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Enabling the rural poor  
to overcome poverty

## **President's report**

### **Proposed loan to the Republic of Yemen for the**

### **Rainfed Agriculture and Livestock Project**

Executive Board — Ninety-first Session  
Rome, 11-12 September 2007

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For: **Approval**

## **Note to Executive Board Directors**

This document is submitted for approval by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session:

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## Contents

<b>Abbreviations and acronyms</b>	<b>ii</b>
<b>Recommendation for approval</b>	<b>iii</b>
<b>Map of the project area</b>	<b>iv</b>
<b>Loan summary</b>	<b>v</b>
<b>I. The project</b>	<b>1</b>
A. Main development opportunity addressed by the project	1
B. Proposed financing	1
C. Target group and participation	2
D. Development objectives	2
E. Harmonization and alignment	3
F. Components and expenditure categories	3
G. Management, implementation responsibilities and partnerships	3
H. Benefits and economic and financial justification	4
I. Knowledge management, innovation and scaling up	4
J. Main risks	5
K. Sustainability	5
<b>II. Legal instruments and authority</b>	<b>5</b>
<b>III. Recommendation</b>	<b>5</b>
<b>Annex</b>	
Important assurances included in the negotiated project loan agreement	<b>6</b>
<b>Appendices</b>	
I. Key reference documents	
II. Logical framework	

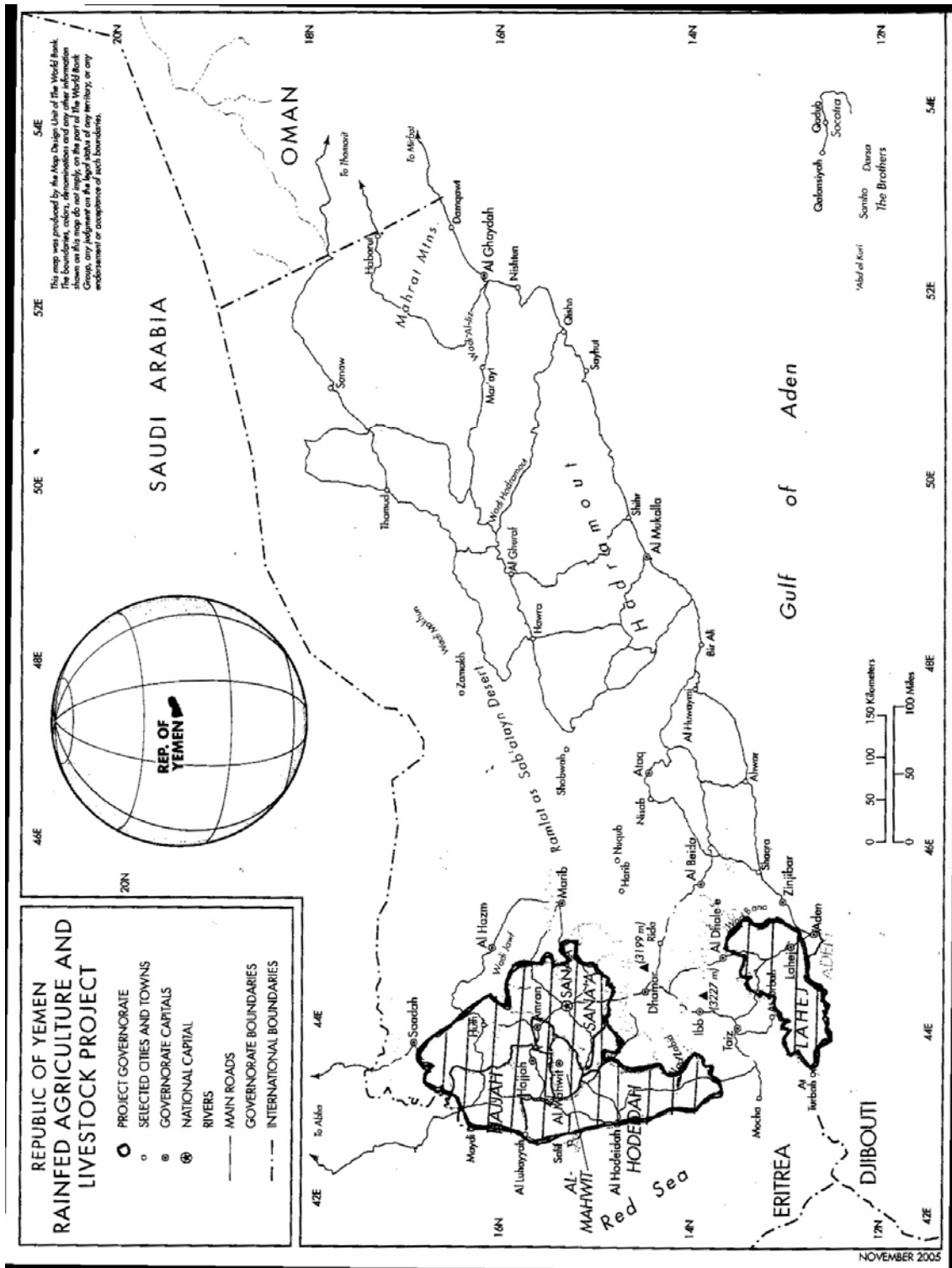
## **Abbreviations and acronyms**

IDA	International Development Association
MFI	microfinance institution
RPC	rural producer committee
RPG	rural producer group
SFD	Social Fund for Development

## **Recommendation for approval**

The Executive Board is invited to approve the recommendation for the proposed loan to the Republic of Yemen for the Rainfed Agriculture and Livestock Project, as contained in paragraph 35.

# Map of the project area



Source: World Bank

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

### Rainfed Agriculture and Livestock Project

#### Loan summary

<b>Initiating institution:</b>	International Development Association (IDA)
<b>Borrower:</b>	Republic of Yemen
<b>Executing agencies:</b>	Ministry of Agriculture and Irrigation (components 1 and 2) Social Fund for Development (component 3)
<b>Total project cost:</b>	US\$42.2 million
<b>Amount of IFAD loan:</b>	SDR 10.85 million (equivalent to approximately US\$16.6 million)
<b>Terms of IFAD loan:</b>	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
<b>Cofinancier:</b>	International Development Association (IDA)
<b>Amount of cofinancing:</b>	US\$19.6 million
<b>Terms of cofinancing:</b>	Highly concessional
<b>Contribution of borrower:</b>	US\$0.4 million
<b>Contribution of beneficiaries:</b>	US\$5.6 million
<b>Appraising institution:</b>	IFAD
<b>Cooperating institution:</b>	IDA





# Proposed loan to the Republic of Yemen for the Rainfed Agriculture and Livestock Project

## I. The project

### A. Main development opportunity addressed by the project

1. The project addresses the growing stress on available natural resources caused by a rapidly increasing population with greater demands and expectations. The project will: halt and reverse the accelerating trend of resource degradation through participatory natural resource management initiatives; upgrade and diversify rainfed agricultural and livestock production; and promote microfinance and microenterprise development, marketing and partnerships with the private sector.

### B. Proposed financing

#### Terms and conditions

2. It is proposed that IFAD provide a loan to the Republic of Yemen in the amount of SDR 10.85 million (equivalent to approximately US\$16.6 million) on highly concessional terms to partially finance the Rainfed Agriculture and Livestock Project. The loan will have a term of 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum.

#### Relationship to the IFAD performance-based allocation system (PBAS)

3. The computed 3-year PBAS allocation for Yemen (2007-2009) is US\$16.591 million, approximately equivalent to the IFAD loan for this project.

#### Country debt burden and absorptive capacity of the State

4. The country's handling of its external debt has improved, mainly due to high oil prices and a surge in private investment in response to ongoing reforms. External debt stood at US\$5.4 billion in 2006 (28 per cent of GDP). The debt-service ratio stood at 2.7 per cent of GDP, and foreign exchange reserves at US\$7.5 billion (19 months of imports). Total disbursements from all IFAD operations in Yemen in 2006 amounted to SDR 2.6 million. The Government's repayment record for IFAD loans is good.

#### Flow of funds

5. IFAD loan proceeds will be channelled through a special account for the Social Fund for Development (SFD) for eligible expenditures. SFD is an autonomous public agency, strongly committed to poverty reduction, and recognized as the leading institution in Yemen in this field.

#### Supervision arrangements

6. The IFAD loan will be administered by the International Development Association (IDA). IDA will supervise the project at least once annually. Continuous support and oversight on procurement, disbursement, administrative matters and technical implementation will be provided by the World Bank office in Sana'a. The IFAD Field Presence Officer in Sana'a will provide support as appropriate. IFAD will also undertake at least one follow-up mission annually, focusing on targeting, gender sensitivity and impact achievement.

#### Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies

7. No exceptions are foreseen.

#### Governance

8. The following provisions are intended to enhance the governance aspects of IFAD financing: (i) use of private auditors; (ii) competitive service provision through competitive contracting; (iii) introduction of best practices for the promotion of

microfinance; and (iv) partnership with elected local government councils in the sustainable operation and maintenance of project-provided economic infrastructure.

## **C. Target group and participation**

### **Target group**

9. The project will target about 185,000 households, including landless households, smallholder farmers having rainfed acreage with little irrigation and small numbers of livestock, and pastoralists with little or no cropland. About 30 per cent of the households in these groups are headed by women, and their participation in all project activities will be actively sought.

### **Targeting approach**

10. Within the five project governorates, the project will target 23 districts, which have been identified through participatory socio-economic surveys as the poorest and most disadvantaged. In accordance with the IFAD Policy on Targeting, targeting within each district will focus on identifying the poorest communities with the highest proportion of rural poor producers.

### **Participation**

11. Participation includes: community selection, sensitization and mobilization; formation of rural producer groups (RPGs) and committees (RPCs); provision of training and technical support to assist communities in: (i) organizing at community and intercommunity levels and managing their organizations; (ii) undertaking initiatives; (iii) preparing and prioritizing subprojects that they have identified; (iv) assuming responsibility for the operation and maintenance, on a sound financial and technical basis, of project-supported social and economic investments; and (v) accessing services and input and output markets.

## **D. Development objectives**

### **Key project objectives**

12. The overall project goal is to reduce rural poverty in the project area and improve natural resource management. The development objectives are to: (i) help producers upgrade and diversify agricultural and livestock production and processing and marketing systems, and protect their assets (soil, water, rangeland, seed and animals); and (ii) empower rural communities to organize, participate in and gain benefit from community-based development planning and execution and to improve their access to public and private services, input and output markets and rural finance.

### **Policy and institutional objectives**

13. Important objectives of the project are to: (i) help the Ministry of Agriculture and Irrigation improve its capacity to fulfil its core supervisory and regulatory functions; (ii) support SFD in building capacities and reorienting activities towards productive investments that address the income aspects of poverty; (iii) contribute towards establishment of a sustainable microfinance system with significant outreach in the project area; and (iv) empower RPG/Cs to establish sustainable, participatory systems for the management of community initiatives and resources.

### **IFAD policy and strategy alignment**

14. The project is fully aligned with IFAD's strategic objectives of strengthening the capacity of the rural poor and their organizations and increasing access to financial services and markets. It accords with the objective of the country strategic opportunities paper to contribute to rural employment creation, income generation and natural resource conservation.

## **E. Harmonization and alignment**

### **Alignment with national priorities**

15. The project is aligned with the Government's poverty reduction strategy as articulated in the Socio-Economic Development Plan for Poverty Reduction 2006-2010. The plan calls for reducing poverty by focusing, among other priorities, on: (i) labour-intensive investment projects and programmes, especially in agriculture, industry and tourism; (ii) partnerships with the private sector, civil society and donors to develop small and medium-sized enterprises; (iii) microfinance services for the poor, especially for rural women; and (iv) enhanced capacity of local authorities to generate and manage resources to reduce poverty through local initiatives.

### **Harmonization with development partners**

16. IDA is cofinancing the project in the amount of US\$19.6 million. The project will enable cross-fertilization with several donor-supported activities, including SFD's pilot Integrated Interventions Program, under which participating communities will receive additional funding for social infrastructure and management needs. The World Bank-supported Public Works Project and the Rural Access Project may finance additional infrastructure as necessary.

## **F. Components and expenditure categories**

### **Main components**

17. The project has four components: (1) a farmer-based system of seed improvement and management; (2) livestock husbandry and health services; (3) productive rural development; and (4) project management. IFAD and IDA will cofinance component 3, while IDA will fully finance components 1, 2 and 4.

### **Expenditure categories**

18. For the IFAD/IDA cofinanced component 3, there are seven expenditure categories: (i) civil works (45.2 per cent of total component cost); (ii) equipment (0.2 per cent); (iii) training (4.6 per cent); (iv) support to RPGs through agricultural inputs, demonstrations and technology transfer (26.5 per cent); (v) technical assistance and studies (1.2 per cent); (vi) microcredit, including capacity-building in partner microcredit organizations and loan funds (14 per cent); and (vii) operation and maintenance (8.2 per cent).

## **G. Management, implementation responsibilities and partnerships**

### **Key implementing partners**

19. These partners will include the Ministry of Agriculture and Irrigation for components 1 and 2 and SFD for component 3. Other implementers of component 3 include the district councils in the project area, collaborating microfinance institutions (MFIs) and project beneficiaries.

### **Implementation responsibilities**

20. The Ministry will be responsible for overall coordination and management of components 1 and 2. SFD will be responsible for the implementation and coordination of activities for component 3 through its Agricultural and Rural Development Unit. RPGs of common economic interest at the community and intercommunity levels will identify, supervise and assume operational and management responsibility for community and group investments executed by private contractors. MFIs will be recruited to implement a microcredit programme.

### **Role of technical assistance**

21. The IFAD loan includes an allocation of US\$390,000 for technical assistance, including that to SFD to build capacities and reorient activities. Collaborating MFIs will receive support to implement best practices and to refine their business plans, develop new service products and marketing strategies, improve credit analysis and loan tracking capabilities, and upgrade financial management and loan recovery

capacities. Support to community-based associations will focus on community organization, business development and natural resource management skills.

#### **Status of key implementation agreements**

22. In addition to the standard loan agreement between IFAD and the Government, a subsidiary agreement will be executed between SFD and collaborating MFIs, specifying the conditions for implementing the microfinance subcomponent.

#### **Key financing partners and amounts committed**

23. An IDA credit of US\$19.6 million, signed September 2006, will fully finance components 1, 2 and 4 and cofinance 31.1 per cent (US\$9.99 million) of component 3. Government financing of about US\$0.4 million will cover the cost of taxes for components 1 and 2. The beneficiaries' contribution of US\$5.6 million (17.3 per cent of component 3 costs) will include labour, local materials and the cash share of their investments.

### **H. Benefits and economic and financial justification**

#### **Main categories of benefits generated**

24. The project will benefit rural poor households by increasing incomes, agricultural and livestock production and food security and by creating on- and off-farm jobs. These gains will stem from: improved production technology, water management, seed for rainfed agriculture, and veterinary and livestock services; higher on- and off-farm investments; and better margins on sales of produce – as producer groups help members achieve the scale of production necessary to exploit economies of scale and strengthen their bargaining power.

#### **Economic and financial viability**

25. A series of likely typical farm models were constructed and evaluated. Results show positive incremental returns per hectare. Expected increases in farmers' income as a result of the project range from 16.7 to 18.8 per cent. The overall economic rate of return is about 17.7 per cent. Benefits from livestock investments have been calculated based on herd-size estimates at project area and national levels. About 30 per cent of the total herd in the project area is expected to benefit from improved access to veterinary services, with an increase in meat and milk productivity of 40 per cent five years after project completion.

### **I. Knowledge management, innovation and scaling up**

#### **Knowledge management arrangements**

26. Assisted by its field presence in Yemen, IFAD will organize yearly national project implementation workshops, allowing project staff and other implementing partners to share lessons learned across projects and to inform relevant policy forums. Small brochures will be produced to record the lessons learned.

#### **Development innovations that the project will promote**

27. The most innovative project feature in the Yemeni context is the reorientation of SFD towards interventions in rural development activities that go beyond construction of social infrastructure. Under this project, SFD will support productive investments that address the income aspects of poverty. SFD will thus gain experience and develop the institutional capacity to become the leading agency in economic as well as social rural development and to assume a pioneering role in reducing rural poverty in the country.

#### **Scaling-up approach**

28. Project implementation will allow SFD to gain experience and learning in mainstreaming participatory natural resource management, economic infrastructure development and provision of expanded-outreach microfinance services that can be replicated in other parts of the country.

## J. Main risks

### Main risks and mitigation measures

29. One risk is that RPG/Cs will cease to function once the project ends. This risk will be mitigated by allowing groups to form on the basis of common economic interests and need and by providing capacity-building. Another risk – that cultural traditions may prove too entrenched to allow rural women to become involved in project activities, particularly in decision making and management – will be mitigated by gender training and the development of a gender strategy and programme for the project, with the assistance of a long-term, woman gender consultant.

### Environmental classification

30. The project was assigned a Category B classification under World Bank environmental guidelines. No significant cumulative or irreversible environmental impacts of the project were assessed. An environmental management plan was designed to address potential adverse environmental and social impacts. The plan proposed: (i) a process and criteria for screening small-scale infrastructure projects; (ii) a monitoring and evaluation programme to track project environmental impacts; and (iii) an environmental capacity-building and awareness programme for participating public/private-sector institutions and local populations.

## K. Sustainability

31. By promoting the formation and capacities of RPG/Cs on the basis of common economic interests and need, the project will contribute to a sustainable and fully participatory system for natural resource management and for continuing development through the community's own initiative and resources.

## II. Legal instruments and authority

32. A project loan agreement between the Republic of Yemen and IFAD will constitute the legal instrument for extending the proposed loan to the borrower. Important assurances included in the negotiated agreement are attached as an annex.
33. The Republic of Yemen is empowered under its laws to borrow from IFAD.
34. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

## III. Recommendation

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

RESOLVED: that the Fund shall make a loan to the Republic of Yemen in various currencies in an amount equivalent to ten million eight hundred and fifty thousand special drawing rights (SDR 10,850,000) to mature on or prior to 15 April 2047 and to bear a service charge of three fourths of one per cent (0.75 per cent) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Lennart Båge  
President

## Important assurances included in the negotiated project loan agreement

(Negotiations concluded on 10 August 2007)

### **Pest management**

1. The Government of the Republic of Yemen (the Government) will comply with the International Code of Conduct on the Distribution and Use of Pesticides and ensure that pesticides procured under the project do not include any pesticides classified as extremely hazardous or highly hazardous by the World Health Organization.

### **Gender**

2. The Government will ensure that gender balance exists, to the extent possible, in all project activities.

### **Fraud and corruption**

3. The Government will promptly bring to the attention of IFAD any allegations or claims of fraud and/or corruption in relation with the implementation of the project properly brought to its attention through the appropriate means, in accordance with its national laws and regulations.

### **Suspension**

4. (a) IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the loan account upon the occurrence of any of the events set forth in the General Conditions, or if:
  - (i) IFAD, after consultation with the Government, has determined that the material benefits of the project are not adequately reaching the target group or are benefiting persons outside the target group to the detriment of target group members;
  - (ii) The Government has defaulted in the performance of any covenant set forth in of the project loan agreement and such default has continued unremedied for a period of thirty (30) days, and IFAD has determined that such default has had, or is likely to have, a material adverse effect on the project;
  - (iii) The Development Credit Agreement (DCA) between the Government and the IDA has been suspended or cancelled, or any of the events specified in Section 5.01 of the DCA have occurred;
  - (iv) IFAD has given notice to the Government that credible allegations of corrupt or fraudulent practices in connection with the project have come to the attention of IFAD, and the Government has failed to take timely and appropriate action to address the matters to the satisfaction of IFAD;
  - (v) Procurement has not been or is not being carried out in accordance with the provisions of the DCA.
- (b) IFAD will suspend, in whole or in part, the right of the Government to request withdrawals from the loan account if the required audit has not been satisfactorily concluded within twelve (12) months of the financial reporting date.

**Conditions precedent to withdrawals**

5. No disbursement may be made for expenditures under category III (rural finance) of the loan allocation table until IFAD has approved the detailed plan for the implementation of subcomponent 3 (rural financial services) of the project submitted by the lead project agency

**Conditions precedent to effectiveness**

6. The project loan agreement will become effective upon the fulfilment of the following conditions precedent:
  - (a) the DCA has entered into effect;
  - (b) the Government has duly opened the special account;
  - (c) the project loan agreement has been duly signed, and the signature and performance thereof by the Government has been duly authorized and ratified by all necessary administrative and governmental action; and
  - (d) a legal opinion, issued by the Minister of Legal Affairs in respect of the matters set forth in the project loan agreement and in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.





## **Key reference documents**

### **Country reference documents**

Yemen's Socio-economic Development Plan for Poverty Reduction, 2006-2010  
Republic of Yemen, Poverty Reduction Strategy Paper (PRSP), 2003-2005  
Small and Microenterprise Development in the Republic of Yemen, Strategy and Proposed Action Plan (2005)  
National Strategy for Environment  
National Strategy for Women

### **IFAD reference documents**

IFAD Strategic Framework  
Sub-regional Strategy for NENA  
Yemen COSOP (February 2000).  
IFAD Strategic Framework (old and revised)  
Action Plan for the Seventh Replenishment  
Learning Notes  
Targeting Policy  
IFAD Guidelines: Design Document and Key File (2003)  
Rural Finance Policy  
Gender Action Plan  
Environmental Assessment Guidelines

### **Other miscellaneous reference documents**

World Bank: A World Bank Country Study: Economic Growth in the Republic of Yemen (2002)  
CGAP: Report of CGAP Multi-Donor Mission, Microfinance in Yemen (2005)  
UNDP: Macro-economic Policies For Growth Employment and Poverty Reduction in Yemen (2005)  
UNDP: Human Development Report (2006)  
World Bank PAD  
World Bank CAS  
Yemen Republic Poverty Assessment

## Logical framework

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions
<p><b>Goal:</b> To improve the economic and social status of poor rural people in five poor Governorates</p>	<ul style="list-style-type: none"> <li>• Number of households (HH) improving food security;</li> <li>• No. of HHs improving asset ownership index;</li> <li>• % reduction in prevalence of child malnutrition (weight for age).</li> </ul>	<ul style="list-style-type: none"> <li>• Baseline, mid term and completion evaluation surveys;</li> <li>• Project completion report;</li> <li>• Periodic Government socio-economic and poverty studies, health/welfare surveys;</li> <li>• Rapid nutrition surveys at benchmark, mid-term and completion evaluation.</li> </ul>	
<p><b>Development Purposes:</b></p> <ul style="list-style-type: none"> <li>• To empower rural poor communities and improve their access to services, input and output markets</li> <li>• To upgrade and diversify rural production, and increase on and off-farm incomes</li> <li>• To protect and regenerate soil, water and rangeland assets</li> </ul>	<ul style="list-style-type: none"> <li>• No. of rural producer groups formed and functioning;</li> <li>• Number of community-based development plans formed and executed</li> <li>• Loan portfolio growth, repayment, recovery;</li> <li>• No. of beneficiaries that have diversified their activities or increased their output and incomes;</li> <li>• Changes in cropping patterns, intensity and yields;</li> <li>• Number of infrastructure works (water harvesting, wadi bank protection, terrace rehabilitation, etc) proposed, funded, executed and operating.</li> </ul>	<ul style="list-style-type: none"> <li>• Baseline, mid term and completion evaluation surveys</li> <li>• Project completion report</li> <li>• M&amp;E reports;</li> <li>• Project and service provider progress reports;</li> <li>• Supervision reports;</li> <li>• Financial and audit reports.</li> </ul>	<ul style="list-style-type: none"> <li>• Macro-economic conditions continue to improve;</li> <li>• Committed people in community come forward to manage development efforts;</li> <li>• Policies favour devolution of local administration and continued market liberalization;</li> </ul>
<p><b>OUTPUTS:</b> <b>Productive Rural Development:</b> Community institutions established and operational involved in articulating community needs and improving access of members to markets and credit</p>	<ul style="list-style-type: none"> <li>• Number and type of community and RPGs formed, trained and functioning;</li> <li>• Number and type of community sub-projects proposed, screened, funded, executed and operating;</li> <li>• Area (ha) of terrace repaired and area (ha) protected against erosion;</li> <li>• Quantities of staple food production and produce marketed by household, volume/value;</li> <li>• Number and type of income generating activities established/supported;</li> <li>• Number of savings/credit groups established;</li> <li>• Number of RPGs accessing credit and repayment rate;</li> <li>• No. of loans and amount by type of lending by MFIs and recovery rates.</li> </ul>	<ul style="list-style-type: none"> <li>• MTR and Project completion report;</li> <li>• Baseline, mid term and completion evaluation surveys;</li> <li>• M&amp;E reports;</li> <li>• Project and service provider progress reports;</li> <li>• Supervision reports;</li> <li>• Contracts tendered, issued and fulfilled;</li> <li>• Financial and audit reports.</li> </ul>	<ul style="list-style-type: none"> <li>• Governorate and district support and agency cooperation;</li> <li>• Community members come forward to train and undertake leading role;</li> <li>• Cultural traditions and norms allow women to participate in development process;</li> <li>• Micro-finance study to be conducted in PY1 comes positive for implementing micro finance activities</li> </ul>

