catalysts and innovators with regard to the provision of credit. The terms of participation on the part of financial institutions and/or intermediaries should be such as to secure the wholehearted, long-term commitment of such bodies. Any future initiatives by credit delivery institutions should be based on clear-cut contracts and suitable financial incentives.
- (d) **Gender and development.** The cultural sensitivities of new-land communities call for flexibility in the provision of extension, training and other services so that women are effectively reached and become engaged in project activities, whether in mixed or separate groups, as determined by local conditions and beliefs.
- (e) **Diversified approach.** Farming alone is unlikely to assure sufficiently high household incomes or to stimulate wider economic development in the settled areas. Attention should be paid, therefore, to encouraging off-farm, non-farm and service enterprises that can help to increase prospects for employment, earnings and business enterprises, and contribute to reducing marketing problems.

C. IFAD's Strategy for Collaboration with Yemen

Yemen's Policy for Poverty Eradication

9. The latest poverty survey on Yemen shows that there has been a significant increase in poverty throughout the country and that the problem now affects 34% of all households (nearly 5 million people). Some 18% of the population live below the food poverty line, conventionally defined as the inability to acquire a basket of food providing 2 200 kcal per day. There are wide disparities in the incidence of poverty in terms of gender, and between rural and urban areas and governorates. Absolute poverty in the rural areas is significantly higher (35%) than in the towns and cities (25%) and households headed by women are most affected.

10. Yemen's endemic poverty stems primarily from its limited natural resource base and high population growth, and is further aggravated by: (i) biased ownership or control – and over-exploitation – of key natural resources, especially land and water, by a few better-off sectors of society; (ii) the sudden cessation of remittances from workers abroad; (iii) reduced food subsidies; (iv) fewer employment opportunities, particularly in the public sector; and (v) inadequate infrastructure, facilities and services. Poverty can be characterized in terms of both income and living conditions, but the phenomenon is more frequent and acute in rural areas where facilities and services are severely limited. Women are particularly affected owing to constraints on their mobility and public visibility.

11. The most vulnerable poor groups are generally defined as: women, especially widows and woman-headed households; landless and casual labourers; tenant and share-cropping farmers; households with large numbers of family members and/or few assets in terms of land, property or



livestock; those who depend on risky sources of income, such as small-scale farmers in drought-prone areas; and households composed of orphans or disabled, sick or socially isolated persons.

12. The Government's poverty-alleviation policy is encapsulated in the Interim Poverty Reduction Strategy Paper, approved in February 2001, which proposes sustainable measures for reducing poverty based on the objectives of: creating income-generating opportunities and expanding economic opportunities for the poor; enhancing the capabilities of the poor and increasing returns on assets; and reducing suffering and vulnerability. The strategy stresses the need for poverty policies to be applied simultaneously on a broad front; incorporate a social safety net for the ultra poor; improve the social conditions and economic productivity of the poor; and attack the structural causes of poverty by focusing both on its prevention and on ensuring sustainable livelihoods.

IFAD's Strategy in Yemen

13. The Country Strategic Opportunities Paper for Yemen, prepared in 2000, set out IFAD's new strategy for the country. The aims of the strategy are to adapt the Fund's approach to emerging government policies and to establish synergies between IFAD specificity and national priorities for alleviating rural poverty and social and economic advancement. This will entail providing assistance, in a sustainable manner, for productive activities involving land and water use, capital, technology and skills and for improving social facilities and services, especially roads and water supplies, that are essential to productive pursuits and improved living standards.

14. The salient features of IFAD's strategy are:

- conformity with agreed government priorities and commitments;
- concentration on themes such as community development, off-farm enterprises and livestock, where the policy environment is less restrictive;
- concentration on marginal and peripheral areas where most of the population are poor, where other donor and government interventions are limited, and where some initiatives benefit entire communities while selected technological and financial inputs are provided only to the poor;
- building up partnerships with donors with similar objectives;
- continued but sharpened focus on rainfed and surface water-based farming systems; and
- evolution of community-based agricultural services and management, and the provision of infrastructure.

PART II - THE PROJECT

A. Project Area and Target Group

15. With an estimated population of 1.2 million (2001), Dhamar is Yemen's sixth most populated governorate. It covers a land area of 600 000 ha, of which 87 000 ha are under cultivation, making it the third most important agricultural governorate in the country. There is a high settlement rate in the governorate – reaching more than 20 people per hectare, even in the rugged mountainous areas of the seven western districts. With the creation of three new districts in 2001, Dhamar has 12 districts, one of which is the capital, Dhamar, and the other 11 are rural.

16. Dhamar is divided into four distinct topographical zones: (i) central montane plains: an elevated plateau at an altitude of around 2 500 m where some 75% of the 34 000 ha of irrigated land are to be found; (ii) the western mountains, which are characterized by rugged mountainous terrain with elevations ranging from 1 500 to 2 900 m and where agriculture is limited to narrow terraces and small plots in narrow valleys with some irrigation; (iii) semi-tropical *wadis* (water courses) and terraces in the far west of the governorate at elevations of more than 200 m, leading down to the



Tihama plains and the Red Sea coast; and (iv) the arid eastern highlands comprising mountainous terrain (albeit less rugged) with elevations of around 2 300 to 2 500 m. The zone is mainly characterized by pastoral activities on communal rangeland and limited crop cultivation in pockets in the foothills, where rainfall run-off from the rocky slopes can be channelled onto small areas of soil.

17. The target population in the project area comprises 55 632 households in 3 127 villages. This includes 46 500 households in about 2 700 villages in the seven western districts (Jabal Al-Sharq, Maghrib Ans, Utmah, Wusab Al-Ali, Wusab Al-Safil, Manar and the mountainous, more remote areas of Dawran) and 9 000 households in about 427 villages in the montane plains districts (Hada, Meifa'a Ans, Ans, Jahran and the lowland area of Dawran).

B. Objectives and Scope³

18. The overall goal of the project is to enhance the food security of subsistence farmers, raise family incomes and improve the living conditions and development participation of small farm households and village communities in Dhamar Governorate. To that end, the project will: (i) empower communities, including women and the poor, to mobilize and organize themselves to participate in, and gain direct benefit from, development planning and project execution; (ii) remove critical physical, infrastructural and social constraints to productivity and advancement; and (iii) equip and support farming households with a view to increasing their output to enable them to secure basic food supplies, produce marketable surpluses and pursue income-generating opportunities.

C. Components

19. The project will be organized around four main components, as follows:

Community Development

20. The project will support: (i) participatory planning and community institution-building to help communities prioritize their development needs, formulate village development plan and establish and/or strengthen various community groups engaged in project implementation. This will be achieved with the assistance of an international non-governmental organization (NGO) and with local NGOs subsequently set up by the project with financing from the Government of The Netherlands; (ii) literacy and life-skills training, especially for women and girls, aimed at creating income-generating opportunities; and (iii) community infrastructure, e.g. drinking water supplies, schools, improved access roads and health posts, for which communities will be required to contribute, in cash and/or in kind, and to form management committees.

Agriculture and Livelihood Development and Environment

21. Support will be provided for: (i) extension and technology transfer, including (a) improved access to extension advice and farmer training with a clear focus on women. Village agricultural leaders and village animal health leaders will be identified and trained to provide routine, on-farm crop and livestock services and demonstrations based on farmer demand. International technical assistance (TA) will be used to fine-tune the extension methodology and support provided for the production of agricultural broadcasts to improve communications and disseminate information; (b) enhanced crop production in rainfed areas through improved seed based on varietal trials of local sorghum and legume landraces and better agronomic practices; (c) increased livestock productivity through improved access to basic animal health care and husbandry advice together with adequate feed resources; (d) promotion of income diversification, including TA to identify new opportunities for crop or livestock development; (ii) irrigation development through the establishment of an

³ See Appendix III for additional information.



irrigation development facility to finance small dams and piped conveyance systems, water harvesting structures, water catchment management, etc., together with the establishment of WUAs for operation and maintenance, and support for improved groundwater use; (iii) natural resources management, including terrace rehabilitation and maintenance and increased availability of fodder, fuel wood and fruit through afforestation on abandoned terraces, rehabilitation of grazing areas and *wadi* bank protection. Individual sub-projects will be selected through a participatory planning process; (iv) marketing support, including identification of market opportunities and establishment of market links; capacity-building for the establishment of marketing groups/cooperatives; and credit for basic marketing infrastructure. This activity will be initially supported on a pilot basis and will be replicated only once the initial intervention has been evaluated; and (v) improved rural financial services through the development of alternative credit delivery systems, e.g. savings and credit associations (SCAs). Bulk lending to SCAs will be provided by an agent bank selected through a competitive selection process. In this connection, negotiations ongoing between the embassy of The Netherlands in Sana'a and the Government aim at finalizing a proposal for restructuring the Cooperative and Agriculture Credit Bank (CACB) along the lines proposed during IFAD's formulation mission for the present project.

Institutional Support, Technical Assistance and Training

22. Support will be provided to build up the institutional capacity of the Ministry of Agriculture and Irrigation and other concerned government agencies. TA, training, workshops, etc., will be organized and an international NGO contracted to support this process (see paragraph 20).

Project Management

23. Financing will be provided for staff, premises, equipment, vehicles, staff development, TA and a monitoring and evaluation (M&E) system. A regional gender expert will be contracted for a period of three months to provide guidance on gender issues and conduct gender-sensitization training for all project management and implementing agency staff. A local computer expert will be recruited for two months to develop the necessary software for the design and operationalization of the management information system (MIS).

24. The project will adopt a flexible, process-oriented, demand-driven approach through which the beneficiary communities will be able to determine their priority activities and the resources needed for effective implementation. This process will be initiated with the support of an international NGO to be financed under a TA grant provided by the Government of The Netherlands.

D. Costs and Financing⁴

25. The estimated total cost of the project over seven years, at March 2002 prices inclusive of contingencies, taxes and duties, is estimated at YER 4 236 million (USD 22.66 million), of which 34% represents foreign exchange costs. Price contingencies for local costs are based on domestic inflation estimated at 4% per year for the implementation period; foreign costs are based on the projected G-5 Manufacturer's Unit Value Index of 2.5% until 2006 and 2.37% thereafter. Taxes and duties are estimated at USD 825 233. Project costs by component and the financing plan are given in Tables 1 and 2.

⁴ See Appendix V for additional information.



26. Community development constitutes the largest component, accounting for 38% of baseline costs. Of this, 28% will be allocated to community infrastructure and 10% to literacy and life-skills training. The agriculture and livelihood development and environment component accounts for 35% of baseline costs, of which 13% will be devoted to irrigation development, 10% to extension and technology transfer, 7% to natural resources management, 4% to rural financial services, and 1% to marketing support.

27. The proposed IFAD loan of USD 14.01 million will finance 61.9% of total project costs (Table 2). The Netherlands will contribute about USD 2.16 million⁵ (9.5%) and the World Food Programme (WFP) will provide the equivalent of USD 4.36 million (19.3%) in food assistance. The Government will contribute USD 1.49 million (6.6%), including USD 825 233 in taxes and duties, and the beneficiaries some USD 628 680 (2.8%). The beneficiary communities will contribute to total project costs through voluntary labour for community infrastructure works and through the savings of SCA members and equity contributions from borrowers.

TABLE 1: SUMMARY OF PROJECT COSTS^a
(USD)

	Local	Foreign	Total	% of Foreign Exchange	% Total Base Costs
A. Community development					
1. Participatory planning and community institution-building	24 567	36 851	61 418	60	-
2. Literacy and life-skills training	1 114 860	925 358	2 040 217	45	10
3. Community infrastructure	3 173 460	2 389 448	5 562 907	43	28
Subtotal	4 312 886	3 351 656	7 664 543	44	38
B. Agriculture and livelihood development and environment					
1. Extension and technology transfer	1 209 547	724 099	1 933 646	37	10
2. Irrigation development	1 542 273	1 148 234	2 690 507	43	13
3. Natural resources management	759 577	701 235	1 460 812	48	7
4. Marketing support	75 850	113 775	189 625	60	1
5. Improved rural financial services	843 215	-	843 215	-	4
Subtotal	4 430 462	2 687 343	7 117 805	38	35
C. Institutional support, TA and training	3 426 776	573 771	4 000 547	14	20
D. Project management	1 040 432	246 855	1 287 287	19	6
Total base costs	13 210 557	6 859 625	20 070 182	34	100
Physical contingencies	201 982	122 062	324 044	38	2
Price contingencies	1 462 420	800 017	2 262 437	35	11
Total project costs	14 874 959	7 781 704	22 656 663	34	113

^a Discrepancies in totals are due to rounding up.

⁵ Including a contribution of USD 152 000 to pre-implementation expenses.



TABLE 2: FINANCING PLAN^a
(USD)

	Government		IFAD		WFP		The Netherlands		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
A. Community development															
1. Participatory planning and community institution-building	3 418	5.0	64 934	95.0	-	-	-	-	-	-	68 352	0.3	41 011	23 923	3 418
2. Literacy and life-skills training	12 361	0.5	357 605	15.5	1 938 028	84.0	-	-	-	-	2 307 994	10.2	1 047 104	1 248 529	12 361
3. Community infrastructure	267 309	4.3	5 178 082	82.3	317 034	5.0	-	-	526 169	8.4	6 288 594	27.8	2 707 312	3 313 973	267 309
Subtotal	283 088	3.3	5 600 621	64.6	2 255 062	26.0	-	-	526 169	6.1	8 664 940	38.2	3 795 427	4 586 425	283 088
B. Agriculture and livelihood development and environment															
1. Extension and technology transfer	74 141	3.4	573 540	26.1	1 053 974	47.9	496 586	22.6	-	-	2 198 241	9.7	820 397	1 303 703	74 141
2. Irrigation development	168 381	5.5	2 912 331	94.5	-	-	-	-	-	-	3 080 711	13.6	1 309 905	1 602 425	168 381
3. Natural resources management	21 804	1.3	593 144	35.5	1 053 882	63.2	-	-	-	-	1 668 830	7.4	797 531	849 496	21 804
4. Marketing support	11 172	5.0	212 262	95.0	-	-	-	-	-	-	223 434	1.0	134 060	78 202	11 172
5. Improved rural financial services	-	-	740 704	87.8	-	-	-	-	102 511	12.2	843 215	3.7	-	843 215	-
Subtotal	275 497	3.4	5 031 981	62.8	2 107 856	26.3	496 586	6.2	102 511	1.3	8 014 431	35.4	3 061 894	4 677 041	275 497
C. Institutional support, TA and training	186 569	4.1	2 672 767	59.1	-	-	1 664 733	36.8	-	-	4 524 069	20.0	646 246	3 691 254	186 569
D. Project management	743 989	51.2	709 233	48.8	-	-	-	-	-	-	1 453 222	6.4	278 137	1 095 006	80 079
Total disbursement	1 489 143	6.6	14 014 602	61.9	4 362 918	19.3	2 161 319	9.5	628 680	2.8	22 656 663	100.0	7 781 704	14 049 726	825 233

^a Discrepancies in totals are due to rounding up.



E. Procurement, Disbursement, Accounts and Audit

28. Procurement of goods and civil works financed by the loan will be subject to the provisions of IFAD's procurement guidelines. Procurement of consultancy services will be undertaken in accordance with the procedures of the cooperating institution.
29. Contracts for the supply of goods, including vehicles and equipment, estimated to cost the equivalent of USD 100 000 or more, will be awarded following international competitive bidding (ICB) procedures. Contracts involving more than the equivalent of USD 10 000 but less than USD 100 000 will be awarded on the basis of local competitive bidding (LCB) or international shopping.
30. Contracts for the supply of civil works estimated to cost USD 500 000 or more will be awarded following ICB procedures. Civil works contracts for an estimated cost equivalent to USD 10 000 but not exceeding USD 500 000 may be awarded on the basis of LCB. Civil works contracts for a value of less than the equivalent of USD 10 000 may be awarded on the basis of local shopping (LS). Civil work contracts may be carried out by the Government on force account.
31. Consultancy services for amounts not exceeding the equivalent of USD 100 000 services will be procured through direct contracting procedures, on terms and conditions approved by the cooperating institution.
32. **Rural credit.** An agent bank will be selected through a competitive selection process. A management or subsidiary agreement concluded between the borrower and the selected agent bank will stipulate, among other things, procedures for sub-lending to SCAs.
33. **Review processes.** Contracts for goods and civil works estimated to cost the equivalent of USD 100 000 or more will be subject to prior review by the cooperating institution. Contracts involving less than this amount will be reviewed on a selective basis.
34. **Disbursement.** IFAD's loan will be disbursed over a seven-year period. Disbursements by IFAD will be made against certified statements of expenditure, except in the case of contracts for amounts exceeding USD 50 000, which will require fully documented application procedures.
35. **Accounts.** Separate accounts and records will be kept by the project management office (PMO) and implementing agencies. The PMO will consolidate the accounts of all implementing agencies and submit yearly consolidated financial records and reports to the Government, IFAD, the Government of The Netherlands and WFP, no later than two months after the end of the reporting period and in a format acceptable to IFAD.
36. **Audit.** The project accounts will be audited on an annual basis by an independent auditor acceptable to IFAD. The audited accounts will be submitted to the Government, IFAD and other cofinanciers no later than six months after the end of the respective financial year.

F. Organization and Management⁶

37. Project financing and expenditure will fall outside the control of the governorate budget, as currently required by the Ministry of Planning and Development and the Ministry of Finance. This situation will, however, be reviewed during the mid-term review of the project.

⁶ See Appendix VI for additional information.



38. Responsibility for coordinating the planning and implementation of project activities will rest with a small, autonomous PMO, which will report directly to the Project Steering Committee (PSC) and work closely with the Governorate Administration, District Local Councils and specialist committees. Retention of the PMO after project completion will be determined in accordance with the decentralization process. Implementation activities will be contracted out to the extent possible. Apart from its coordinating tasks, the role of the PMO will mirror that of the Governor's office, and the Planning Department within it, in relation to the planning and use of regular budgetary resources. PMO procedures for planning, implementation and financial management and monitoring will provide a model for the governorate and districts to ensure effective use of available budgetary resources. By maintaining close working relations with the governorate and district administrations, the PMO will play a major role in building up the capacity of local administrations.

39. The PMO will be headed by a project manager and staffed by a small core of professionals. All staff will be Yemeni nationals, recruited from the public or private sectors on yearly contracts renewable subject to good performance. Provision will be made for payment of performance bonuses pending implementation of civil service reforms. Priority will be accorded to women candidates in order to ensure that at least two of the PMO professional posts and/or technical advisory group positions are filled by women. To ensure adequate monitoring of project activities, the PMO will operate three field offices (Wusab Al-Ali, Utmah and Jabal Al-Sharq) staffed by a field manager and field officer, one of whom will be a woman.

40. The PMO will be assisted by a local technical advisory group set up to provide guidance on implementation. This group will comprise experts in community development, agriculture, extension and engineering, and a gender expert to assist in further developing the project's gender equity strategies.

41. Implementation of project activities will be contracted out to competent specialized agencies, within the public or private sectors, through yearly contracts renewable subject to satisfactory performance.

G. Economic Justification⁷

42. The project is expected to lead to improved household incomes and overall living standards as a result of: (i) incremental agricultural production thanks to better farm technology, practices and inputs; (ii) increased irrigated areas through the development of irrigation structures and adoption of water-saving technology; (iii) reduced environmental degradation and the restoration of abandoned lands to productive use; (iv) improved access to drinking water, schools, health facilities and better roads; (v) greater empowerment of communities and groups by enhancing their ability to deal with government and market operators; and (vi) improving the capacity for local planning and project management within the governorate.

43. The farm models indicate that with a combination of increased field crop production (mainly through improved seed, expanded cultivation of legumes, improved livestock production and/or investment in new enterprises such as sheep rearing/fattening or coffee production), the incomes of rainfed mountain area farmers and farmers with irrigation should increase by 80-160% and 120%, respectively. These increases will ensure household food security by generating sufficient income to purchase food and thus offset continuing shortfalls in household cereal production.

⁷ See Appendices IV and VII for further information.



44. The project will benefit 26 000 households directly and some 30 000 indirectly. Community development, the main project activity, will benefit about 17 000 households; literacy and life-skills training, irrigation, rehabilitation of terraces and natural resources management will benefit a total of 3 522 households.

45. The overall economic rate of return of the project is estimated at 14.2% for the base case. With a 10% increase in costs, the economic internal rate of return would be 11.3%, and a 10% decrease in benefits would reduce the rate of return to 11.1%. A one-year lag in benefits would reduce the rate of return to 10.8%.

H. Risks

46. Project implementation is closely linked to decentralization mechanisms that are only now being put in place. These mechanisms are therefore untested and unproven and could well hold up project implementation. This problem is expected to be mitigated by building up the capacity of the governorate and District Local Councils, and through the establishment of administrative and executive offices to be financed by other donors. Moreover, arrangements for project management during the initial phase will give the PMO autonomy in decision-making so that, while consultation and consensus is desirable and built into project procedures, it is not mandatory.

47. Project activities will seek to introduce a more commercially-oriented management approach to service delivery. This is a relatively new concept, and the success of project implementation will depend both on the willingness of government staff to accept change and on their commitment to enforcing the new arrangements. This will require strong management and supervision, and call for good-calibre PMO staff recruited under terms and conditions commensurate with their levels of competence. TA will be provided to restructure the Agriculture and Irrigation Office (AIO) to help it adapt to its new role and assist the PMO in developing suitable contractual arrangements with service providers.

48. The objective of ensuring that women are involved in project activities on an equal basis may prove to be too ambitious as this will necessitate that large numbers of them act as catalysts. Although women's organizations are confident that women with the requisite skills (if not formal qualifications) are available to fill these posts, it may not be possible to identify a sufficient number of suitable candidates. While the project makes adequate provision for any additional costs to meet the special needs of women staff, the greater risk lies in the possibility of project management being less-than-wholeheartedly committed to pursuing the gender agenda. Gender training and specialist assistance to develop a gender strategy for the project have been provided for to mitigate this risk.

I. Environmental Impact

49. Overall, the project is expected to have a positive impact on the environment and to generate benefits through its components for natural resources management and irrigation improvement. The project's focus on terrace rehabilitation through repairs to terrace walls and the planting of local tree species on abandoned terraces will reduce the rate of run-off, improve water retention and infiltration, assist in recharging the water table, extend the growing period for ground cover, reduce soil erosion and mitigate the impact of floods that lead to eroded *wadi* banks. In addition, the project is expected to increase the availability of fodder and fuel wood and reduce pressure on existing feed resources. The restoration of communal grazing management practices, supplemented by the replanting of degraded grazing areas, will also increase the availability of animal feed and thereby protect the environment. *Wadi* bank protection works will contribute to reducing both erosion and loss of valuable agricultural lands under spate irrigation.



50. No drilling of wells is foreseen for irrigation development but the project will support initiatives to increase the efficiency of current groundwater use by promoting piped conveyance systems in place of open channels. It will also finance on-farm research on improved irrigation management practices. For the dams constructed under the project, TA and training will be provided to AIO on improved analytical methods vis-à-vis social and environmental issues, including the impact of dams on downstream users. While the project will support livestock enterprises, most animals will be stall-fed, particularly sheep for fattening, using purchased feed where local feed is not available. In this way, any negative impact on the environment will be significantly reduced. A switch by farmers to more productive landraces of sorghum and greater emphasis on the cultivation of legumes will increase the quantities and nutritional value of crop residues for animal feed and reduce pressure on rangelands. At the same time, any loss of biodiversity will be offset by the preservation of all landraces in a gene bank. Community infrastructure projects will cover only minor road works, which are likely to include erosion-control measures through improved drainage systems.

51. In view of the foregoing, the project has been classified as Category B.

J. Innovative Features

52. The project has many innovative features that fall within IFAD's corporate strategy inasmuch as it builds on the experience of recent project design and performance in Yemen. It takes the process to the next stage, with a longer-term and more sustainable commitment to combining the elements of decentralization and commercialization of community and agricultural services emerging from recent and imminent changes in government policy. The project will contribute to developing mechanisms for grass-roots involvement in district-level planning by developing a low-cost, replicable system of participatory village planning based on building up community capacity through a cadre of volunteer village planners. With project assistance, local communities and farmers will be given jurisdiction, resources and responsibility for improving their own status, with crucial roles entrusted to community, farmer and women's groups and associations; line agencies and commercially-oriented parastatals; national and international NGOs; and private-sector contractors and consultants. A pilot participatory credit delivery system based on voluntary SCAs will be introduced with the support of an international NGOs in order to meet the working capital requirements for the operation of income-generating activities not financed by CACB or other financial intermediary.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

53. A loan agreement between the Republic of Yemen and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

54. The Republic of Yemen is empowered under its laws to borrow from IFAD.

55. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.



PART IV - RECOMMENDATION

56. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that IFAD shall make a loan to the Republic of Yemen in various currencies in an amount equivalent to ten million nine hundred thousand Special Drawing Rights (SDR 10 900 000) to mature on and prior to 15 May 2042 and to bear a service charge of 0.75% and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Lennart Båge
President

SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

(Negotiations concluded on 12 June 2002)

1. The Government of The Netherlands intends to provide a grant to the Government of the Republic of Yemen (the Government) in the amount of USD 2.16 million to assist in cofinancing the Dhamar Participatory Rural Development Project on terms and conditions set forth in an agreement (The Netherlands Grant Agreement) to be concluded between the Government and the Government of The Netherlands.
2. WFP will provide food assistance equivalent to approximately USD 4.36 million on terms and conditions set forth in Commitment Letters to be drawn up by WFP. One such Letter stipulates that WFP shall provide 4 200 tonnes of food assistance over the period 2002-2004. Additional food assistance will be provided for the period 2005-2007 under the terms of an additional Commitment Letter.
3. The Government will transfer available loan funds to the agent bank for the component dealing with improved rural financial services, in accordance with annual workplans and budgets (AWP/Bs) and a subsidiary management agreement.
4. The Government will make the proceeds of the loan available to the PMO as set out in the AWP/Bs and in accordance with customary national procedures for development assistance.
5. The Government will make budgetary allocations for each fiscal year equal to the counterpart funds called for in the AWP/B for the relevant project year and make such allocations available on a quarterly basis in advance.
6. The agent bank will establish and maintain a revolving fund into which all net revenues from credits extended to SCAs financed by the loan will be deposited. The agent bank will use the revolving fund to fund further credits to SCAs.
7. In order to involve women in the organization and management of the project, the Government will take steps to ensure that at least two women are included in the staff of PMO. It will also ensure that women beneficiaries are represented in all project activities and that they benefit from project outputs.
8. No disbursements will be made from the loan until the subsidiary management agreement referred to in paragraph 3 has been finalized in a manner satisfactory to IFAD.
9. The following are additional conditions precedent to effectiveness of the loan agreement:
 - (a) the PMO will have been duly established by ministerial decree;
 - (b) the project manager and the financial controller of PMO will have been duly appointed through a competitive selection process acceptable to and approved by IFAD;
 - (c) the PSC will have been duly established;



ANNEX

- (d) The Netherlands Grant Agreement will have been concluded between the Government of The Netherlands and the Government and submitted to IFAD;
- (e) the Government will have opened the Project Account and the Special Account;
- (f) the loan agreement will have been signed, and the signature and performance thereof by the Government will have been authorized and ratified; and
- (g) a favourable legal opinion, issued by the Minister of Legal Affairs in form and substance acceptable to IFAD, will have been delivered by the Government to IFAD.

COUNTRY DATA

YEMEN

Land area (km² thousand), 2000 1/	528	GNI per capita (USD), 2000 1/	380
Total population (million), 2000 1/	17.5	GNP per capita growth (annual %), 2000 1/	-3.1 a/
Population density (people per km²), 2000 1/	33	Inflation, consumer prices (annual %), 2000 1/	7.9 a/
Local currency	Yemeni Rial (YER)	Exchange rate: USD 1	YER 173
Social Indicators		Economic Indicators	
Population (average annual population growth rate), 1980-99 2/	3.6	GDP (USD million), 2000 1/	8 667
Crude birth rate (per thousand people), 2000 1/	40 a/	Average annual rate of growth of GDP 2/, 1980-90	n.a.
Crude death rate (per thousand people), 2000 1/	12 a/	1990-99	3.2
Infant mortality rate (per thousand live births), 2000 1/	79 a/	Sectoral distribution of GDP, 2000 1/	
Life expectancy at birth (years), 2000 1/	56 a/	% agriculture	17 a/
Number of rural poor (million) (approximate) 1/	2.5	% industry	40 a/
Poor as % of total rural population 2/	19	% manufacturing	11 a/
Total labour force (million), 2000 1/	5.5	% services	42 a/
Female labour force as % of total, 2000 1/	28	Consumption, 2000 1/	
Education		General government final consumption expenditure (as % of GDP)	17 a/
School enrolment, primary (% gross), 2000 1/	70 a/	Household final consumption expenditure, etc. (as % of GDP)	71 a/
Adult illiteracy rate (% age 15 and above), 2000 1/	54	Gross domestic savings (as % of GDP)	12 a/
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita, 1997 3/	2 051	Merchandise exports, 2000 1/	4 200
Malnutrition prevalence, height for age (% of children under 5), 2000 1/	52 a/	Merchandise imports, 2000 1/	2 200
Malnutrition prevalence, weight for age (% of children under 5), 2000 1/	46 a/	Balance of merchandise trade	2 000
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP), 2000 1/	5.6 a/	before official transfers, 1999 1/	-654
Physicians (per thousand people), 1999 1/	0.00	after official transfers, 1999 1/	769
Population using improved water sources (%), 1999 4/	69	Foreign direct investment, net 1999 1/	n.a.
Population with access to essential drugs (%), 1999 4/	50	Government Finance	
Population using adequate sanitation facilities (%), 1999 4/	45	Overall budget deficit (including grants) (as % of GDP), 1999 1/	-3.8
Agriculture and Food		Total expenditure (% of GDP), 1999 1/	29.2
Food imports (% of merchandise imports), 1999 1/	35 a/	Total external debt (USD million), 1999 1/	4 610
Fertilizer consumption (hundreds of grams per ha of arable land), 1998 1/	145	Present value of debt (as % of GNI), 1999 1/	58
Food production index (1989-91=100), 2000 1/	130.1	Total debt service (% of exports of goods and services), 1999 1/	3.9
Cereal yield (kg per ha), 2000 1/	969	Lending interest rate (%), 2000 1/	22.0 a/
Land Use		Deposit interest rate (%), 2000 1/	14.0
Arable land as % of land area, 1998 1/	2.8		
Forest area (km ² thousand), 2000 2/	4		
Forest area as % of total land area, 2000 2/	0.9		
Irrigated land as % of cropland, 1998 1/	30.4		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* database

2/ World Bank, *World Development Indicators*, 2001

3/ United Nations Development Programme (UNDP), *Human Development Report*, 2000

4/ UNDP, *Human Development Report*, 2001



PREVIOUS IFAD FINANCING

Project ID	Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Denominated Currency	Approved Loan/Grant Amount	Disbursement (as % of approved amount)
13	Tihama Development Project III (Wadi Mawr)	World Bank: IDA	World Bank: IDA	HC	26 Mar 79	29 Feb 80	30 Sept 88	L - I - 13 - YE	SDR	9 300 000	1
46	Southern Uplands Rural Dev. Project Phase II	World Bank: IDA	World Bank: IDA	HC	17 Sept 80	23 Jun 81	31 Dec 85	L - I - 46 - YA	SDR	10 600 000	1
60	Agricultural Support Services Project	IFAD	AFESD	HC	05 Dec 80	14 May 81	30 Jun 87	L - I - 60 - YD	SDR	7 700 000	0.988723556
68	Wadi Beihan Agricultural Dev. Project	World Bank: IDA	World Bank: IDA	HC	08 Sep 81	16 Apr 82	31 Dec 88	L - I - 68 - YD	SDR	4 900 000	0.992724306
105	Agricultural Research and Dev. Project	World Bank: IDA	World Bank: IDA	HC	15 Sep 82	01 Dec 83	31 Dec 91	L - I - 105 - YA	SDR	5 250 000	0.926762617
106	Third Fisheries Development Project	World Bank: IDA	World Bank: IDA	HC	15 Sep 82	25 Feb 83	30 Jun 89	L - I - 106 - YD	SDR	4 450 000	1
156	Central Highlands Agricultural Dev. Project	World Bank: IDA	World Bank: IDA	HC	12 Sep 84	02 May 85	31 Dec 92	L - I - 156 - YA	SDR	3 900 000	0.715643341
202	Southern Regional Agricultural Dev. Project	World Bank: IDA	World Bank: IDA	HC	29 Apr 87	03 Jun 88	31 Dec 96	L - I - 202 - YA	SDR	2 000 000	0.914314155
228	Eastern Regional Agricultural Dev. Project	IFAD	AFESD	HC	15 Sep 88	22 Sept 89	30 Jun 98	L - I - 228 - YD	SDR	8 100 000	0.889758695
253	Agricultural Credit Project	IFAD	AFESD	HC	07 Dec 89	28 Mar 91	30 Dec 98	L - I - 253 - YA	SDR	11 750 000	0.998041721
269	Fourth Fisheries Development Project	World Bank: IDA	World Bank: IDA	HC	02 Oct 90	07 Aug 92	30 Jun 99	L - I - 269 - YR	SDR	5 000 000	0.508082358
330	Tihama Environment Protection Project	IFAD	UNOPS	HC	07 Apr 93	21 Nov 95	30 Jun 03	L - I - 330 - YR	SDR	7 050 000	0.975375956
1061	Southern Governorates Rural Dev. Project	World Bank: IDA	World Bank: IDA	HC	11 Sep 97	01 Jul 98	30 Jun 04				1
1061	Southern Governorates Rural Dev. Project	World Bank: IDA	World Bank: IDA	HC	11 Sep 97	01 Jul 98	30 Jun 04	L - I - 454 - YE	SDR	8 150 000	0.336845526
1075	Raymah Area Development Project	IFAD	UNOPS	HC	04 Dec 97	10 Jul 98	30 Jun 06				1
1075	Raymah Area Development Project	IFAD	UNOPS	HC	04 Dec 97	10 Jul 98	30 Jun 06				1
1075	Raymah Area Development Project	IFAD	UNOPS	HC	04 Dec 97	10 Jul 98	30 Jun 06	L - I - 456 - YE	SDR	8 750 000	0.186870262
1095	Al-Mahara Rural Development Project	IFAD	UNOPS	HC	09 Dec 99	26 Jul 00	31 Mar 08				0.999871467
1095	Al-Mahara Rural Development Project	IFAD	UNOPS	HC	09 Dec 99	26 Jul 00	31 Mar 08	L - I - 528 - YE	SDR	8 900 000	0.105850293

Note: HC = Highly Concessional

LOGICAL FRAMEWORK

Narrative Summary	Performance Indicators	Means of Verification	Assumptions
<p>Project Goal: Food security enhanced; family incomes raised above the poverty line; and standards of living and development participation improved for small farmer households and village communities in rural Dhamar.</p>	<p>Poverty head count reduced with rise in household productivity and incomes. Prevalence of chronic malnutrition among children of less than five years of age reduced. Community, women and farmer groups established and active in civic and development affairs.</p>	<p>Periodic Government socio-economic and poverty studies; health/welfare survey. Rapid nutrition surveys at benchmark; mid-term and completion evaluations. Project baseline review data and periodic household, farm and community follow-up surveys and case studies. Records of group formation and minutes/reports of their activities.</p>	<p>Macroeconomic policies and political factors remain stable and favour devolution of local administration and continued market liberalization.</p>
<p>Development Purposes: To empower communities, including women and the poor, to mobilize and organize themselves to participate in, and gain benefit from, community-based development planning and project execution.</p>	<p>Numbers of groups/societies formed and registered, and of target group members. Activities and achievements of groups.</p>	<p>Surveys and studies as above, plus: registration agency records; and annual stakeholder feedback workshops.</p>	<p>Committed community members come forward to manage development efforts.</p>
<p>Remove critical infrastructural and social service obstacles to productivity and advancement.</p>	<p>Numbers of works planned, approved for assistance, executed and operating. Work burden/inconvenience reduced. Numbers, attendance and graduation in classes, training sessions and courses.</p>	<p>Project and component reports. Contracts tendered, issued and fulfilled. Reports of facility management bodies. Semi-annual donor and project performance Review/improvement sessions. Reports of contracts/contractor agencies.</p>	<p>Communities are able to establish institutions to organize community infrastructure works. Cooperation from other departments (health, education, etc.) for financing operations is forthcoming.</p>
<p>Equip and support farming households with a view to increasing their output to enable them to secure basic food supplies, produce marketable surpluses, and to pursue income-generating opportunities.</p>	<p>Quantities of staple foods production and produce marketed by household, volume/value Changes in cropping patterns, intensity and yields</p>	<p>Records of offtake, production, sales and revenues from District, Agricultural Office and market statistics. Quarterly, bi-annual and annual project M&E/management information system (MIS)/reports.</p>	<p>No serious adverse weather conditions. Market prices are favourable. New extension/technical back-up arrangements established and effective.</p>
<p>Provide a local administrative platform integrated with the district and governorate structure for effective, sustainable development implementation with autonomy, transparency, accountability and effectiveness.</p>	<p>PSC and PMO established and staff appointed. Project operations systems in place. Budget and funds flows assured. District and governorate institutions tied in and operating more effectively.</p>	<p>Minutes/reports of PMO and Planning, Development and Finance Committee meetings. Supervision reports. Accounts and audit reports.</p>	<p>Government and governorate support for project management approach and operating systems – and line agency cooperation.</p>



Logical Framework – (continued)

Intervention Logic	Verifiable Indicators	Means of Verification	Important Assumptions
OUTPUTS: Community Development Existing groups strengthened and new organizations formed and trained in management competence. Women's/deprived groups enabled to take up literacy training and income-generating and commercial enterprises. Crucial social infrastructure provided and basic social facilities, amenities and services ensured.	Numbers and types of organizations active, trained and rendered viable. Number of proficient officers/members Number of water supplies, access road improvements, schools, clinics implemented and operative Number of enterprises started by women and running satisfactorily	As above, plus: society records, minutes of meetings training reports contract progress documentation MIS and M&E reports business reports and accounts village extension leader (VEL)	As above, plus: Governorate and district support and agency cooperation
Agricultural and Livelihood Development and Environment Productive and profitable small farms organized in associations and given effective husbandry and management advice and technology information.	Number of operative village extension leaders Number of extension staff oriented/trained Numbers/types of farms showing increased output and margins Trends in cropping, stocking, intensities/yields Number of existing enterprises improved New enterprises studied, feasible and starting up	Village animal health leader (VAHL), extension agent and manager records Farm sample case studies Training course records Enterprise reports and accounts Market centre throughput and price records Loan performance records	Community members come forward to train as village extension workers. AIO extension staff respond positively to performance-based management approach and performance is improved.
New irrigation facilities provided and efficiency of groundwater use improved.	Number of dams and other irrigation structures studied, built and operative Number of WUAs operational Number, performance and impact of irrigation advisers and village irrigation leaders	Design/construction contracts	
Marketing understanding and capability expanded; new markets explored; facilities improved; information supplied; producer/trader links formed; and new enterprise funding facilitated and technically supported.	Marketing associations/links set up and marketing improvements operative Volumes marketed and values	Spot surveys or local official statistics	
Environmental/conservation groups supported; water supply dams built; reforestation and terrace renovation works undertaken	Areas of trees planted and maintained Lengths/areas of terrace repaired Erosion protection measures taken		
Greater access to credit through innovative credit delivery mechanisms linked to a sustainable source of finance in the form of a restructured CACB	Number of savings/credit groups, formal groups and cooperatives operative Amounts in accounts and trends Loan portfolio growth; repayment; recovery Drop-out rates; trends and reasons Number of new enterprises established and supported by business services	Association records and reports Bank records for schemes Credit agreement; biannual and annual progress reports Accounts/records of assisted firms	Lending criteria flexible and rates and terms attractive





Logical Framework – (continued)

Intervention Logic	Verifiable Indicators	Means of Verification	Important Assumptions
Project Implementation Effective management of implementation, including service provision, dissemination of information and financial control	TA to management and PMO in post-service provision-systems/contracts operative Progress reports correspond to plans and budgets	Management meeting minutes Contract records Quarterly financial statements Biannual finance check and annual external audits	Suitable candidates recruited Probity and transparency of operations
ACTIVITIES Community Development Deployment, training of community organizers	Numbers/calibre of staff appointed, trained and operational	As above, plus: course/session records	As above, plus: communities' conviction and support maintained.
Participatory planning and elaboration of village development plans	Number of village planners coming forward for training Number of meetings/participatory rural appraisal and village planning exercises conducted and outcomes		
Training; capacity-building of organizations	Number of groups/people trained	Training agency contracts Class attendance/achievement record	
Establishment of multi-service centres		Construction contract documents	
Literacy and life-skills training set up and Operational with WFP support	Number of literacy trainees	WFP distribution records	
Planning and funding of community infrastructure	Number and quality of infrastructure schemes completed by communities/contractors Numbers/amount of food aid supplied	Case studies and impact surveys Contract and grant/loan documents	

Logical Framework – (continued)

Intervention Logic	Verifiable Indicators	Means of Verification	Important Assumptions
Agricultural and Livelihood Development and Environment TA for extension needs assessment			
Training and deployment of VELs, VAHLs	Number of village extension leaders Number/calibre of extension staff operational	PMO/MIS Personnel records	Active involvement by farmers/groups
Training and demonstration for farmers groups	Numbers trained, demonstrations held	Course/session reports	
Extension/advice, troubleshooting, back-up provided	Amount and quality of data disseminated Number of training sessions provided, numbers participating and results/achievements	Training agency contracts; feedback	
Radio programmes recorded and broadcast	Number/feedback on programme listening	Papers; articles published; broadcasts	Sound opportunities emerge
Varietal trials for legumes/sorghum landraces and subsequent transfer of technologies	Number of farmers participating in legume variety improvement/potato extension Number of vaccinations/treatments	Minutes of meetings and negotiations	Training needs confirmed
Studies facilitation of funding for farm sub-projects	Number/areas; dams and other irrigation	Grant/loan documentation	
Construction of dams and other irrigation facilities	Number of irrigation advisers and adoption of piped conveyance systems	Project management reports	Goodwill and endeavour of agencies and enterprises concerned
TA/training for more efficient groundwater use	Number and performance of farmers participating in on-farm irrigation research, and number of village irrigation leaders operative	Operating agency reports; accounts Service and supply contracts Design/construction documents	
TA/training for on-farm research on improved irrigation practices		Work/supervision reports	
Capacity-building: farmer/marketing groups and training in marketing improvements – potato stores	Number/type of marketing associations and links formed; funds accessed and marketed volumes increased		Private sector cooperation obtained
TA/consultancy in income diversification, marketing and restructuring of AIO	Number and performance of service contracts and TA inputs		
Conservation support: terraces, reforestation, grazing rehabilitation, <i>wadi</i> bank protection with WFP food for work assistance	Numbers/areas: terrace repairs, planting, grazing rehabilitation, <i>wadi</i> bank protection and numbers of farmers involved	Case studies and surveys	
Establishment of SCAs and formal groups accessing credit	Number/performance of SCAs and formal groups accessing credit and repayment	Loan records and accounts	Loan discipline improved
Provision of line of credit to finance farm and non-farm investments	Number of clients for business advice		Practicable, flexible lending criteria and terms agreed
Investment fund established for capital grants	Number of borrowers receiving capital grants and total amount		



Logical Framework – (continued)

Intervention Logic	Verifiable Indicators	Means of Verification	Important Assumptions
Project Implementation			
PMO, National Strategy Panel and PSC setup	Structure; resources; systems in place/active	Employment contracts and operating procedure manuals	Positive attitude of agencies, local authorities and service providers
Operating and administration systems set up	Records/minutes of working relationships with agencies and service providers	Register of cooperating partners and consultants	
Service contracting set up and supervised			
Service requests and proposals appraised/approved	Numbers, types and approval rate of service requests and proposals in village development plans	Service provision agreements	
Workshops, studies, surveys for M&E arranged			
Vehicles, equipment, supplies and training for PMO and field offices	Records of procurement, delivery, installation	Component management reports	No inordinate delays/complications in funding
International/national TA and experts contracted for all technical and management matters	Number of and feedback from courses/sessions TA contracted	MIS and assignment records	

QUANTITATIVE INPUTS, TARGETS AND KEY PROJECT FACTORS

Objectives			Instruments			Incremental Benefits					
<p>1. The project's goal is to enhance family food security for subsistence farmers, raise incomes and improve the living conditions and development participation of small farm households and village communities in Dhamar.</p> <p>2. Subsidiary objectives are to:</p> <p>(a) empower communities, including women and the poor, to mobilize and organize themselves to participate in, and gain direct benefit from, development planning and project execution;</p> <p>(b) remove critical infrastructural and social (health and educational) constraints to productivity and advancement; and</p> <p>(c) equip and support farming households with a view to enhancing their output to enable them to secure basic food supplies, produce marketable surpluses and pursue income-generating opportunities.</p>			<p>The main instruments to be used in the implementation of components are as follows:</p> <ul style="list-style-type: none"> • deployment, training of community organizers; • training, capacity-building of organizations; • literacy and life-skills training set up and operative with WFP support; • planning and funding of community infrastructure; • training and demonstrations for farmers, VELs, VAHLs; • extension/advice, troubleshooting, back-up provided; • construction of dams and other irrigation facilities; • capacity-building of farmer/marketing groups; • conservation support for terraces, grazing rehabilitation, etc.; • establishment of SCAs; and • provision of credit for financing farm and non-farm investments. 			<p>Incremental benefits at full development:</p> <p>Incremental return to labour at project year (PY) (/day)</p> <ul style="list-style-type: none"> • Traditional irrigation 911 • Modernized irrigation 1946 <p>Project beneficiaries (households)</p> <ul style="list-style-type: none"> • Direct 26 057 • Community infsr. 17 000 • Literacy 700 • Rural finance 4 825 • Cattle improvement 108 • Irrigation 2 874 • Coffee development 210 • Natural resources management 340 • Indirect 29 575 <p>Net economic return (USD/household)</p> <ul style="list-style-type: none"> • At PY5 159 • At full development 265 					
PROJECT COSTS			FINANCING			BENEFICIARIES			ECONOMIC/FINANCIAL ANALYSIS		
COMPONENTS	USD million	% Base Costs		USD million	%	<p>Project activities will be targeted at 26 000 households. Women will have access to better services, training and credit</p>			<p>Economic IRR (%)</p> <ul style="list-style-type: none"> • Project as a whole 14.2 <p>Project cost per household (USD/household)</p> <ul style="list-style-type: none"> • Project as a whole 871 • Community infsr. 509 • Rural finance 172 • Irrigation dev. 1 048 • Marketing 4 855 • Literacy and life-skills training 3 293 		
A. Community Development	7.66	38	IFAD	14.0	62						
B. Agriculture and Livelihood Development and Environment	7.12	35	WFP	4.36	19						
C. Inst. Support, TA and Training	4.00	20	Government	1.49	7						
D. Project Management	1.29	6	Beneficiaries	0.63	3						
E. Contingencies	2.59	13	Netherlands	2.16	10						
Total including contingencies	22.66	113	Total	22.6	100						





SUMMARY COST AND FINANCING TABLES

Table 1: Components by Financiers

	Government		IFAD		WFP		The Netherlands		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)	Duties & Taxes	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%				
A. Community Development																
1. Participatory planning and community institutions building	3 418	5.0	64 934	95.0	-	-	-	-	-	-	68 352	0.3	41 011	23 923	3 418	
2. Literacy and life-skills training	12 361	0.5	357 605	15.5	1 938 028	84.0	-	-	-	-	2 307 994	10.2	1 047 104	1 248 529	12 361	
3. Community infrastructure	267 309	4.3	5 178 082	82.3	317 034	5.0	-	-	526 169	8.4	6 288 594	27.8	2 707 312	3 313 973	267 309	
Subtotal Community Development	283 088	3.3	5 600 621	64.6	2 255 062	26.0	-	-	526 169	6.1	8 664 940	38.2	3 795 427	4 586 425	283 088	
B. Agriculture and Livelihood Development and Environment																
1. Extension and technology transfer	74 141	3.4	573 540	26.1	1 053 974	47.9	496 586	22.6	-	-	2 198 241	9.7	820 397	1 303 703	74 141	
2. Irrigation development	168 381	5.5	2 912 331	94.5	-	-	-	-	-	-	3 080 711	13.6	1 309 905	1 602 425	168 381	
3. Natural resources management	21 804	1.3	593 144	35.5	1 053 882	63.2	-	-	-	-	1 668 830	7.4	797 531	849 496	21 804	
4. Marketing	11 172	5.0	212 262	95.0	-	-	-	-	-	-	223 434	1.0	134 060	78 202	11 172	
5. Improved rural financial services	-	-	740 704	87.8	-	-	-	-	102 511	12.2	843 215	3.7	-	843 215	-	
Subtotal Agriculture and Livelihood Development and Environment	275 497	3.4	5 031 981	62.8	2 107 856	26.3	496 586	6.2	102 511	1.3	8 014 431	35.4	3 061 894	4 677 041	275 497	
C. Institutional Support, TA and Training	186 569	4.1	2 672 767	59.1	-	-	1 664 733	36.8	-	-	4 524 069	20.0	646 246	3 691 254	186 569	
D. Project Management	743 989	51.2	709 233	48.8	-	-	-	-	-	-	1 453 222	6.4	278 137	1 095 006	80 079	
Total Disbursement	1 489 143	6.6	14 014 602	61.9	4 362 918	19.3	2 161 319	9.5	628 680	2.8	22 656 663	100.0	7 781 704	14 049 726	825 233	



Table 2: Expenditure Accounts by Financiers

	Government		IFAD		WFP		The Netherlands		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%		
I. Investment Costs														
A. Civil works	296 439	5.0	5 539 533	93.4	-	-	-	-	92 811	1.6	5 928 783	26.2	2 371 513	3 260 831
B. Vehicle	42 125	20.0	168 499	80.0	-	-	-	-	-	-	210 624	0.9	168 499	-
C. Equipment and materials	169 643	5.0	3 223 212	95.0	-	-	-	-	-	-	3 392 855	15.0	2 035 713	1 187 499
D. Food rations	0	-	-	-	4 362 918	100.0	-	-	-	-	4 362 918	19.3	2 181 459	2 181 459
E. Grant to support the line of credit	-	-	192 801	100.0	-	-	-	-	-	-	192 801	0.9	-	192 801
F. Local/regional TA, studies & workshops	0	-	703 215	100.0	-	-	-	-	-	-	703 215	3.1	140 643	562 572
G. International TA	-	-	45 795	100.0	-	-	-	-	-	-	45 795	0.2	45 795	-
H. Unskilled labourers	-	-	192 025	30.7	-	-	-	-	433 358	69.3	625 382	2.8	-	625 382
I. Studies and workshops	0	-	258 802	100.0	-	-	-	-	-	-	258 802	1.1	155 281	103 521
J. Contractual services for international NGOs	240 147	10.0	-	-	-	-	2 161 319	90.0	-	-	2 401 466	10.6	240 147	1 921 173
K. Contractual services for government agencies	0	-	392 088	100.0	-	-	-	-	-	-	392 088	1.7	19 604	372 483
L. Credit line	-	-	547 903	84.2	-	-	-	-	102 511	15.8	650 414	2.9	-	650 414
M. Training														
1. Staff training	0	-	372 898	100.0	-	-	-	-	-	-	372 898	1.6	37 290	335 608
2. Farmers training	0	-	1 261 685	100.0	-	-	-	-	-	-	1 261 685	5.6	63 084	1 198 601
Subtotal Training	0	-	1 634 583	100.0	-	-	-	-	-	-	1 634 583	7.2	100 374	1 534 209
Total Investment Costs	748 353	3.6	12 898 454	62.0	4 362 918	21.0	2 161 319	10.4	628 680	3.0	20 799 726	91.8	7 459 028	12 592 344
II. Recurrent Costs														
A. Salaries	382 800	38.3	616 999	61.7	-	-	-	-	-	-	999 799	4.4	-	949 809
B. Allowances	138 849	43.5	180 497	56.5	-	-	-	-	-	-	319 347	1.4	-	319 347
C. Operation and maintenance	219 140	40.7	318 652	59.3	-	-	-	-	-	-	537 792	2.4	322 675	188 227
Total Recurrent Costs	740 789	39.9	1 116 148	60.1	-	-	-	-	-	-	1 856 937	8.2	322 675	1 457 383
Total Disbursement	1 489 143	6.6	14 014 602	61.9	4 362 918	19.3	2 161 319	9.5	628 680	2.8	22 656 663	100.0	7 781 704	14 049 726

ORGANIZATION AND MANAGEMENT

1. Project financing and expenditure will fall outside the control of the governorate budget, as currently required by the Ministry of Planning and Development and the Ministry of Finance. This situation will, however, be reviewed during the course of the mid-term review (MTR).

A. Management and Coordination

Management

2. Responsibility for coordinating the planning and implementation of project activities will be entrusted to a small, autonomous PMO that will report directly to the PSC. Implementation activities will be contracted out to the extent possible. The PMO will work closely with the governorate administration, District Local Councils and specialist committees. The procedures established by PMO for implementation planning, financial management and for monitoring will provide a model for the arrangements to be followed by the governorate and districts to ensure effective use of the budgetary resources available to them. By maintaining close working relations with the governorate and district administrations, the PMO will play an important part in building up the capacity of local administrations. The future of PMO after project completion will be determined in line with the decentralization process.

3. The PMO will be headed by a project manager with a small core staff of professionals. All staff will be Yemeni nationals recruited through a competitive selection process from the public or private sectors and employed on yearly contracts renewable on the basis of good performance, with provision for bonuses. These will be temporary arrangements pending the reform of civil service procedures. Priority will be given to women candidates in the selection process so as to ensure that at least two of the PMO professional posts and/or technical advisory group positions are filled by women. To ensure adequate monitoring of project activities, the PMO will operate three field offices (Wusab Al-Ali, Utmah and Jabal Al-Sharq) staffed by a field manager and field officer, one of whom should be a woman.

4. The PMO will be assisted by a local technical advisory group composed of experts in community development, agriculture, extension, engineering and gender matters. The latter expert will assist the PMO in developing the project's gender equity strategies.

5. Implementation of project activities will be effected through competent specialized agencies, within the public or private sectors, on yearly contracts renewable subject to good performance.

Coordination

6. **Project Steering Committee.** A PSC will be established at Dhamar to provide strategic and policy guidance with regard to project implementation. The PSC, which will be chaired by the Minister for Agriculture and Irrigation, will be composed of the Governor and General-Secretary of the Governorate, Local Councils, representatives of ministries/agencies involved in project implementation (Ministries of Planning and Development, Finance, Agriculture and Irrigation, etc.) and the project manager. Representatives of the Government of The Netherlands, WFP and IFAD will participate in the PSC as observers.

7. **Project Coordination Committees.** A Project Coordination Committee (PCC) will be established in each district, chaired by the respective District General Manager. Membership of the PCC will comprise the General-Secretary of the respective District Councils, the heads of the districts' three specialist committees, the district field managers, and community development facilitators. These committees will ensure the efficient implementation of project activities, resolve

implementation constraints at the district level, ensure coordination between activities implemented under the project and other activities being carried forward in the district, and monitor project performance.

B. Implementation Arrangements and Responsibilities

8. The project will be implemented over a period of seven years. Start-up is expected to be slow as considerable lead time will be required to contract the service providers, particularly the international NGO and TA staff. Project Years 2 and 3 will be considered as the pilot phase for most activities, e.g. development of the participatory planning approach and of links with District Council procedures; reassessment of the extension approach; testing of new credit delivery mechanisms through SCAs and other formal groups; and assessment of the interest and responsiveness of communities to environmental protection, etc. These interventions will be reviewed during the MTR exercise, when it will be decided whether or not to replicate innovative approaches on a wider scale or to modify the project design.

9. **Participatory development.** An international NGO will be contracted through competitive bidding to implement the community participation and institution-building activities. This NGO will be responsible for developing a cost-effective, replicable methodology for participatory planning and development, and for building up local capacity through the creation of a local NGO or a local chapter of its own organization. It will employ men and women community development facilitators to increase community awareness, catalyse the development process and build up the capacity of community institutions.

10. **Literacy programme.** Experts will be contracted to implement the literacy and life-skills training programme. In view of the links between the literacy programme and access to credit through the SCAs, the Women's Economic Empowerment Association (WEEA) will identify suitable teachers from within the community and help women to form literacy groups. An international NGO, in cooperation with WEEA or other NGOs, will also help in the establishment and the operation of SCAs.

11. **Community infrastructure.** Implementation of the community infrastructure activities will be contracted out to the Social Fund for Development (SFD), which will follow its own procedures in the selection and implementation of microprojects. SFD will be responsible for designing structures, contracting and supervising contractors (where required) and, ultimately, for the contractors' quality of work. The majority of microprojects will involve simple structures, e.g. drinking water cisterns. These works will be implemented directly by the communities involved, which will also be responsible for contracting any hired labour and/or equipment services required. SFD will be paid a management fee, as a percentage of the investment cost of the works, to cover design and supervision costs.

12. **Agriculture programmes.** AIO, Dhamar, will be responsible for managing all agricultural production-related activities under the project, with the exception of the adaptive research and varietal trials which will be contracted out to the Agricultural Research and Extension Authority (AREA). AIO will engage specialists to provide training and support on specialist crops/activities, e.g. coffee and bee-keeping. A specialized organization, such as the Utmah Environmental Protection Association, may also be engaged to support the natural resources management activities.

13. **Irrigation development.** The Construction Department of AIO will be responsible for implementing the irrigation infrastructure activities and for training irrigation advisers on piped conveyance systems. AIO will compare the dams and irrigation facilities requested during the village planning process with its own list of potential dam projects in order to ensure conformity with the selection criteria established for the project. Priority will be given to projects located in village units



where participatory planning has taken place. Once the dam/irrigation projects have been agreed with the PMO, AIO will take full responsibility for their design, implementation and supervision. AIO will be paid a management fee, as a percentage of the investment costs of the works, to cover design and supervision costs. The Water Resource Research Division of AREA will conduct the on-farm research on improved irrigation practices.

14. **Marketing.** As support for marketing will require a commercial approach, business management advisers and marketing/storage consultants will be sought from the private sector.

15. **Development of SCAs.** WEEA will be entrusted with developing SCAs. For coordination purposes, it is proposed that WEEA should be sub-contracted by the international NGO as both organizations will be working with the same communities. SCAs of up to 40 women will be formed and, in the first instance, will accumulate savings for a few months only. The savings thus generated will be matched by an equity grant from the project (not exceeding a grant/equity ratio of 3:1). The SCAs will then begin to provide loans to their members, once having determined all the parameters of the credit transaction. After a period not exceeding two years, the SCAs will become eligible for loans from the agent bank, as long as they have achieved a repayment rate of 100%. SCA savings will be deposited into an interest-bearing account with the agent bank as a guarantee of the loans it has extended to the SCAs. The ratio of the loans to the financial resources of the SCAs (savings, equity grant and surplus) should not exceed 2:1 for first loans but may increase over time.

C. Participatory Arrangements

16. The project will be implemented through a flexible, participatory, process-oriented approach whereby project design will be revised, adjusted and improved on the basis of lessons learned from implementation experience. Annual stakeholder review workshops and a system of ongoing process evaluation will facilitate this process.

17. All activities implemented under the project will be demand-driven and based on community-level participatory planning. During this process, all community members will be involved in preparing a profile of village resource bases and social composition, and in analysing constraints, identifying opportunities and prioritizing needs with a view to formulating village development plans. Separate exercises will be carried out with women to ensure that they are fully involved in the participatory planning process. Volunteers from the communities (equal numbers of men and women) will be trained as village planners to mastermind this process. The communities will be assisted to form committees and user groups for the implementation and management of activities.

D. Monitoring and Evaluation

18. The PMO will be responsible for monitoring the physical and financial progress of the project and for ongoing evaluation. The aim of the latter activity will be to validate the appropriateness of project design on a continuing basis, thereby making it possible to introduce modifications in line with changing needs and opportunities. The project will be monitored and evaluated from the perspective of input, output and impact. A set of key output and impact monitoring indicators (as given in Appendix III) will be developed for the various project activities. To the extent that it is relevant and possible, monitoring data against these indicators will be disaggregated by gender. In addition, monitoring of the IFAD, The Netherlands and WFP-assisted activities and project reporting requirements will be harmonized.

19. The project manager and the M&E officer will be closely involved in preparing AWP/Bs, following which both officers will perform systematic and regular financial monitoring against the relevant AWP/Bs. A computerized MIS system will be developed to track project progress and performance; the use of PromIS, currently being developed by IFAD, will be adopted in due course.



The implementing agencies will provide regular progress reports on their activities and the M&E officer will compile annual reports that analyse project performance and highlight issues as a tool for improving project management.

20. **Participatory M&E.** The project will establish procedures for the communities to evaluate their own performance. This will be ensured through: (a) regular review meetings in each village/village unit, during which the community concerned will assess progress made in implementing activities under the village development plan, and identify constraints and seek solutions thereto; and (b) annual review and planning workshops in each district, which will provide a forum for reviewing project design and performance with PMO staff and District Local Council representatives and for deciding on modifications required.

21. Part of the participatory M&E exercise will be devoted to women's focus groups so as to ascertain the extent of women's participation in project activities; constraints faced; benefits gained; unmet aspirations; and impact on their status within the family and involvement in community affairs.

22. **Environmental monitoring.** Provision will be made for environmental monitoring. Reporting will be qualitative as opposed to quantitative, so as to give an idea of how 'environmental' community groups are proceeding and of what has been learned with regard to terrace renovation and grazing rehabilitation. Whenever possible, an attempt will be made to understand, enhance and influence environmental policy at the national level and to strengthen institutional capacity to intervene on natural resources management issues at the local level.

23. **Impact evaluation.** The PMO will engage the services of a qualified agency to undertake a baseline survey to establish the situation of households and communities prior to their involvement in the project. Based on the survey, the PMO will firm up the impact indicators to be used and carry out regular impact monitoring. A small sub-set of baseline households will constitute a panel, which will be followed-up on an annual basis to record both their activities and progress and the impact that the project has had on their lives. Within this process, particular emphasis will be placed on seeking the views of women regarding their participation in project activities.

24. **Thematic/diagnostic studies.** Provision will be made for ad hoc, interim thematic/diagnostic studies to investigate, review or evaluate specific aspects of project implementation with a view to improving the quality of project interventions.

E. Dynamic Project Planning Process

25. A dynamic planning and implementation process will be established by the project to assist in adapting to changing circumstances. This process, key elements of which will be the logical framework and the AWP/Bs, will serve to ensure that project activities are responsive to needs and to keep abreast of implementation performance. The annual planning cycle will comprise the four sequential steps outlined below.

- (a) **Planning**, with the AWP/Bs defining activities, targets, outputs and inputs in line with the objectives outlined in the logical framework. Activities will, in turn, be derived from the village development plans developed with communities through the participatory planning process, thereby ensuring that they reflect the needs and aspirations of communities.
- (b) **Monitoring**, which will be impact-oriented to ensure the efficiency and continuing relevance of project activities. This will involve early detection of warning signals and, wherever necessary, allow for modifications in project design.



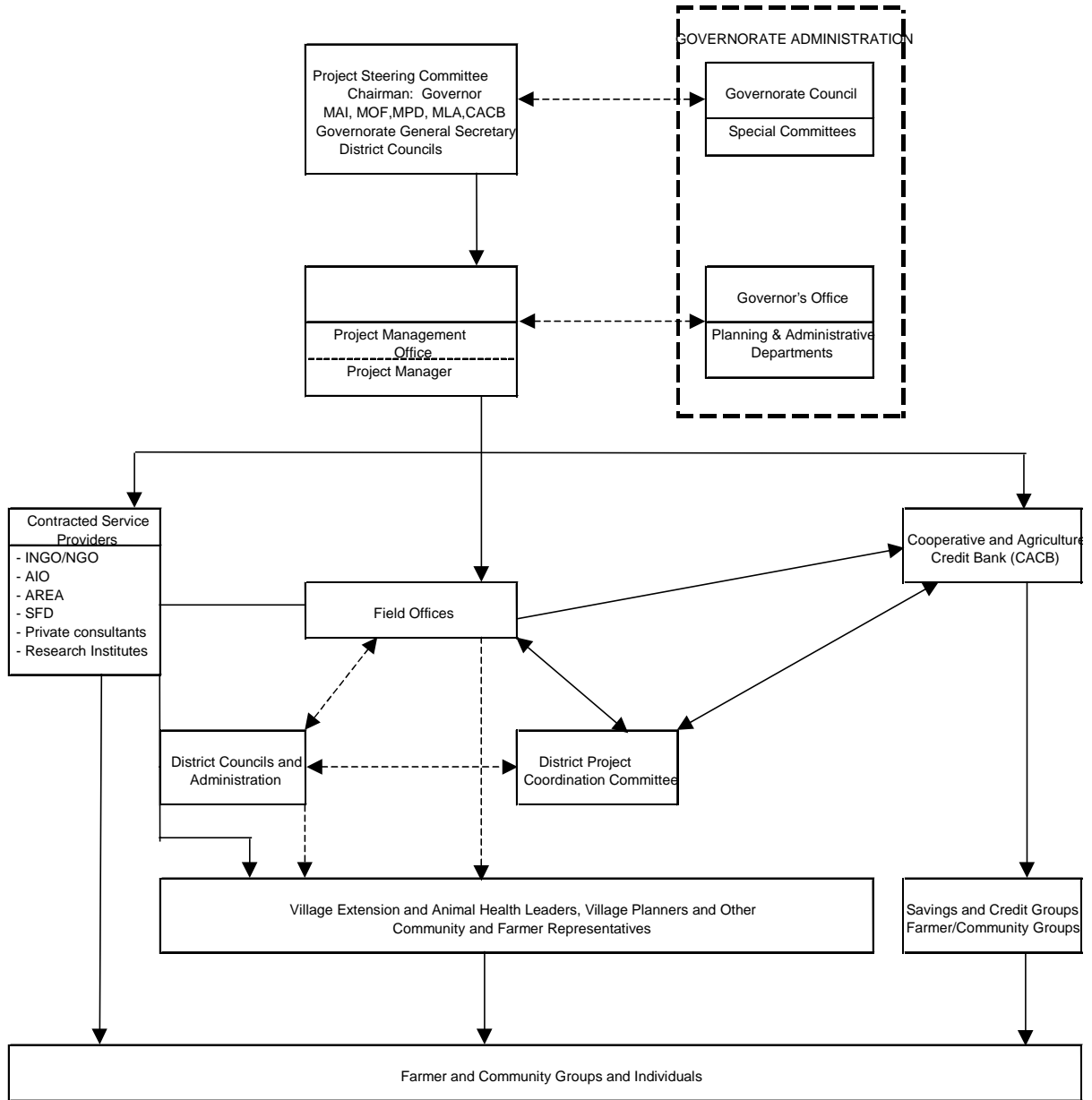
APPENDIX VI

- (c) **Feedback and reality check** through a series of community, district- and inter-district level and inter-country workshops. These workshops will provide fora for evaluating the adequacy of project design to continue meeting the needs of communities and assessing implementation performance. They will also provide opportunities for disseminating best practices for integration into project design and implementation.

- (d) **Fine-tuning of project design:** information obtained during previous stages will form the basis of future planning. This will allow for fine-tuning of project design, including modifications to the logical framework to bring it into line with changing circumstances and implementation experience.



ORGANIGRAMME



Key:
—> line of command/delivery of services
- - -> coordination

FINANCIAL AND ECONOMIC ANALYSIS

A. Financial Analysis

1. Detailed financial analyses have been undertaken for a range of activities to test the feasibility of the proposed interventions at the farm/enterprise level. All proposed interventions are expected to yield attractive financial returns, especially bee-keeping, establishment of coffee production facilities and storage facilities. These analyses indicate that the way forward for rainfed farmers is to invest in additional activities to generate further income or to sow part of their cropland to coffee instead of low-value sorghum. In this regard, access to credit and food assistance will enable poor farmers to take advantage of such opportunities.

2. **Farm models.** Six representative farm models have been developed to reflect the incremental incomes to be expected from project interventions, involving a combination of crop and livestock activities representative of the different farming systems. Details of the farm models are summarized in the table below. For the rainfed models, the most significant source of increased income is improved livestock. For sharecroppers, significant income increases could be achieved by investing in bee-keeping, even in one hive only.

Farm Models

Farm Model	Project Interventions	Results
Montane plains and semi-arid terraces	<ul style="list-style-type: none"> ▪ Improved rainfed sorghum and legume production ▪ Increased legume production ▪ Improved cattle production ▪ Investment in sheep flocks 	<ul style="list-style-type: none"> ▪ Income increased by 93% ▪ Return to labour – YER 446/day
Montane plains-irrigated farms	<ul style="list-style-type: none"> ▪ Improved sorghum, alfalfa and vegetable production ▪ Benefits of potato storage ▪ Improved cattle production 	<ul style="list-style-type: none"> ▪ Income increased by 119% ▪ Return to labour - YER 1 185/day
Semi-tropical <i>wadis</i> and irrigated terraces	<ul style="list-style-type: none"> ▪ Improved rainfed sorghum production ▪ Improved irrigated banana production ▪ Establishment of coffee production ▪ Improved cattle and sheep production 	<ul style="list-style-type: none"> ▪ Income increased by 166% ▪ Return to labour – YER 480/day
Eastern arid highlands-rainfed and pastoral	<ul style="list-style-type: none"> ▪ Improved rainfed sorghum and legume production ▪ Increased legume production ▪ Improved cattle and sheep production 	<ul style="list-style-type: none"> ▪ Income increased by 83% ▪ Return to labour – YER 455/day
Mountain highlands-rainfed terraces	<ul style="list-style-type: none"> ▪ Improved sorghum production ▪ Introduction of lentil production ▪ Improved cattle and sheep production 	<ul style="list-style-type: none"> ▪ Income increased by 111% ▪ Return to labour – YER 475/day
Mountain highlands – sharecropper	<ul style="list-style-type: none"> ▪ Investment in bee-keeping (1 hive) 	<ul style="list-style-type: none"> ▪ Income increased by 190% ▪ Return to labour – YER 714/day

B. Economic Analysis

3. The economic viability of the project has been analysed over a period of 20 years. The activities that provide social benefits but which are difficult to quantify, e.g. community infrastructure, literacy, building up the capacity of local administration, etc., have been excluded from the analysis. While the costs of capacity-building and community development, net of taxes and transfers, have been included, these interventions will also produce unquantifiable benefits that will extend in time and scope well beyond the life of the project. An import parity price for sorghum, an opportunity cost for labour of 0.5 and a standard conversion factor of 0.9 for other non-traded goods were used to adjust financial prices.

4. The rate of return of the overall project is estimated at 14.2%. If costs increase by 10%, the EIRR will fall to 11.3% and if benefits decline by 10% the rate of return will fall to 11.1%. With a one-year delay in benefits, the rate of return will fall to 10.8%.