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Enabling poor rural people
to overcome poverty

Republic of Yemen

Country strategic opportunities programme

Executive Board — Ninety-second Session
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For: **Review**

Note to Executive Board Directors

This document is submitted for review by the Executive Board.

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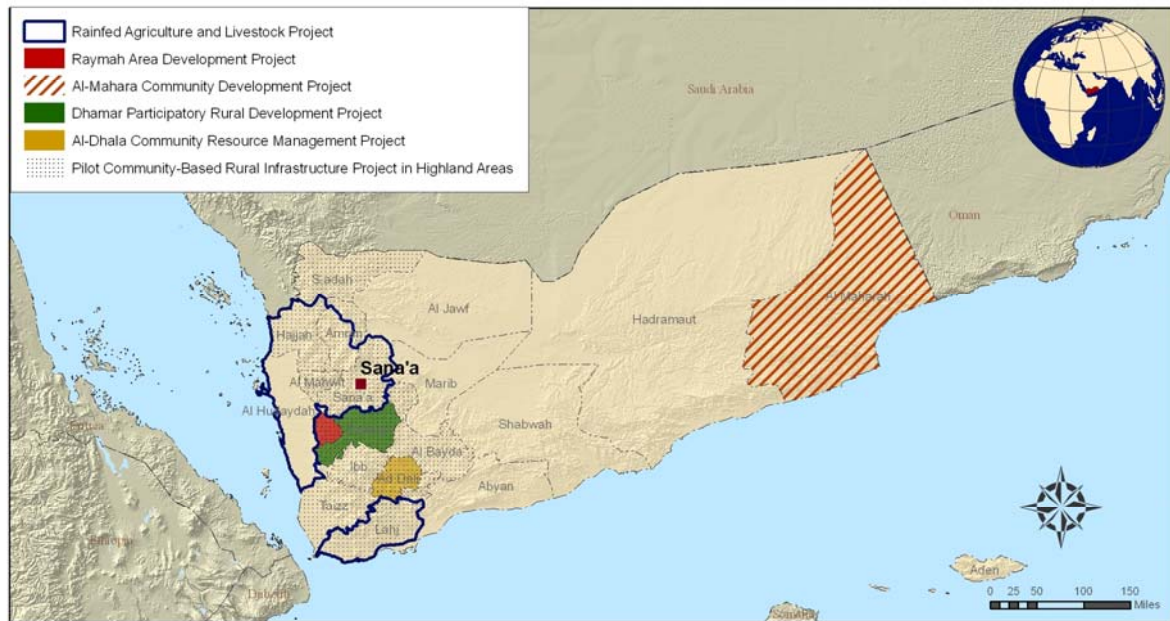
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Abbreviations and acronyms

COSOP	Country strategic opportunities programme
DPPR	Development Plan for Poverty Reduction
MCO	microcredit organization
PBAS	performance-based allocation system
PIP	public investment programme
SFD	Social Fund for Development
SME	small and medium-sized enterprise
SWOT	strengths, weaknesses, opportunities and threats (analysis)

Map of IFAD operations in the country

Yemen



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

Summary of the country strategy

1. This is the third country strategic opportunities programme (COSOP) for the Republic of Yemen. It covers the period 2008-2013 and is aimed at advancing the effort to integrate the IFAD programme into the country's own strategies and plans. It is the result of a consultative and participatory process that involved the main stakeholders in rural poverty reduction. The strategic objectives of the COSOP are aligned with the Millennium Development Goals, the Yemen national poverty reduction strategy and the country's rural development strategy; they are also in tune with the IFAD Strategic Framework 2007-2010 and with the Fund's priorities, and are consistent with the performance-based allocation system.
2. Yemen is one of the poorest countries in the world. It has a gross national income of US\$600. Poverty affects nearly 42 per cent of the population and is mainly a rural phenomenon; over 80 per cent of the poor reside in rural areas. The key challenges to the country's growth are: (i) dependence on oil for 80 per cent of export revenue and 80 per cent of Government revenue; (ii) the high population growth rate and the demand for new jobs for the relatively young population; (iii) the deterioration of the natural resource base, especially water; and (iv) the low level of human development.
3. Three strategic objectives will constitute IFAD's response to this rural poverty and the challenges facing the rural and agricultural sector in the country.
 - (i) **Strategic objective 1: Empower rural communities.** This will aim at strengthening the social and economic institutions of the rural poor through local capacity-building and the effective linking of these institutions to local government structures so they articulate community needs and priorities and allow small producers to exploit economies of scale in production and marketing and to increase their bargaining power in the market and with Government authorities.
 - (ii) **Strategic objective 2 : Promote sustainable rural financial services and pro-poor rural small and medium-sized enterprises.** This will focus on the development of savings and credit associations, especially among disadvantaged groups in remote rural areas, and on widening the outreach of microcredit organizations in rural Yemen so as to support agricultural production and marketing and the development of small and medium-sized rural enterprises that can play a significant role in poverty reduction by providing jobs to the unemployed, especially youth and women.
 - (iii) **Strategic objective 3: Enhance the food security of poor households.** This will aim at restoring the productive agricultural base and enhancing agricultural productivity so that poor households can produce more of their own food and a surplus for the market to increase their incomes and offer them the possibility of purchasing the food and other basic goods they do not produce themselves.
4. **Cross-cutting issues.** Popular participation, gender balance and environmental sustainability will be cross-cutting issues for consideration in all IFAD initiatives. Gender mainstreaming will be pursued within the gender mainstreaming strategy that the Ministry of Agriculture and Irrigation has developed with the support of other donors and that sets as key objectives the access of women to extension services, land, microfinance and time-saving technologies.
5. Given IFAD's mandate and the diverse needs and coping strategies of poor people, developing partnerships to achieve synergies and complementarity will be a key ingredient of the IFAD strategy in Yemen.

Republic of Yemen

Country strategic opportunities programme

I. Introduction

1. The proposed country strategic opportunities programme (COSOP) for the Republic of Yemen is the result of a consultative and participatory process that involved the main stakeholders in rural poverty reduction (see appendix I). It covers the period 2008-2013. It provides a review of opportunities for IFAD's contribution to rural poverty reduction over six years and articulates how IFAD will complement the efforts of the Government of Yemen and other development partners. The strategic objectives identified in paragraphs 33 to 36 of this COSOP are aligned with the Millennium Development Goals and the Yemen poverty reduction strategy; they are also in tune with the IFAD Strategic Framework 2007-2010 and priorities, and are consistent with the performance-based allocation system (PBAS).
2. The preparation of this COSOP benefited from lengthy and focused consultation between IFAD and country stakeholders from October 2006 to September 2007 (appendix I), as well as from the results of a country programme review undertaken in 2006 to prepare for the COSOP (in the absence of a country portfolio evaluation presently scheduled by the IFAD Office of Evaluation for 2010), an extensive data review and field visits to verify findings and solicit the opinions of prospective beneficiaries.

II. Country context

A. Economic, agricultural and rural poverty context

Country economic background

3. **A very poor country.** With a population of nearly 21 million (2006) and a real GDP per capita of US\$600 in 2005 (and estimated at US\$631 in 2006), Yemen belongs to the group of low-income economies. It was formed in 1990 through the unification of North and South Yemen. Yemen has a human development index of 0.492 and ranks 150th among 177 countries (Human Development Report 2006). The gender-related development index is 0.462, which reflects gender disparities in basic human development and ranks Yemen 117th among 136 countries. Yemen ranks 75th among 75 countries according to the gender empowerment measure, with a value of 0.128 in 2006, which illustrates lack of women empowerment as reflected by the scores of the measure's four components: 0.7 per cent of the seats in Parliament are held by women; 4 per cent of all legislators and senior officials are women; 15 per cent of all professional and technical workers are women; and women earn 30 per cent of the average income earned by men.
4. **An economy heavily dependent on oil.** Petroleum dominates the Yemeni economy, accounting for about 27 per cent of GDP, 90 per cent of exports and over 80 per cent of Government revenue in 2006. Thus, fiscal sustainability in Yemen is highly vulnerable to oil price fluctuations. The contributions of other sectors of the economy (2005) are as follows: services, including Government services, 45 per cent; agriculture, 14 per cent; and industry and manufacturing, excluding oil, 14 per cent. However, the oil sector generates very few jobs (21,000), and the burden of job creation falls on agriculture, manufacturing and services. Yemen has recently joined the Extractive Industries Transparency Initiative.
5. **Unsteady economic growth.** The period 1990-1994, the initial years after reunification, was characterized by rapid economic deterioration and a severe crisis in public finance. In 1995-2000, with the support of the international community, Yemen implemented the Economic, Financial and Administrative Reform Program and witnessed robust economic growth averaging more than 5 per cent per year. In

2000, the GDP growth rate began to slip and fell from 4.4 per cent in 2000 to 2.6 per cent in 2005 (less than the population growth rate) due to a slowdown in economic reforms, dampened private-sector investment and internal security concerns.

6. **An economy facing significant challenges.** While the 1995-2000 economic reforms enabled Yemen to achieve macroeconomic stability and reasonable growth, the country still faces big challenges including widespread poverty (42 per cent of the population is classified as poor), a rapidly growing (3.1 per cent) and young (45 per cent below 15 years of age) population presenting a large challenge in terms of the provision of jobs and social services, and a depleting natural resource base, particularly water; Yemen is one of the most water stressed countries in the world, with per capita water availability of only 340 cubic metres compared to a regional average of 1,250 cubic metres and a world average of 7,600 cubic metres.

Agriculture and rural poverty

7. **Agriculture is a crucial sector in the Yemeni economy.** Agriculture plays a key role among nearly 75 per cent of the total population classified as rural. It is the backbone of the rural economy, employing about 54 per cent of the formal labour force in the country and contributing about 12.9 per cent of GDP in 2005 according to the World Bank. The small contribution of agriculture to GDP underestimates the importance of the sector to the economy because many secondary and tertiary activities are agriculture-related.
8. **A limited and deteriorating agricultural resource base.** The agricultural resource base of Yemen, at 1.6 million hectares, is limited relative to the size of the population. The main agricultural areas are the terraced, mostly rainfed highland zone (44 per cent of the cultivated area) and the irrigated (spate- and groundwater) lowlands in the center (26 per cent) and along the coasts of the Red and Arabian Seas (30 per cent). The main crops are sorghum, wheat, barley, pulses, qat (see box on next page), coffee, fruits (grapes and apricots) in the highlands, and sorghum, cotton, fruits (papaya, bananas and mangoes) and vegetables in the lowlands. Grazing land is estimated to extend over 20 million hectares and is grazed by about 14 million sheep and 1.4 million cattle. Yemen has rich fishery resources exploited by both commercial and artisanal fishers. However, a significant portion of the terrace system is deteriorating due to neglect and lack of maintenance; groundwater resources are being mined; and fishery resources are subject to overexploitation and poaching by international industrial fishing fleets.
9. **A country with low food self-sufficiency.** The structure of farming is dominated by small holdings averaging one hectare. The productivity of Yemeni agriculture is low by regional and international standards. Yemen is a food-deficient country that produces less than a third of its food needs and imports nearly US\$1.0 billion worth of foodstuffs annually, while exporting limited quantities of vegetables, fruits (bananas and mangoes) and coffee.
10. **There are major obstacles to rapid growth in agriculture.** Over the period 1985-2005, agriculture grew by 4.6-5.7 per cent. This growth rate is above the population growth rate, but is not sufficiently robust to reduce rural poverty meaningfully. While Government strategies and plans constantly target agriculture as a leading employment-generating economic growth sector, the obstacles to rapid agricultural sector growth are many; they include unfavourable climate conditions and scarce water; limited cultivable land; fragmented landholdings; inequity in land tenancy and water rights in irrigated areas; underdeveloped rural institutions that exert little leverage on policymaking and resource allocation in favour of the rural and agricultural sector; limited access to formal credit, which hinders productive asset creation and small and medium-sized enterprise (SME) development; limited application of modern agricultural technologies, coupled with weak farm support services, which depresses farm productivity; and poorly developed infrastructure.

11. **Poverty is widespread, but has a mainly rural dimension.** Yemen is one of the poorest countries in the world and the poorest country in the Arabian Peninsula. Poverty in Yemen is generalized and severe and the incidence is widespread; about 42 per cent of the population live below the poverty line (of US\$ 24 per person per month). Another large segment of the population lives marginally above the poverty line and is vulnerable to minor economic and natural shocks.

Qat (*Catha edulis*) is a shrub or tree, the leaves of which contain a mild stimulant drug. The leaves are chewed by most Yemenis. Qat plays a major role in the Yemeni economy. It presently accounts for 8 per cent of GDP, 40 per cent of agricultural GDP and 10 per cent of consumption expenditure and employs nearly 15 per cent of the workforce in production and marketing. In 2005, the area under qat amounted to 127,000 hectares of mostly irrigated land (25 per cent of the irrigated acreage) and accounted for 30 per cent of the annual water usage. Qat plantation competes for land and water with food and export crops.

Qat presents Yemen with a serious national dilemma because of its effect on the utilization of the country's limited agricultural resource base and the social and health implications of its usage. Qat production and marketing provide employment to about a half million persons (growers, distributors, transporters and sellers) and reward qat growers with high financial returns, which are currently a multiple of the returns to likely alternative crops. A great number of the poor and of low-income people consume qat at the expense of their basic needs, while also incurring social and health costs. Spending on qat (at US\$1.2 billion a year) accounts for 26 per cent of household expenditure, ranking second to food items. In addition, it is estimated that 20 million working hours are lost every day due to qat consumption habits.

The issue of qat is presently gaining a great deal of attention in policymaking circles in view of the food security issues facing Yemen due to the recent steep rise in the prices of food imports and the resulting public outcry. The Government recognizes that qat is a complex national issue and tackling the issue requires a coordinated national strategy built around national consensus on what needs to be done and what can be done. IFAD will support the Government's efforts in this direction, and its programme operations in the country will work within the framework of the national strategy that is likely to emerge.

12. Yemen is essentially a rural country, with around 73 per cent of the population living in rural areas in over 40,000 rural hamlets. There are wide disparities in poverty incidence between urban and rural areas and among governorates. Almost half of the population in rural areas is classified as poor, compared with 31 per cent in urban areas. The 1999 national poverty survey showed that the percentage of families living below the poverty line ranged between 36.5 and 45.8 per cent in 17 of the 20 governorates. The young are particularly susceptible to income poverty. Children and youth make up 67 per cent of the total population, and the incidence of poverty is about 20 per cent higher among this group than among adults. The limited extent of agricultural land means that the young have limited opportunities to start their own farming enterprises, and the lack of remunerative employment and consequent poverty among youth are fuelling migration to the cities.
13. Poor rural households can generally be grouped into the following: (i) **Landless households** are often the poorest. They may have a few sheep and goats and sometimes cattle. Along the coast of the Red and Arabian Seas, these households depend on **artisanal fishing** as the main source of livelihoods. In the highlands and spate-irrigated parts of the Tihama plain along the Red Sea coast, some of these households rely on sharecropping on the lands of large landowners or as renters on Government and *wagf* land. (ii) **Smallholder households** own or have rights (as renters or sharecroppers) to small areas of agricultural land of up to 2 hectares. Most of this land is rainfed, but small parts may be irrigated. Holdings are usually in different scattered plots, and mostly subsistence crops are cultivated. Some of these households may have some livestock, which are cared for mainly by women and children. Some household members may work as casual labour locally or as migrants. (iii) **Medium landholders with livestock** are households with slightly larger landholdings (up to 3 hectares) or larger areas under irrigation (up to 1.5 hectares) than the above group. They are able to cultivate higher-value crops (qat, fruit trees and vegetables) and are generally able to satisfy their basic household needs, though they are vulnerable to shocks.
14. **Yemeni women** play a major role in rural economic life. In addition to their heavy domestic workload, they are the mainstay of smallholder agriculture, providing

60 per cent of the labour in crop cultivation and more than 90 per cent of the labour in tending to livestock. Despite their crucial role in the economic life of the family, women are faced with very serious constraints that hinder improvements in their living conditions: they have very limited access to assets and are largely excluded from markets. They show higher illiteracy rates and lower primary school enrolment rates than men. Yemeni women do not fare well in other dimensions of life either: their movements are restricted, particularly with respect to leaving their villages; they have very limited control over fertility and have limited access to decision-making both at the household level and in public affairs. They are poor and marginalized and therefore a very specific target group for IFAD.

15. By and large, poor rural households show above-average household size and a high dependency ratio. Households have a significant number of adult members with low education levels who are either unemployed or underemployed. Wage labour within the area or as migratory labour constitutes a major part of the income of these households. Farming households usually practice low input-low output agriculture and livestock production. Artisanal fisher households derive their livelihoods from fishing close to the shore and have very small surplus production for sale.
16. Some of the **major determinants of poverty** relevant to IFAD mandate are:
 - The prevalence of small holdings and low yields, coupled with large household size and a high dependency ratio such that the farm income per capita is very low. This leads to high rates of food insecurity among rural households. Furthermore, the productive natural resource base in rural areas is coming under increasing stress: terraces are deteriorating due to neglect and lack of maintenance; and drought is affecting rainfed agriculture, as well as groundwater recharge, making groundwater scarcer. The situation is compounded by the high rate of population growth.
 - Unemployment and the associated income poverty are high in Yemen. Off-farm income generation, mostly through seasonal or long-term migration, has always been an important survival strategy for rural households. But non-farm employment in services and industry in Yemen is scarce due to limited private-sector investment, while SME employment in rural Yemen is constrained by the lack of technical and managerial skills and the poor access to finance. The demand for unskilled Yemeni labour in the Gulf has lately been supplanted by the demand for cheaper and less politically troublesome labour from South Asia.
 - Constrained access to credit to finance investments in agriculture and rural SMEs represents a major brake on agricultural growth, productivity and income enhancement and increased food security at the household and national levels. Most consumer durables and productive investments found in rural Yemen date from the 1970s and 1980s and were financed through remittances. However, expatriate labour remittances are now only a fraction of what they were before 1990. The lack of a credit culture and history, the relatively small credit needs, the restricted market possibilities, the poor infrastructure and the high risks inherent in Yemeni agriculture make commercial banks shy away from rural lending.
 - The dearth of participatory rural institutions that can advocate the cause of rural areas and exert political leverage in favour of these areas means that rural areas have had less than their fair share of Government development efforts and suffered more from inappropriate policies and spending patterns that do not reflect the needs and priorities of rural people.
17. There is no doubt that Yemen has achieved some success in the fight against poverty over the last few years. This success is more pronounced in urban settings than in rural areas. Urban poverty rates are estimated to have declined from 30.8 per cent in 1998 to 18.7 per cent in 2005, while rural poverty rates declined

only from 45 to 42 per cent during the same period. Average life expectancy increased from 42 years in 1970 to about 62 years today. Enrolment in basic education increased from 3 million in 1996 to 4.1 million in 2004. However, Yemen still suffers from high fertility rates, high infant and child mortality rates, significant maternal mortality, malnutrition and high female illiteracy rates. Furthermore, Yemen has not yet managed to deal effectively with income poverty.

18. Yemen does not produce all its food needs and relies on imports for nearly 70 per cent of its current food consumption (including 95 per cent of its cereal and grain needs). About 42 per cent of households are food insecure or vulnerable to food insecurity.
19. Among rural households, food insecurity at the household level is caused by the small holdings and low yields. Food-insecure rural households tend to have less land available and own fewer heads of livestock and poultry. They thus find it difficult to produce all the food they need and are constrained by poverty from satisfying their food needs on the market. Furthermore, poor physical access in rural areas due to a generally poor road system, underdeveloped market infrastructure such as handling and storage facilities and high local transportation costs renders food too expensive for rural households.

B. Policy, strategy and institutional context

National institutional context

20. IFAD's entry point will continue to be the Ministry of Planning and International Cooperation, the official Government representative. The lead agencies continue to be the Ministry of Agriculture and Irrigation, currently responsible for four IFAD-funded projects; the Ministry of Public Works and Urban Development, currently responsible for one project; and the Social Fund for Development (SFD), responsible for one project.
21. Administratively, Yemen is governed through 21 governorates and 332 districts. The 2000 Local Authority Law mandated decentralization to elected councils at the governorate and district levels. The local budget for 2005 was prepared fully and directly by local councils, but fiscal decentralization is still in its infancy, and local councils have little power to impose taxes and little discretion over revenue spending. Nonetheless, IFAD-supported projects have established fruitful partnerships with elected local councils, especially at the district level in the areas where IFAD projects are located.
22. In terms of service providers, IFAD has previously partnered with the Agricultural Research and Extension Authority in technology transfer and with the Cooperative and Agricultural Credit Bank for the delivery of credit to small farmers. The experience with the bank has been disappointing because the bank's small-scale rural lending suffers from limited outreach and very low repayment performance. Generally, all local partners suffer from severe institutional weaknesses, including weak general and financial management capabilities, lack of properly articulated and coherent vision and weak procedures and unclear processes.

National rural poverty reduction strategy

23. There are two main instruments on development policies of the Government of Yemen. One is **Strategic Vision 2025**, which is a prospective or long-term plan to guide the development of the economy and society. One of the major goals of Vision 2025 is to transform the economy and to develop human resources to reach a middle-income country level of per capita income within 25 years. Vision 2025 calls for the redirection of agricultural production in support of rainfed agriculture, the expansion of water harvesting and the improvement of water-use efficiency, the cultivation of crops that are cost efficient and show export potential (coffee, potatoes and vegetables under protected agriculture) and controlling the cultivation of qat. In terms of fisheries, Vision 2025 calls for attention to research and studies and

improved productivity, quality and competitiveness through enhanced marketing infrastructure for refrigeration, storage and processing.

24. The other instrument is the **poverty reduction strategy paper** (PRSP) and the associated **five year development plans**, which aim to reduce the proportion of the population living below the poverty line. The first PRSP (2000-2002) and the second PRSP (2003-2005), as well as the Second Five Year Plan for Economic and Social Development 2001-2005 have been completed and have shown mixed results. The **Third Five Year Development Plan** has been renamed the **Development Plan for Poverty Reduction (DPPR) 2006-2010** to integrate it with the third PRSP. The realization of poverty reduction rests on what are referred to as the four axes or pillars of the strategy: economic growth, human resources development, improved infrastructure, and social protection. DPPR projects increased investments through a public investment programme of nearly US\$6 billion.
25. DPPR recognizes that the future of agriculture rests with the rainfed sector and on improved efficiency in the existing irrigated sector in view of the critical shortage of water resources. It proposes a large number of activities to improve the rural and agricultural sector, including increasing investment in the rainfed sector, raising water-use efficiency in irrigation, developing marketing and export crops, and improving the access to credit and financial resources by rural households. The livestock sector is to be developed through sustained improvements in animal health and veterinary services, livestock extension services, support for household investments in livestock production and fattening, rangeland management and development and the establishment of producer associations and groups to exploit economies of scale and increase the bargaining power of livestock producers. The main instrument of DPPR is a public investment programme (PIP) at an estimated cost of about US\$5.7 billion, which the Government presented to the Yemen Consultative Group in London (see paragraph 28).

Harmonization and alignment

26. **A country that receives significant support from the international community.** In November 2006, the Yemen Consultative Group met in London under the sponsorship of the Gulf Cooperation Council (which Yemen hopes eventually to join). The meeting was attended by 39 donors (including IFAD). During the meeting, the Government unveiled the National Reform Agenda, which focuses on improved governance, and outlined its vision for the development of Yemen as contained in DPPR and the associated PIP. The Yemen Consultative Group endorsed the reform programme, supported PIP as a first effort to prioritize the country's investment needs, pledged US\$4.7 billion (of which US\$2.3 billion was pledged by members of the Gulf Cooperation Council) in support of PIP and agreed to continue to harmonize the member activities of the Yemen Consultative Group within the overall framework of PIP and to assist each other in delivering the support promised to Yemen.
27. To facilitate coordination and harmonization, the Government has established a technical unit within the Ministry of Planning and International Cooperation to help in overall aid harmonization and alignment. IFAD is committed to work within this harmonization mechanism. Furthermore, within the framework of United Nations coordination, IFAD has contributed to the development of the United Nations Development Assistance Framework for 2007-2011.

III. Lessons from IFAD's experience in the country

A. Past results, impact and performance

28. IFAD's involvement in Yemen dates from the Fund's creation. By the end of 2007, IFAD had supported 19 development projects in Yemen at a total cost of around US\$600 million, including US\$190 million in IFAD financing, US\$235 million in cofinancing by other donors (the International Development Association, the Arab Fund for Economic and Social Development, the Islamic Development Bank, and

bilateral aid from Italy and the Netherlands) and about US\$175 million in contributions from the Government and beneficiaries. Of these projects, 13 have been completed, 5 are ongoing, and 1 has been approved (in September 2007).

29. Within the period of the current COSOP (2000-2007), IFAD-funded interventions have provided benefits to around 260,000 poor rural households throughout Yemen. The programme has helped participating communities establish 450 community development committees and formulate village development plans that reflect community needs, priorities and resource endowments. The village development plans are gradually being incorporated into local government planning and budgeting processes. Completed investments identified in these plans have been handed over to relevant governorate agencies for operation and maintenance or are being managed and operated by local committees on the basis of full cost recovery. These investments have provided safe drinking water to around 120,000 households through 163 village water supply systems; improved the access of isolated communities to markets and services through the construction of 64 kilometres of access roads serving 23,000 households; constructed 75 dams, dykes and surface water reservoirs with a combined storage capacity of 0.6 million cubic metres that provide animal drinking water and supplementary irrigation for over 2,000 hectares; and provided agricultural services in extension and crop protection that have helped increase the yields of millet by 25 per cent, sorghum by 45 per cent, wheat and maize by 100 per cent, potatoes by 34 per cent, coffee by 150 per cent, honey by 31 per cent and small ruminants by 23 per cent.
30. Project interventions in the coastal areas of Al-Mahara Governorate have provided credit and technical support to nearly 700 artisanal fishers for the purchase of modern fishing boats and gear, thereby enabling the fishers to extend their fishing zone and increasing the fish catch from 1,400 tons in 2000 to 10,000 tons in 2007. The Al-Mahara project also assisted fishing communities with the construction of 12 fish auction sheds along the coast where the fresh catch is aggregated for sale to a larger number of interested traders, thereby increasing the efficiency of fish marketing and raising the prices obtained by fishers.

B. Lessons learned

31. IFAD is currently one of the two biggest donors supporting Yemen's rural agricultural sector. The Fund has a portfolio of six loans totalling US\$85 million. IFAD has acquired a wealth of experience and knowledge about the Yemeni economy and society and a wide network of contacts in the Government and the public at large. A country programme review carried out in 2006 in preparation for the COSOP provided a comprehensive and systematic assessment of IFAD's experience in Yemen. The lessons learned include:
 - Traditional rainfed and mixed crop-livestock systems or sharecropping are the systems in which the poor are overwhelmingly engaged. However, given the low resource base, agriculture alone cannot meet the needs of rural households, and the poor, in particular, are heavily dependent on sources of income besides farming for their livelihoods. Rural SMEs can play a critical role in enhancing and diversifying household incomes, but this will require better access to credit and business and technical skills.
 - Access to credit by the poor is essential for the adoption of improved technologies and practices that enhance productivity and incomes. Previous cooperation with the Cooperative and Agricultural Credit Bank did not result in expanded outreach to the rural poor and smallholders. IFAD will need to explore other modalities, including cooperation with microcredit organizations (MCOs), in partnership with wholesale credit institutions such as SFD.
 - Involving communities in the identification, prioritization, design, implementation, and operation and maintenance of community

investments is the best way of ensuring ownership, commitment and, ultimately, the sustainability of such investments. Sustainability is also enhanced if the operation and maintenance of project-funded community investments are linked to local government institutions with technical expertise and fee-levying authority.

- The correct balance between social infrastructure investments that improve living conditions and economic investments that increase productivity and production and assist people to escape income poverty is crucial. Failure to raise incomes sufficiently will undermine the ability of communities to sustainably operate and maintain community infrastructure.
- Economic and institutional constraints, in particular, those related to poor bureaucracy and inter-agency coordination, poor communications, and inadequate local management capacity, are causing serious problems in project implementation. Future projects should be simple in design and limited in geographical coverage. Project management capability needs to be upgraded.
- Due to the limitations on women's contacts with men and women's restricted mobility, the provision of extension services, training and other services should be carried out by deploying women staff to ensure that women in the community are effectively contacted and engaged in project activities. Success in gender mainstreaming also requires strong commitment to project management through significant training among staff and service providers.

IV. IFAD country strategic framework

A. IFAD's comparative advantage at the country level

32. IFAD-supported interventions in Yemen have allowed the Fund to develop particular expertise and insights in a number of areas, such as community development and institutional capacity-building, resource management, including agriculture and fishery resources, environmental protection and credit. The IFAD comparative advantage lies in its ability to work at the grass-roots community level. The Government recognizes IFAD as a leader in participatory rural and area development in the country and wishes it to continue to deliver assistance in this field.

B. Strategic objectives

33. In line with the poverty reduction objectives of both DPPR and the IFAD Strategic Framework 2007-2010, the goal of this COSOP and of the associated country programme is to achieve improved, diversified and sustainable livelihoods among poor rural people, men, women and youth, especially those people depending on rainfed agriculture and livestock production systems in the Fund's project areas, thereby contributing to Millennium Development Goal 1 (poverty reduction), Goal 3 (gender and equality for women) and Goal 7 (environmental sustainability). The purpose of the COSOP is to build inclusive and sustainable institutional systems supported by pro-poor investments, policies and relevant innovation and learning engagements through the following three strategic objectives:
34. **Strategic objective 1: Empower rural communities.** This will be based on strengthening partnerships with the institutions of the rural poor and civil society organizations using community-driven development approaches so that the rural poor may become major players in their own development. The process will be geared to including the poor significantly in local community initiatives and productive activities. Given the new direction in Yemen of decentralizing decision-making and financial responsibility to elected local councils, IFAD-supported projects will seek ways to link community institutions effectively to local government structures so as to ensure harmony in investment decisions and the sustainability of operation and maintenance. Priority areas of action include: (i) building the

capacities of communities to plan, operate and maintain community social and economic investments (potable water, feeder roads, marketing infrastructure, etc.); (ii) supporting the creation of producer groups and associations of common economic interest to allow producers to exploit economies of scale in production and marketing and to increase their bargaining power on the market and among the authorities; (iii) support the representation of women and more vulnerable groups within community structures and producer groups; and (iv) link community institutions with democratic decentralized local government structures.

35. **Strategic objective 2: Promote sustainable rural financial services and pro-poor rural SMEs.** IFAD will focus on the development of savings and credit associations for disadvantaged groups in remote rural areas and on widening the outreach of MCOs in rural Yemen to support agriculture production and marketing and the development of rural SMEs that can provide jobs to the unemployed, especially youth and women. Savings and credit associations will be assisted through mobilization and advocacy, capacity-building and links with MCOs and banks. MCOs can be helped by providing them with access to loan funds and technical support to diversify their product mix and improve their financial management according to international best practice. The aim is to make these MCOs profitable institutions that will eventually become attractive and able to access the highly liquid banking system for loan funds. IFAD will coordinate its support with the SME programmes of other donors, including: (i) exploring the possibility of the development of a specialized rural finance unit within the Government, which is able to provide professional support and loan funds to MCOs; (ii) coordinating interventions with the United Nations Development Programme and the World Bank, as well as with the Consultative Group to Assist the Poor, in order to assure a larger coverage of the target population and intervention modalities that are mutually reinforcing; and (iii) promoting knowledge exchanges on good practices in rural finance.
36. **Strategic objective 3: Enhance the food security of poor households.** The aim is to restore the productive agricultural base and enhance agricultural productivity so that poor households can produce more of their own food and a surplus for the market to enhance their incomes and gain access to food on markets. The emphasis will be on the rehabilitation of the productive stock of contour terraces in the highlands and investment support for water harvesting for supplementary irrigation to increase crop yields; support for artisanal fishers so that they may increase their sustainable fish catches through investments in boats, fishing gear and marketing cold chains; the development of a community-based technology transfer system and trained local paraveterinarians selected by communities and delivering services for a fee to these communities; exploration of the options for involving the private sector in agricultural service delivery, enhancing market linkages among small producers, collectors, processors and consumers, and building strong private rural institutions, including farmer and trade organizations; and the promotion of community-private partnerships (such as for the provision of infrastructure for agricultural marketing, access roads and transport).
37. **Cross-cutting issues:** Popular participation, gender balance and environmental sustainability will be emphasized in all IFAD initiatives. Gender mainstreaming will be pursued within the gender mainstreaming strategy that the Ministry of Agriculture and Irrigation has developed with the support of the Food and Agriculture Organization of the United Nations and the Netherlands and that sets as key objectives women's access to extension services, land, microfinance and time-saving technologies.

C. Opportunities for innovation

38. **Strategy objective 1.** The COSOP will replicate community development experiences through ongoing operations that are recognized as innovative and successful in the context of Yemen. The innovations to be explored are related to the

enhancement of the sustainability of community institutions through enduring links with decentralized local government institutions.

39. **Strategy objective 2.** The COSOP will encourage innovation by microfinance institutions in terms of improving the outreach of microfinance services to the poorest segments of the rural population, introducing new financial products and packages for rural enterprises, and capacity-building and professional development. One innovative approach involves using contracts with MCOs not only for delivery, but also on the outcomes of delivery. Another is to work with the Consultative Group to Assist the Poor in exploring innovative solutions to resolve the shortage of loan funds among MCOs (including using the Postal Bank as a source of loan funds).
40. **Strategic objective 3.** Yemen is an arid country facing potentially dramatic consequences from climate change, particularly if climate change leads to less rainfall, which would disproportionately endanger the livelihoods of the poorer and more vulnerable members of rural society. IFAD will team up with the Global Environment Facility and other potential partners to use both loan and grant resources to enhance the adaptive capacity of its target groups to address climate change. Innovations will involve sustainable measures to promote the better management of scarce water resources for agriculture, including both agronomic and engineering practices, as well as the development of rural finance products that may lessen climate risk (e.g. crop insurance). In addition, innovative options for natural resource management by communities generated through the regional grant programme with the International Center for Agricultural Research in the Dry Areas on Technology Transfer to Enhance Rural Livelihoods and Natural Resource Management in the Arabian Peninsula will be mainstreamed.

D. Targeting strategy

41. The proposed targeting approach is three-pronged. The first prong is aimed at the governorate level because IFAD will focus its interventions on the governorates where rainfed agriculture is predominant since these are likely to have high poverty rates and large numbers of poor people. The second prong is aimed at targeting communities within the selected governorates that have been identified through a participatory socio-economic survey as the poorest and most disadvantaged so as to guide these communities in establishing their own self-targeting mechanisms, without excluding anyone a priori. The third prong is aimed at tailoring interventions in purpose, scope and size so as to be attractive mainly to poor people.

E. Policy linkages

42. The dialogue with the Government of Yemen on the key policies related to the country strategic objectives will take place in the context of the annual PBAS consultations during the annual review process. IFAD will advocate among stakeholders for the need to undertake a rural public expenditure review as a basis for addressing institutional deficiencies in rural areas and, especially, for improving the allocation and management of public resources in rural areas so that additional resources flow to the local level. IFAD will also help with the articulation of a coherent national extension strategy to guide projects and the creation of enabling conditions for the development of rural financial services. IFAD's field presence in Yemen will enable it to participate effectively in the regular meetings and consultations undertaken jointly with other donors and with the Government of Yemen on broader policy issues.

V. Programme management

A. COSOP management

43. This COSOP will be used as a tool for the joint planning and monitoring of IFAD-supported interventions in Yemen. To ensure programme coherence and to measure performance, the monitoring and evaluation systems of projects financed under this COSOP will be closely aligned with the COSOP results framework, while IFAD's

Results and Impact Management System (RIMS) reporting will be maintained for the ongoing programme. COSOP management will also involve annual review workshops, a mid-term review to assess achievements and a completion report to provide lessons and information for the preparation of the next COSOP.

B. Country programme management

44. **Country programme implementation partnership.** The COSOP will be managed by the country programme management team, which is composed of appropriate members based at IFAD or in Yemen and represents relevant local partners, including farmer organizations and non-governmental organizations. The team will follow up on the COSOP results framework and provide implementation support for ongoing projects. It will visit the country at least once every year to review the progress in implementation, hold knowledge exchange seminars and clinics on specific topics (i.e. rural finance, community-driven development, gender and development, etc.), identify issues related to innovation, policy dialogue and partnership, and draw lessons on successes and failures.
45. Yemen is part of IFAD's Field Presence Pilot Programme. The main responsibility of the field presence officer is to advance the implementation of the country programme and represent IFAD in national policy forums for pro-poor policy dialogue and articulation. The officer will also play a major role in building partnerships and in knowledge management. The field presence has already increased IFAD visibility in the country, contributed to improved project implementation performance and enhanced knowledge sharing and partnership building. Yemen is a prime candidate for outposting a country programme manager in the medium term.
46. **Supervision.** The supervision of IFAD-funded projects is currently undertaken by the United Nations Office for Project Services (three projects), the World Bank (two projects) and IFAD direct supervision (one project). Supervision will focus on providing implementation support geared towards the achievement of results and impact. During this COSOP, IFAD will increase the number of its projects in Yemen under the direct supervision modality.
47. **Project-at-risk ratings.** The Yemen project-at-risk rating has shown some improvement recently as a result of the active involvement of the Yemeni authorities and IFAD to resolve problems facing projects. Furthermore, the Yemen programme usually suffers from a lengthy time lag between approval and effectiveness due to onerous ratification procedures. The Government has agreed to explore ways to reduce this time lag.
48. **Management of retrofitting.** The more recent projects in the country are broadly in harmony with the strategic objectives identified for this COSOP. For the Dhamar and Al-Dhala projects, the mid-term review will endeavour to retrofit these interventions in a rigorous manner so as to reflect the COSOP strategic objectives more closely.

C. Partnerships

49. **Institutional collaboration.** In addition to the national partners identified elsewhere above, IFAD will collaborate with other major donors, including international and regional financial institutions such as the World Bank, the OPEC Fund for International Development, the Islamic Development Bank and the Arab Fund for Economic and Social Development and, whenever possible, also with bilateral donors and non-financial institutions such as the International Center for Agricultural Research in the Dry Areas, the International Center for Biosaline Agriculture (technology generation and transfer) and the Consultative Group to Assist the Poor (rural finance).
50. **Institutional coordination.** IFAD-financed interventions will continue to focus strongly on work through partnerships and close consultation with key stakeholders to realize complementarities and synergies. Key file 2 provides a strengths,

weaknesses, opportunities and threats (SWOT) analysis of the strengths and weaknesses of the key institutions and identifies areas of potential complementarities with IFAD.

D. Knowledge management and communication

51. Knowledge sharing and learning lead to better implementation, and better future programme design and impact will be enhanced through farmer exchange programmes and workshops on specific themes (rural finance and community-driven development) to review and document best practices and exchange information among the various partners. Yemen is scheduled to be a member of the second phase of KariaNet, a digital networking system connecting IFAD projects for knowledge sharing in the region.

E. PBAS financing framework

52. The level of funding available for Yemen under the PBAS at present performance (see table 1) is US\$16.6 million for the three-year period 2007-2009. The implementation of Yemen's National Reform Agenda, in addition to the steps IFAD and the Government are taking to improve project management and obtain access to counterpart funds, is expected to lead to significant improvement in Yemen's PBAS score and consequently increase Yemen's share in IFAD resources during the coming years (see table 2).

Table 1
PBAS calculation for COSOP year 1

<i>Rural sector scores</i>	<i>COSOP year 1</i>
Policy and legal framework for rural organizations	4.40
Dialogue between government and rural organizations	4.00
Access to land	3.80
Access to water for agriculture	4.14
Access to agricultural research and extension services	4.00
Enabling conditions for development of rural financial services	4.00
Investment climate for rural business	3.75
Access to agricultural input and produce markets	4.25
Access to education in rural areas	3.33
Representation	4.25
Allocation and management of public resources for rural areas	3.67
Accountability transparency and corruption in rural areas	3.56
Average	3.93
PAR rating	3
IRAI (CPIA) rating	3.29
Country score	4 992 439
Annual country allocation (US\$) (3 years)	16 591 981

Table 2
Relationship between performance indicators and country score

<i>Financing scenario</i>	<i>Project-at-risk rating (+/- 1)</i>	<i>Rural sector performance score (+/- 0.3)</i>	<i>Percentage change in PBAS country score from base scenario</i>
Hypothetical low case	2	3.63	-14
Base case	3	3.93	0

53. Four new projects – the Al-Baidha Development Project, the South-west Coastal Development Project, the Lahej Agricultural Development Project and the Taiz Rural Development Project are slated for processing during the COSOP period depending on Yemen's performance and share in IFAD resources during that period (appendix IV).

F. Risks and risk management

54. A major risk in the attempt to attain the strategic objectives relates to weak institutional and management capacity. This is being addressed through a comprehensive training programme under the Near East and North Africa Management Training in Agriculture (NENAMTA) grant programme in Yemen.
55. Regarding strategic objective 1, the main risk is the sustainability of these institutions in the medium and long term. This risk will be mitigated by allowing groups to form voluntarily on the basis of common economic interests and needs and providing them with adequate training.
56. Regarding strategic objective 2, the main risk relates to the economic viability and financial profitability of initiatives proposed by beneficiary groups. This risk can be mitigated through the careful selection of the activities to be supported, building the technical and financial management capability of entrepreneurs, and the use of well-thought-out business plans and performance-based contracts. The risk of elite capture of value chains and microfinance products and services will be addressed through the selection of loan packages and other products that match the resources and constraints facing poor borrowers and by making the size and purpose of the packages unattractive to the non-poor.
57. Regarding strategic objective 3, the main risk relates to climate change and groundwater depletion at the national level and is treated under the section on opportunities for innovation (paragraph 40).

COSOP consultation process

1. Consultation for preparation of the COSOP started on the sidelines of the Consultative Group meeting for Yemen in London in November 2006 when the CPM engaged in dialogue with the Ministry of Planning and International Cooperation on the need for a new country strategy for IFAD in Yemen consistent with the new strategic thinking in the country as manifest by the Vision 2025, the PRSP, the Third 5-Year Plan and the National Reform Agenda. It was agreed that:
 - IFAD intends to align its country strategy with the country's own strategies and plans. Yemen PRSP gives a very large array of priorities and strategies and IFAD need to think about where it should position itself within the PRSP framework.
 - Government believes that IFAD had considerable success in poverty reduction within the context of rural development and it should continue to operate in that sector
 - COSOP should analyze rural/ agriculture sector issues, identify clear priorities and set out key strategies for achieving its strategic objectives;
 - IFAD would canvas the full range of Government of Yemen agencies (the Ministry of Planning and International Cooperation, MAI, MOF, the Ministry of Water and Environment, SFD, Governorates, local councils) which might be concerned with the IFAD programme in Yemen, civil society organizations and donors in developing its country strategy; and
 - IFAD would identify specific opportunities for strategic partnerships and work constantly with other donors and concessional financiers.
2. Three consultation rounds were conducted:
 - The first was in February 2007 with the formation of an in country COSOP team which discussed the IFAD Result Based COSOP design guidelines and agreed on a processing schedule
 - The second in June 2007 which reviewed the basic data collected on poverty and advised on targeting and SWOT analysis of stakeholders
 - The third in September 2007 discussed and refined the draft COSOP for submission to IFAD management review.

COSOP Design Workshop

3. The objectives of this workshop were i) discuss IFAD strategic Framework (SF) 2006-2009 and the IFAD RB COSOP guidelines ii) Agree on a COSOP design process and timetable and iii) review IFAD experiences in Yemen and distil the lessons learned which would aid the COSOP design; and iv) identify key stakeholders involved with IFAD's Yemen programme.

Key Findings

- IFAD SF is relevant to Yemen rural sector opportunities and constraints
- There has been very little, if any, participation by intended beneficiaries in the project design due to absence of institutions to represent beneficiaries;
- IFAD need to establish a reasonable balance between activities that mitigate the social aspects of poverty and those that increase production and productivity and generate financial returns that exceed the opportunity cost of capital. This would require more emphasis on 'productive' agriculture, livestock and fisheries sub sectors, albeit selectively and with due regard to real resource potential; as the main driver of the rural economy
- Community development initiatives have had mixed outcomes. Not all of community organizations formed are sustainable, for a variety of reasons. The greatest threat comes from paucity of resources beyond project inputs available to them. IFAD should introduce a systematic process to review progress of community organizations to ascertain which are gaining or losing soundness and credibility;

Workshop to Review Preparatory Studies

4. The objectives were to review: i) COSOP poverty analysis; and ii) provide advice on setting the COSOP strategic objectives, targeting approach and SWOT analysis of key stakeholder institutions.

Key Findings

- The poverty analysis has relied almost exclusively on secondary data. It is a pity that the results of the 2004 HBS were not yet available otherwise they would have enriched the COSOP poverty analysis.
- IFAD has relied almost exclusively on area as the instrument for targeting the poor. This approach remains valid. Selection of geographic areas with greater potential for agricultural development would increase opportunities for IFAD-supported projects to lift targeted people sustainability out of poverty. The countering argument is that such areas are less likely to have high proportions of the poorest and that IFAD's assistance should go to those areas with the highest poverty levels, irrespective of development potential. In either case, it is essential that the available resources be very carefully identified and assessed and that opportunities be rigorously sought and pursued
- The following COSOP strategic objectives are recommended: i) Increasing agriculture and fisheries productivity with concomitant improvement in market access; ii) improved access to credit in rural areas which is at present a major constraint to agricultural and rural development; iii) community empowerment
- The institutional SWOT analysis of key stakeholders identified in the design workshop was reviewed and finalized in the Key File table 4.

Draft COSOP Validation Workshop

5. The draft COSOP was shared with stakeholders two weeks before the Workshop which was held in Sana'a on 19 September 2007 and attended by 55 persons from Government, Parliament, beneficiary representatives, civil society organizations and donors. The purpose of the workshop was to: i) validate that the COSOP proposed strategic objectives are consistent with Government of Yemen agricultural and rural strategies; ii) solicit views on the match between the COSOP strategic objectives

and both the poverty analysis and IFAD experience in Yemen; iii) explore opportunities for harmonization and complementarity between the SO and the objectives of other donors in Yemen; iv); v) alert partners on the imperative of collaboration with IFAD to achieve the objective of securing rural financial services for the poor and promote rural SMEs and vi) determine the Government of Yemen priorities within the development projects outlined in the document.

Key Findings

- The importance of learning from experience in designing new interventions,
- The need for realism in design of interventions and targets and the importance of limiting administrative expenses and insuring the bulk of funding of projects directly reach the intended beneficiaries,
- The search for additional modalities for provision of rural financial services in Yemen should not ignore the possibilities of using the Cooperative and Agricultural Credit Bank (with which IFAD has collaborated in the past) in some suitable form |(as a wholesaler of credit funds to MCOs, farmer groups and associations),
- The potential for using farmer groups, unions and cooperatives as conduits for channelling investment finance to the farming community,
- This SO is critical in view of the fact that Yemen produces only 5 per cent of its food needs and as the past few months has shown, is highly vulnerable to shocks in the international food market. It is imperative that produces a higher share of its food needs than at present.
- Importance of collaboration with MAI in increasing agricultural productivity and food security for poor rural people
- In view of limited country absorptive capacity the need for IFAD/government to design simpler projects as an important element of success and to build management capacity through training and appropriate incentives
- Government need to address the issue of limited absorptive capacity through a well though programme of reform of systems and procedures

Conclusion:

The attendance declared that

- The propose strategy is consistent with the Government of Yemen poverty reduction strategies and development plans
- The project ideas proposed in the document for funding during the COSOP period are consistent with the strategy, included in PIP and are likely to further the achievement of its aims.
- Government has the primary role in improving Yemen score under IFAD's PBAS so that the country can increase its share of concessional funding from IFAD. Issue needing particular attention include poor absorptive capacity, weak management capacity and counterpart funding.
- All stakeholders are committed to the ownership of the COSOP and are ready to be meaningfully involved in its monitoring and evaluation.

Country economic background

Land area (km ² thousand) 2005 1/	528	GNI per capita (US\$) 2005 1/	600
Total population (million) 2005 1/	20.97	GDP per capita growth (annual %) 2005 1/	-0.6
Population density (people per km ²) 2005 1/	40	Inflation, consumer prices (annual %) 2005 1/	11 a/
Local currency	Yemeni Rial (YER)	Exchange rate: US\$ 1 =	YER ***ADD RATE***
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1999-2005 1/	3.1	GDP (US\$ million) 2005 1/	15 066
Crude birth rate (per thousand people) 2005 1/	40	GDP growth (annual %) 1/	
Crude death rate (per thousand people) 2005 1/	8	2000	4.4
Infant mortality rate (per thousand live births) 2005 1/	76	2005	2.6
Life expectancy at birth (years) 2005 1/	62	Sectoral distribution of GDP 2005 1/	
Number of rural poor (million) (approximate) 1/	n/a	% agriculture	14 a/
Poor as % of total rural population 1/	n/a	% industry	41 a/
Total labour force (million) 2005 1/	5.94	% manufacturing	5 a/
Female labour force as % of total 2005 1/	28	% services	45 a/
Education		Consumption 2005 1/	
School enrolment, primary (% gross) 2005 1/	88	General government final consumption expenditure (as % of GDP)	16
Adult illiteracy rate (% age 15 and above) 2005 1/	n/a	Household final consumption expenditure, etc. (as % of GDP)	49
Nutrition		Gross domestic savings (as % of GDP)	35
Daily calorie supply per capita	n/a	Balance of Payments (US\$ million)	
Malnutrition prevalence, height for age (% of children under 5) 2004 2/	52	Merchandise exports 2005 1/	6 380
Malnutrition prevalence, weight for age (% of children under 5) 2004 2/	46	Merchandise imports 2005 1/	4 260
Health		Balance of merchandise trade	2 120
Health expenditure, total (as % of GDP) 2005 1/	5 a/	Current account balances (US\$ million)	
Physicians (per thousand people)	0 a/	before official transfers 2005 1/	-243
Population using improved water sources (%) 2004 2/	67	after official transfers 2005 1/	1 215
Population with access to essential drugs (%) 2/	n/a	Foreign direct investment, net 2005 1/	-266
Population using adequate sanitation facilities (%) 2004 2/	43	Government Finance	
Agriculture and Food		Cash surplus/deficit (as % of GDP) 2005 1/	n/a
Food imports (% of merchandise imports) 2005 1/	24	Total expenditure (% of GDP) 2005 1/	n/a
Fertilizer consumption (hundreds of grams per ha of arable land) 2005 1/	75 a/	Total external debt (US\$ million) 2005 1/	5 363
Food production index (1999-01=100) 2005 1/	111 a/	Present value of debt (as % of GNI) 2005 1/	32
Cereal yield (kg per ha) 2005 1/	809	Total debt service (% of GNI) 2005 1/	2
Land Use		Lending interest rate (%) 2005 1/	18
Arable land as % of land area 2005 1/	3 a/	Deposit interest rate (%) 2005 1/	13
Forest area as % of total land area 2005 1/	1		
Irrigated land as % of cropland 2005 1/	33 a/		

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

1/ World Bank, *World Development Indicators* database CD ROM 2007

2/ UNDP, *Human Development Report*, 2006

COSOP results management framework

Column 1-Country Strategy Alignment	Columns 2-4-Key Results for COSOP			Column 5-COSOP Institutional/Policy Objectives
Poverty Reduction Strategy (DPPR) target	COSOP strategic objectives	outcome that COSOP is expected to influence	COSOP milestone indicators showing progress towards SO	Specific policy/institutional ambitions
1. Enhance partnership with the private sector, CSOs and donors in the efforts to reduce poverty;	SO1: Empower rural communities;	1.1. 75% of approved social/economic infrastructure (roads, water harvesting, drinking water schemes, etc) executed; 1.2. 50% of approved infrastructure works are executed under community contracting;	1.1. 361 CDCs/Associations under AMRDP, DPRDP, ADCRMP, RALP, RIP participate in local development planning by mid-term and 480 by COSOP end (baseline 101 in 2007); 1.2. 60% of participating communities by mid-term and 100% by COSOP end have trained female community development facilitators and village extension workers; 1.3. 192 CDPs prepared/screened and approved for implementation by project/ Local Councils during 2008-2010;	1.1. IFAD-funded projects share experiences on CDD intervention approaches, promote best practices. 1.2. CDD approaches in Yemen evaluated and successes disseminated and shared across the region;
2(a) Promote SMEs for sustainable income generation, particularly in food processing, export-oriented agriculture, fisheries, tourism and related services; 2(b) Promote micro finance services for the poor, especially for women in rural areas;	SO2: Promote sustainable rural financial services and pro-poor rural SMEs;	2.1. 2 participating MCOs become financially sustainable and report on MIX market by COSOP end; 2.2. 20% of SMEs presenting business plans access credit annually (baseline 0) 2.3. 50% of supported SMEs report increases in employment created (male /female), including self-employment; 2.4. Establishment of an apex organization for providing loan capital and capacity-building support to MCOs by COSOP end;	2.1. 50% increase in SCA membership under DPRDP (1058 members in 2007) by 2010; 2.2. 10 SCAs established annually under ADCRMP and RALP (baseline 0); 2.3. At least 3 MCOs participate in IFAD projects by mid-term and 5 MCOs by COSOP end (baseline 0); 2.4. 40% of target communities have access to credit by mid-term and 80% by COSOP end (baseline 0);	2.1. Development of regulatory framework for rural finance;
3 (a) Increase efficiencies for agriculture sector and achieve 4.5% annual growth through promoting rainfed agriculture, building of dams and dikes, better market orientation, attention to environment; 3 (b) Provide food security through increased plant production at 4.6% annually; animal production by 5% annually; 3 (c) Make optimal and sustainable use of fishery resources: increase	SO3: Improve rural household food security;	3.1. 50% of farmers trained use improved technologies and report yield increases by COSOP end for wheat to 1.3 tons/ha (baseline 1.0) sorghum 1.0 ton/ha (baseline 0.7); Faba beans to 1.3 tons/ha (baseline 0.9) 3.2. 75% of fishermen who accessed credit report increases in fish catch to 18 tons/boat (baseline 9 tons/boat); 3.3. 12 auction yards in Al-Mahara report increases in fish sales against 2007 baseline; 3.4. At least 75% of funded RPGs	3.1. 65% of extension agents under ADCRMP and RALP exposed to demand-driven field experience by mid term and 100% by COSOP end (base line 0); 3.2. 30% of target households under ADCRMP and RALP trained in new technologies by mid-term and 50% by COSOP end (baseline 0); 3.3. 180 project proposals submitted for funding by RPGs in RALP by 2010;	3.1. Increasing private sector participation in agricultural service delivery; 3.2. Increasing environmental safeguards for local investments; 3.3. Enhancing structural and institutional reform in fishery sector; 3.4. Increased private sector participation in

Column 1-Country Strategy Alignment	Columns 2-4-Key Results for COSOP			Column 5-COSOP Institutional/Policy Objectives
fishery production by 7% a year and raising the sector's GDP share to 2.2% by 2010;		(male/female) under RALP report increases in household income; 3.5. 30% of target households have access to sustainable veterinary services by mid-term and 60% by COSOP end; 3.7. 50% of target beekeepers adopt improved bee hives by mid-term and 90% by COSOP end;	3.4. 50% of farmers trained participate in adaptive research trials and demonstrations;	agricultural service delivery. 3.5. Parallel to improvements in project M&E systems, IFAD will also explore options to support sector level monitoring systems

AMRDP (AI Mahara Rural Development Project), **DPRDP** (Dhamar Participatory Rural Development Project), **ADCRMP** (AL Dhala Resource Management Project), **RIP** (Pilot Community Managed Rural Infrastructure Project) **RADP** (Raymah Area Development Project) and **RALP** (Rainfed Agriculture and Livestock Project). Contribution of pipeline projects will be included in the result framework

Previous COSOP results management framework

COSOP Strategic Objectives	STATUS AT COSOP DESIGN	STATUS AT COSOP COMPLETION	LESSONS LEARNED
<p>A Country Strategic Goals: "Second Five Year Development Plan 2001 – 2005"</p> <ul style="list-style-type: none"> • Enhancing partnership and expanding the role of the private sector • Improving investment attractiveness and upgrading competitiveness of the national economy • Orienting economic activities towards exports • Development of national scientific and technological capabilities • Conserving the environment 	<p>Economy (2000)</p> <ul style="list-style-type: none"> • GDP per capita USD 562 • GDP per capita growth rate 1.3% • Private consumption (as % of GDP) 60.3 • Contribution of agriculture to GDP 15.0% • Unemployment 12% <p>Poverty (2000)</p> <ul style="list-style-type: none"> • National Poverty: 39.4% • Rural Poverty: 43.6% • Urban Poverty: 25.3% • Rural Poverty Gap: 14.3 	<p>Economy</p> <ul style="list-style-type: none"> • GDP per capita USD 702(2004) • GDP per capita growth rate 1.1% • Private consumption (as % of GDP) 64.9 (2004) • Contribution of agriculture to GDP 20.0% (2006) • Unemployment 16.8% (2005) <p>Poverty (2005)</p> <ul style="list-style-type: none"> • National Poverty: 35.5% • Rural Poverty: 40.6% • Urban Poverty: 18.7% • Rural Poverty Gap: 13.3 	<p>The 1995-2000 Reform Programme (EFARP) marked a significant economic growth with a concomitant decline in the percentage of the population below poverty line. After 2004, GDP growth rate slipped steadily until 2005 when macro-economic outcomes showed improvement;</p> <p>Long term concerns continue as achievement of a sustainable economic growth requires addressing a complex set of constraints to development;</p> <p>Given the high population growth rate there has been an increase in the number of people in poverty, which coupled with a low labour participation rate, prohibits the achievement of satisfactory productivity levels and keeps income per-capita depressed;</p> <p>The rural-urban disparities have widened;</p>

COSOP Strategic Objectives	STATUS AT COSOP DESIGN	STATUS AT COSOP COMPLETION	LESSONS LEARNED
<p>Strategic Objective 1</p> <p>Development of poor and isolated parts of Yemen, including highlands and coastal area, through strategic focus on rainfed, livestock systems, fisheries, small and medium enterprises.</p> <p>Strategic Objective 2</p> <p>assist in the development of national poverty-alleviation policies, especially those geared towards improved market linkages, sustainable responsive rural finance, and participation and empowerment of the rural poor.</p>	<p>Need to develop rainfed and surface-water-dependent agriculture and expand and conserve the resource base to the benefit of the poor and improve their production, productivity and, ultimately, incomes.</p> <p>Need to promote off-farm income generation through skill transfer and the provision of microfinance.</p> <p>Need to address women's needs by extension and research, and improving their access to credit, especially for micro enterprises.</p> <p>Need to improve the living conditions of the poor by supporting basic services related to community-based agriculture and strengthening infrastructure.</p> <p>Need to use participatory approaches to address felt needs and ensure the commitment of communities to sustainable solutions.</p> <p>Need to improve the access of the poor to financing, using a reformed Cooperative and Agricultural Credit Bank (CACB) as well as participatory rural financial institutions.</p>	<p>The Southern Governorates Rural Development Project benefited some 155,000 people from community identified and prioritized investments that caused improvements in welfare from improved water supply (79 village systems), schools (71), health centres (16), community centres (3), village electricity supply systems (5), village sewerage systems (5). 300 coastal households were assisted to start artisanal fishing enterprises, skill training for youth and support to SME development through capacity-building and business training allowed for the creation of nearly 6,000 new jobs;</p> <p>Some 48,000 households of Raymah Governorate have benefited from project interventions in rural roads (44 km), water supply (53 water reservoirs, 17 dams and dykes and 44 village water systems). 31 community development associations formed under the project articulate community needs and priorities to local and national government. Rural women in Raymah have 7 dedicated Women Centres in which to meet to discuss matters relevant to them and to get literacy and skill training. Some 12,000 households benefited from better access to agricultural technology and credit;</p> <p>The Al-Mahara Community Development Project has reached 191 villages and some 50,000 people supporting 42 community institutions and committees articulate local needs and priorities that resulted in the construction of 50 village water supply systems, 19 km of feeder roads facilitating improved access to markets and services; the providing credit to 680 artisanal fishermen to purchase fibre glass boats with outboard motors that enabled them to expand fishing area and increase fish catch and created an additional 561 fishing jobs; provided technologies for more sustainable fishing and strengthened fishery resource management capabilities of regulatory agencies; established 12 auction sheds that improved links between fish men and traders. As a result of the project support and parallel initiatives by the private sector in cold chain development, marketed fish in the project area increased from 14 000 tons in 2000 to nearly 100 000 tons in 2007.</p> <p>The Dhamar Participatory Rural Development Project in its 2 years of active life assisted 81 communities to develop community development plans that were being incorporated in local government planning procedures which resulted in implementation of 29 investments including 12 village drinking water supply systems, 3 water reservoirs and 33 classes in local primary schools. The project also pioneered the establishment of 44 village saving and credit associations for women which have until now mobilized YR 1.2 million and is provided 9 loans to members with investment proposals.</p>	<p>Traditional rainfed and crop/livestock mixed systems or sharecropping are the systems in which the poor are overwhelmingly engaged;</p> <p>Given the low resource base, agriculture alone cannot meet the needs of rural households and the poor are heavily dependent on other sources of income besides farming for their livelihoods;</p> <p>Projects need to seek ways of helping the poor to obtain greater income and security of off-farm employment through enhancing their skills;</p> <p>Due to the limited contacts of women with men and restricted mobility, gender issues are difficult to address in Yemen;</p> <p>Gender sensitivity must be applied to the provision of extension, training and services by deploying female staff to ensure that women are effectively contacted and engaged in project activities;</p> <p>Investing in technology to increase productivity without organizing farmers to access input and out put markets leads to disappointing results;</p> <p>Involving the communities from the design up to implementation stage is the best way of ensuring that project activities are demand driven and are ultimately owned by the beneficiaries;</p> <p>Access to credit by the poor is essential for the adoption of improved technologies and practices that enhance productivity and income. Projects need to search for a successful formula for micro-finance for Yemen;</p>

COSOP Strategic Objectives	STATUS AT COSOP DESIGN	STATUS AT COSOP COMPLETION	LESSONS LEARNED
IFAD Operations	<p><u>Ongoing:</u></p> <p>Tihama Environment Protection Project</p> <p>Southern Governorates Rural Development Project</p> <p>Raymah Area Development Project</p> <p>Al-Mahara Community Development Project (approved but not declared effective)</p> <p><u>Proposed:</u></p> <p>ree projects in period 2000-2004</p>	<p><u>Closed:</u></p> <p>Tihama Environment Protection Project</p> <p>Southern Governorates Rural Development Project</p> <p>Raymah Area Development Project</p> <p><u>Ongoing:</u></p> <p>Al-Mahara Community Development Project (528-YE).</p> <p>Dhamar Participatory Rural Development Project (594-YE)</p> <p>Al-Dhala Community Resource Management Project (638-YE) (declared effective in April 2007)</p> <p>Rural Infrastructure Project (669-YE) (declared effective in May 2007)</p> <p>infed Agriculture and Livestock Project (under processing)</p>	<p>Economic and institutional constraints, in particular those of bureaucracy and inter-agency coordination (inadequate local funds, frequent changes of project staff and political interventions), poor communications, and lack of local management capacity can cause serious implementation problems.</p> <p>Ineffective community participation frequently results from a hasty process of community mobilization, inexperienced project staff and lack of provision of training to the communities in planning and management.</p> <p>Success in gender mainstreaming requires strong commitment at the level of project management with significant training of staff and service providers.</p> <p>Low success rates for different interventions supporting agricultural extension suggest that new approaches need to be taken, focusing on community level extension through para-technicals both for livestock and for crop production.</p> <p>men's limited feed resources dictate that focus should be on animal health, improved nutrition and management as tools for improved animal productivity, rather than significant increases in livestock numbers or exotic livestock breeds.</p>

IFAD Performance	STATUS AT COSOP DESIGN	STATUS AT COSOP COMPLETION	LESSONS LEARNED
Policy dialogue:	<ul style="list-style-type: none"> • Reform and restructuring of the Cooperative and Agricultural Credit Bank (CACB), the country's prime rural credit institution; • Improvement in equity in spate irrigation; • Management of fish stocks to establish and maintain a balance between industrial and artisanal fishery; 	<p>CACB has become a commercial bank (CAC Bank) with limited interest in working with smallholders and the poor.</p> <p>IFAD is in policy dialogue with Government of Yemen and other donors for the development of a country-wide micro finance delivery system in the rural areas, including community level savings and credit associations;</p>	<p>IFAD's experience in Yemen, including community development, environmental protection, credit, agricultural and fisheries development, contributed to helping Government of Yemen to develop pro-poor policy frameworks and enforce appropriate measures, which resulted in protecting local natural resources and promoting environmentally sound exploitation;</p> <p>IFAD should strengthen its country presence so it can participate more actively in policy dialogue with the Government and engage in consultations with other donors;</p> <p>There are benefits if the COSOP operative period is managed by only one CPM;</p>
Partnerships	<p>Partnership with WB/IDA (Southern Governorates Rural Development Project) in rural agricultural and fishery development culminated in synergies for IFAD country strategies;</p> <p>Cooperation with other donors has allowed sharing of information and effective coordination mechanisms;</p>	<p>WB/IDA continue to be IFAD's operational partner;</p> <p>Donor coordination has been strengthened with the establishment of IFAD Field Presence;</p>	<p>The lack of closer coordination amongst the numerous sectoral actors and programmes participating in rural development for poverty reduction hinders the adoption of a comprehensive country poverty alleviation and rural development programme with a concomitant less benefit to Yemen;</p>
Portfolio performance	<p>Existing portfolio had an uneven and irregular performance with ample room for improvement;</p>	<p>The Raymah Area Development Project and Al-Mahara Community Development Project suffered from frequent changes of directors and senior staff with negative effects on implementation;</p>	<p>Need to decentralize implementation of projects and support project staff;</p> <p>Need to design and implement results and impact management and monitoring systems;</p>

Projects to be included in the COSOP

A. South-west Coastal Development Project

1. **Geographic area and target group.** The coasts of Lahej Governorate on the Arabian Sea and Taiz Governorate on the Red Sea have about 10 major fishing villages with about 4000 fishermen. In Socotra there are about 10 major fishing communities with about 4000 fishermen. All these fishermen are dependent on coastal fishing with small boats and on marketing systems based on auctions at the landing sites. Given the perishable nature of their catches, in the absence of refrigeration and transport under their control they are heavily dependent on traders who have an easy advantage. Women's involvement in fishery related activities is very limited, though there are many activities which women could undertake without significant cultural problems. From a practical managerial point of view, either the coast of Lahej/Taiz governorates and the island of Socotra may be considered the project area.
2. The project target group would then be about 4000 fishermen and their communities including both owners of small boats and those working the boats. In addition a similar number of unemployed young men and women would be directly targeted with SME and other project activities.
3. **Justification and rationale.** Poverty of the target group is due to a number of factors: the isolation of the area and lack of adequate social services, poverty of the productive natural resource base other than the fishery due to the extreme aridity of the area and its non suitability for agriculture and livestock production. But fishing itself is constrained by the primitive nature of fishing practices and the difficulties associated with marketing the fish that is caught and landed.¹
4. The rationale for the project is to address these constraints and assist the targeted fisheries communities to sustainably improve their living standards through economic and social empowerment of producer and other groups.
5. **Key project Objectives.** The project's key objectives are all closely related to the COSOP's strategic objectives. The targeted fisheries communities will be empowered through support of about 20 fisheries producer, marketing and other community organizations. Sustainable rural financial services and SMEs will be promoted through the establishment of savings and credit associations, the supply of credit for purchase of fishing boats and equipment, as well as start up capital for micro and small processing interventions for men and women. Food security will be enhanced through additional income for the fishing communities and in particular the poorer households within them.
6. **Ownership, Harmonization and Alignment:** The project is fully consistent with the country's poverty reduction strategy as it focuses on poor coastal communities dependent on artisanal fisheries; it is included in the PIP of the Third Socio-Economic Development Plan for Poverty Reduction (2006-2010). It is complementary to other projects, the WB-EU funded Fisheries Resource Management and Conservation Project, Fisheries V, PWP and the activities of existing institutions such as the Social Fund for Development.

¹ The issues here include: lack of refrigeration and control of the marketing chain for fresh fish, over-exploitation of high value species and consequent reduction in their catches, illegal fishing within the coastal zone by large scale commercial fishing fleets, lack of education and awareness of the basic principles of sustainable fisheries, weak or dormant producers' organizations, absence of financial services for capital investment and running costs, restriction on fishing during the monsoon periods due to the lack of breakwaters and other coastal protection for the boats, lack of processing and other small scale activities able to complement the core activity of fishing, lack of alternative income generation activities such as agriculture or industry)

7. **Components and activities:** The likely project components include: a) fisheries infrastructure development including breakwaters, refrigeration plants, landing sites, which would be co-financed by the beneficiary communities, b) market chain development, including credit for transport and other marketing-related investments, as well as training and quality enhancement activities, c) community empowerment, including financial and technical training services for micro and small fisheries based enterprises for young men and women, d) institutional and sustainability support to establish/strengthen fisheries and other community productive organizations, including environmental training and monitoring of species at risk, as well as of fisheries equipment e) project management.
8. **Costs and financing.** The project is estimated to cost a total of USD 10 million. External financing would come from IFAD and other interested donors (e.g. OFID).
9. **Risks:** Main project risks for which mitigation measures would need to be explored include a) continued unsustainable over fishing by artisanal as well as commercial fleets, b) elite capture by the existing merchants and other larger investors in the project area.

B. Al Baidha Development Project

10. **Geographic area and target group:** Al Baidha Governorate has the second highest percentage of rural poverty in the ROY, with 60% (HBS 2005) of its rural population living below the poverty line and some districts with over 80% poor. Given that the western districts of the Governorate are less poor and have significant areas of qat production, the project would concentrate its interventions in the 12 eastern districts² which have the highest poverty levels (SFD data) and whose population of 350 000 people are primarily dependent on rainfed agriculture and small scale semi-nomadic livestock husbandry. Mixed farming is the main economic activity in the area, with sorghum the dominant crop but also an important role for some high value fruit and vegetable crops, as well as livestock. Despite the high level of poverty, cultural norms are currently restrictive on women's participation in economic activities other than home based livestock care and in some areas involvement in some cultivation tasks.
11. **Justification and rationale:** Although population density is low, most of the rural poor live in reasonably accessible villages: 98% of cultivable land is cultivated by its smallholder owners, with an average holding size of 2.1 ha. Irrigation use reflects tenure systems as well as crops. Investment in improved productivity of non-qat crops will have a direct impact on living conditions of the poor. The main constraints to their development are water, technical knowledge, group organization, marginalization of women, and marketing. Extension and other agricultural services are currently almost inexistent, and the few existing producer organizations are weak.
12. The area has good potential for production of onions, chillies, fruit trees and other high value crops and the road network is comparatively good. It also has a large young population who are seeking income generating opportunities, many of whom have some experience of casual work outside the governorate. IFAD's previous experience in the governorate and its successful implementation of participatory development in al Mahara and particularly Dhamar are the major advantage IFAD has over other financiers to ensure success of this project.
13. **Key project Objectives:** The key project objectives are directly related to the COSOP's strategic objectives a) increased household income for smallholders on rainfed land will improve household food security, b) sustainable environmental

² Nu'man, Na'ter, Maswara, al Soma'a, al Zaher, Dhi Na'm, Al Taffa, al Manajim, Mukeiras, Al Baidah, al Suwaidiya, and Radman

management (particularly of water), improved gender balance, and support for the development of producer and community organizations will empower rural communities and c) sustainable rural financial services will be used to promote rural SMEs and market chain development for agricultural produce.

14. **Ownership, Harmonization and Alignment:** The project is fully consistent with the country's poverty reduction strategy as it focuses on poor rural people dependent on rainfed agriculture; it is included in the PIP of DPPR. It is complementary to other projects in the rural sector (Rainfed Agriculture and Livestock Project, PWP, SFD).
15. **Components and activities:** The likely components include: a) Environmentally sound productive infrastructure development, including water retention structures; b) agricultural and livestock development, including the development of community based extension services; c) development of community institutions (production and marketing groups); d) support for off-farm income generation for women and youth (training, credit) and e) project management.
16. **Costs and financing:** The project is roughly estimated to cost USD 20 million. External financing would come from IFAD and other co-financiers such as the Islamic Development Bank and bilateral Arab Funds.
17. **Risks:** The main risks for which mitigation measures will need to be devised include: a) institutional constraints, including competent staff and community immobilisers, b) drought and environmental stress.

C. Taiz Rural Development Project

18. **Geographic area and target group:** Taiz Governorate is the most populated governorate in Yemen, with 2.4 million people, 1.9 million of whom live in its rural areas, one third of whom are landless. With high rainfall and considerable mountainous regions, it is largely dependent on rainfed and spate agriculture and its crops include staples as well as a variety of high value cash crops. Mixed farming is dominant with average holding size of 0.42 ha. With the exception of coastal areas inhabited mostly by fishermen, there is a high level of household dependency on mixed farming, livestock as well as on casual labour and other off-farm activities.
19. The project area would be 5 inland districts where rainfed mixed farming dominates and poverty is highest. The target group of the project would be about 200 000 smallholder and landless rural households. Within the project area, interventions would focus on areas where more than half the holdings are cultivated by smallholders owning their land, where landless livestock holders are numerous and where qat is cultivated on only a small portion of the cultivable area.
20. **Justification and rationale:** The project would assist poor rural people to increase their income, through well targeted off and on-farm interventions, clearly designed to help them emerge from poverty. Given the existing pressure on land and water resources, and the already large number of landless people, the project would concentrate its activities on off-farm investments, particularly those which would assist the poorest young men and women to establish agriculture based and other micro and small enterprises, including market chain related ones.
21. Existing production of high value crops (vegetables and fruit such as mangoes and papaya) provides opportunities for agriculturally-based micro enterprises, as well as for intensification of production given the small size of holdings and favourable agro-ecological conditions. The high rates of under and unemployment as well as the previous experience of much of the younger population of off-farm activities provide additional potential for successful implementation.
22. **Key project Objectives:** Project objectives are closely integrated with Yemen COSOP's strategic objectives. Improved poor household food security will be

achieved by enabling poor landless and small holder households, and particular young men and women to increase income to a level which would raise them above the poverty line. Rural communities will be empowered through the demonstration and implementation of community based environmentally sound and sustainable on and off-farm economic development investments and improved gender balance within households through women's increased economic performance. Sustainable rural financial services will be promoted through financial services and technical support to the development of off-farm income generating activities for poor young men and women.

23. **Ownership, Harmonization and Alignment:** The project is fully consistent with the country's poverty reduction strategy as it focuses on poor rural people dependent on rainfed agriculture; it is included in the PIP of DPPR and is complementary to other projects in the rural sector.
24. **Components and activities:** The likely project components include a) agricultural production services (extension and training at community level; livestock and environmental management, demonstration plots and support to market chain development for agricultural and processed produce. b) productive infrastructure development including cost shared construction of water retention structures and terrace rehabilitation; c) Development of rural SMEs through technical and financial services
25. **Costs and financing.** The project cost is estimated at 20-30 million, depending on scope. Financiers would include IFAD and possibilities of co-financing would need to be explored.
26. **Risks.** The main risks associated with this project for which mitigation measures would need to be identified relate to a) the ability of financial services institutions to operate effectively and successfully, b) the ability of service providers to perform to high professional standards and c) the sustainability of beneficiary institutions.

D. Lahej Agricultural Development Project

27. **Geographic area and target group:** Lahej governorate is situated in the south west of Yemen, bordering Aden, al Dhale', al Baidha and Abyan. It has a total population of 723 000, of whom 660 000 (96 000 households) are rural. It includes different agro-ecological zones ranging from desert coastal areas to highland escarpments, reaching up to 2000 m altitude, thus has a variety of climates suitable for different crops. It is currently listed as the 6th poorest governorate in Yemen with 49% (324 000) of its rural population poor. Its population is primarily dependent on agriculture and fisheries. Holdings are mainly very small: 88% of landholders have less than 1 ha and they control a mere 37% of the land; average holding size is 0.6 ha, suggesting that the majority of smallholders have even less than that. In addition, the 33% of the cultivable area which is under the modern spate irrigation system is mostly cultivated by share croppers who receive ½ or less of the crop. Of the total 30 000 ha cultivated, 40% is under staple grains, 5% fruit, a further 5% in cash crops (mostly cotton and sesame), 23% in animal fodder, 2% in coffee and 20% in qat (in the mountainous areas). Parts of the governorate are still famous for their coffee though in recent years, qat has largely replaced it.
28. The project area would include those parts of the governorate where qat is not cultivated or forms less than 10% of individual holdings. The project target group would include all the poor rural people whose main source of income is agriculture. Activities would concentrate on the following target group:
 - landowners owning less than 1 ha [whether rain fed or spate irrigated]
 - the 40% landless people working as tenants, share croppers, or in other casual employment;
 - Poor landless women and youth whether they have livestock or not.

29. **Justification and rationale:** Lahej is a very poor governorate but its people are largely agriculturalists with decades of experience of farming. In addition to the subsistence crops of sorghum and maize, the area has excellent potential for some high value crops, coffee in particular, as it has the most famous coffee growing area in the country, despite the fact that in recent years coffee has given way to qat. There is also potential for the expansion of cotton and other cash crops, such as sesame. Many of the landless poor have livestock (a few goats and sheep or one or two heads of cattle), whose yields are very weak and could be significantly increased through improved husbandry methods, thus effectively reducing poverty. In addition, there has historically been a high level of migration from this area, hence there are large numbers of returnees who have experience of industry, services, and other forms of economic activity.
30. **Key project objectives:** The project's objectives are directly related to the COSOP's strategic objectives. They are a) to assist the households living below the poverty line to achieve a reasonable standard of living by increasing their income through intensification of crop cultivation, changing to higher value crops and intensification and improved livestock husbandry as well as off-farm activities, b) to improve natural resources management by developing sustainable water saving mechanisms, c) to empower communities through strengthening of their organizations and economic empowerment and d) to promote sustainable rural financial services and market chains for agriculturally related produce.
31. **Ownership, harmonization and alignment:** The project is fully consistent with the country's poverty reduction strategy as it focuses on poor rural people dependent on rainfed and spate irrigated agriculture; it is included in the PIP of DPPR. It is complementary to other projects in the rural sector (Rainfed Agriculture and Livestock Project, Spate Irrigation Improvement Project, PWP, SFD) and will also complement the Coastal Fisheries project.
32. **Components and activities:** The likely components would include: a) development of savings and credit institutions and other rural financial services to enable the rural poor to invest in livestock and other income generating activities, b) technical and managerial training to communities and their organizations to assist the development of more effective producer and other organizations and to improve yields of livestock and crops, c) market chain development for key products such as coffee and sesame, d) highly focused adaptive research for major subsistence and cash crops, leading to extension packages to ensure higher yields and intensification of agricultural production; e) minor infrastructures designed to improve water management, assist recharge of the aquifer and provide water for irrigation and domestic purposes.
33. **Costs and financing:** The project is roughly estimated to cost USD 20 million. External financing would come from IFAD and other co-financiers to be identified.
34. **Risks:** The main risks, for which mitigation measures will have to be identified are a) the weakness of the country's research programmes, b) drought and water shortages, and c) the possibility that effective rural financial services may not be available.

Key file 1: Rural poverty and agricultural/rural sector issues

Priority Areas	Affected Group	Major Issues	Actions Needed
Rainfed agriculture	Small holders (less than 2 ha rainfed) farming families	<ul style="list-style-type: none"> • Low productivity and incomes • Small holding sizes • Drought sensitive landraces for major crops • Low management standards • Lack of knowledge which could lead to improved yields • Limited possibilities for supplementary irrigation from wadi flows • Danger of groundwater depletion • Inefficient use of existing water sources • Poorly designed dam schemes without command area conveyance systems 	<ul style="list-style-type: none"> • Search for higher value cropping opportunities and other income generating activities • Establish new extension approach based on the farmers and focusing on technology transfer within the community • Improve access to inputs including drought resistant seed varieties, fertilizers and credit • Develop small water catchment facilities including water harvesting, on-farm storage tanks etc. • Improve irrigation management and efficiency • Control wadi flows for irrigation and recharge of water table
Fisheries	Artisanal fishermen utilising the coastal waters close to the shore	<ul style="list-style-type: none"> • Poor isolated fishing communities with poor social and economic services • Traditional fishing technology and low productivity • Poor market and cold chain infrastructure • Inadequate fishermen organizations and local institutions • Competition from illegal fishing by industrial fleets from other countries 	<ul style="list-style-type: none"> • Improve living conditions in fishing communities • Develop market infrastructure and cold chain • Develop shore facilities • Strengthen fishermen organizations to strengthen market bargaining power • Introduce modern sustainable fishing technology • Improve resource management and control of illegal fishing
Employment opportunities	All disadvantaged rural poor, particularly youth and women	<ul style="list-style-type: none"> • Absence of off-farm employment opportunities in rural areas • Low educational and skill standards of unemployed, particularly youth and women 	<ul style="list-style-type: none"> • Improve educational and skill level of job seekers • Create off-farm micro and small productive and other enterprises • Literacy and life skills training for women • Provide skill training to improve the unemployed access to job opportunities anywhere
Market access	Farmers and small food processors and other rural entrepreneurs	<ul style="list-style-type: none"> • Lack of knowledge to obtain market information • Poor physical road condition and lack of telecommunications • Distance and limited scope of markets • Limited ability of producers to respond to market opportunities • Poorly developed supply chain services 	<ul style="list-style-type: none"> • Identify markets with greatest potential for forward linkages • Support the improvement of market infrastructures • Develop network of rural business service providers • Assist farmers to organise into marketing groups to improve their bargaining position and exploit economies of scale

Priority Areas	Affected Group	Major Issues	Actions Needed
Natural Resource Management	<ul style="list-style-type: none"> All population living in areas where terrace systems are deteriorating Rural families living near wadi beds Rural families dependent on the rangeland 	<ul style="list-style-type: none"> Degradation of terrace systems leading to loss of soil cover and severely reducing agricultural land Erosion of cultivable land by wadi bank damage during flash floods Deforestation through fuel wood and fodder collection Degradation of rangeland resources due to overgrazing 	<ul style="list-style-type: none"> Rehabilitation of terraces Training on efficient range management techniques Protection of wadi banks Establishment of water flow slowing mechanisms to improve ground water recharge Rehabilitation of range land through closure and replanting
Livestock Production	Small livestock holders	<ul style="list-style-type: none"> Low productivity of livestock Low animal husbandry standards Inadequate nutrition and low hygiene Absence of livestock husbandry extension Prevalence of animal diseases and inadequate access of veterinary services Veterinary services usually offered by men; cultural norms preclude male vets from visiting households when only women are present 	<ul style="list-style-type: none"> Establish livestock extension services at community level Improve veterinary services through the use of community animal health workers (para vets), preferably women supported by technicians, vet laboratories, and increased public and private veterinary services Improve livestock nutrition through introduction of feed supplements
Inaccessibility of highland communities due to poor road conditions	<ul style="list-style-type: none"> Small and large farmers, landless households, women and children 	<ul style="list-style-type: none"> Poor access of rural communities represents a major obstacle to rural economic growth and sustains poverty in the rural areas Access situation problems are more acute in the mountainous areas Under-funding of road maintenance and lack of maintenance over decades 	<ul style="list-style-type: none"> Development of clear institutional responsibility for development and maintenance of the rural road network Allocation of greater funding for road maintenance Strengthening of capacity of district councils to plan, prioritise and implement maintenance programmes Development of appropriate, cost effective design standards and implementation methodologies for different categories of rural roads (intermediary rural roads, village access/feeder roads, etc.) Development of mechanisms for funding of maintenance at the community level
Rural Economic Infrastructure	All rural population	<ul style="list-style-type: none"> Poor social and economic infrastructure Inadequate water supply, road access and power supply Lack of community ownership/management and hence sustainability of existing infrastructure low 	<ul style="list-style-type: none"> Specific, demand-focused investment in critical infrastructure, especially water supply, and community level surface water retention structures Community involvement in identification, planning, implementation and management of rural infrastructure facilities
Rural Finance	Rural producers lacking capital	<ul style="list-style-type: none"> Limited numbers of MCO and other formal rural financial institutions No legal basis for community level savings and credit institutions 	<ul style="list-style-type: none"> Support existing micro-finance institutions to: <ul style="list-style-type: none"> ➤ Access loan funds ➤ Develop products suitable for agricultural and

Priority Areas	Affected Group	Major Issues	Actions Needed
		<ul style="list-style-type: none"> • MCOs with poor skills in agricultural lending and suitable rural products • MCOs with limited access to loan funds and therefore limited outreach • Agricultural credit bank (CACB) increasingly operating as a commercial bank and focusing on urban activities • Practically, no access to formal credit for women, landless and landholders without formal written titles • Absence of banking culture among farmers • Limited informal credit systems, mainly from rich individuals, relatives or traders 	<ul style="list-style-type: none"> • rural lending <ul style="list-style-type: none"> ➤ Expand out reach ➤ Improve financial management ➤ Adopt best international practice • Engage in policy dialogue concerning the development of a country-wide micro finance delivery system in the rural areas, including community level savings and credit associations
Gender	Rural women	<ul style="list-style-type: none"> • High degree of gender inequality • Very low level of female literacy • Poor health situation of most women • Low girls' school attendance • Women lack control over important farm assets 	<ul style="list-style-type: none"> • Empowerment of women in social and community affairs • Increase girls' attendance at school, in other educational mechanisms by reducing domestic workload for women • Provide literacy training for women • Provide skill and income generation training to women • Improve domestic water supply • Improve women's access to financial and business services

Key file 2: Organizations matrix (strengths, weaknesses, opportunities and threats [SWOT] analysis)

Organization	Strengths	Weaknesses	Opportunities/Threats
Enablers			
Ministry of Agriculture and Irrigation (MAI)	<ul style="list-style-type: none"> • Since 1970 significant public capacity created where none existed before • Project implementation experience 	<ul style="list-style-type: none"> • Traditional civil service mindset • Overstaffing • Limited operating budget • Limited management and implementation capacity • Inadequate animal health services 	<ul style="list-style-type: none"> • Aden Agenda, adopted by Council of Ministers in 2000 reflects government policy for streamlining, liberalization and privatization
Ministry of Fish wealth (MFW)	<ul style="list-style-type: none"> • Qualified pool of staff • Project implementation experience 	<ul style="list-style-type: none"> • Traditional civil service mindset • Overstaffing • Limited operating budget • Limited management and implementation capacity 	<ul style="list-style-type: none"> • Recent reorientation of MFW as service provider
Ministry of Local Administration	<ul style="list-style-type: none"> • Local government institutions should now develop, finance and implement own plans 	<ul style="list-style-type: none"> • Lack of financing capacity • Low technical capacity • Strongly politicized approach 	<ul style="list-style-type: none"> • Relationship with SFD could strengthen its capacities • Commitment to poverty reduction not demonstrated • IFAD-financed projects provide opportunities to support capacity-building of local administrative structures at the community and uzla levels
Ministry of Public Works and Highways (MPWH)	<ul style="list-style-type: none"> • Mandate to develop institutional capacity for development and management of the entire rural road network • Has engineering staff within the districts 	<ul style="list-style-type: none"> • Main focus is on major roads • Recently also taken over responsibility for rural intermediary roads and feeder roads but without getting much additional resources for management and maintenance 	<ul style="list-style-type: none"> • Offers synergies with IFAD-financed rural infrastructure project components • Enhanced implementation of IFAD-financed rural infrastructure projects/ components
Rural Access Programme (RAP)/ Public Works Project (PWP)	<ul style="list-style-type: none"> • Experience in implementation of wide range of rural infrastructure • Testing and demonstrating new technical standards and implementation procedures for rural access roads • Poverty focus • Engaged in operationalizing modalities for funding of maintenance of rural roads 	<ul style="list-style-type: none"> • Present priority is for rural intermediary or secondary roads and limited attention to tertiary roads • Not at present dealing with the lowest category of village access roads • Limited experience of least-cost design standards appropriate for improvements to quaternary roads. • Implementation by contractors for 	<ul style="list-style-type: none"> • Offers synergies with village access road components as it focuses on the main rural road network • Access to body of qualified and experienced manpower through local consultants • Emphasis on labour intensive techniques but implemented through local small contractors • Opportunity to employ local knowledge and community

Organization	Strengths	Weaknesses	Opportunities/Threats
		rural intermediary roads and hence limited experience of community implementation	participation in design and contracting
Agricultural Research and Extension Authority	<ul style="list-style-type: none"> • Qualified pool of research staff • Reasonable experience and capabilities • Good facilities for research, training and extension 	<ul style="list-style-type: none"> • Classic bureaucratic and academic attitude • Limited management skills • Limited touch with farmers' problems • Limited connection between research and extension • Lack of operating funds 	<ul style="list-style-type: none"> • New strategy focuses on economic aspects, rainfed and traditional systems • Increasing interaction with farming community to redefine research needs and emphasise adaptive research and demonstration on farmer fields
Cooperative and Agricultural Credit Bank	<ul style="list-style-type: none"> • Experience with small farmers • Experience with some women and micro-enterprise schemes 	<ul style="list-style-type: none"> • Weak capital base, high transaction costs and limited out reach • Weak central bank supervision capacity • Has become urban based commercial bank with limited interest in working with smallholders and the poor 	<ul style="list-style-type: none"> • Commercialized • Lack of interest in rural financial services due to high costs and low profitability • Refocus of activities on urban and commercial activities
Cooperatives, Agricultural and Fisheries	<ul style="list-style-type: none"> • Wide outreach (400 primary and 4 general agricultural cooperatives throughout the country; 120 fisheries cooperatives in 10 coastal governorates; • Cover wide areas of agricultural and agriculture-related activities; • Many specialize in individual products such as coffee, potato, apiary, fisheries; • Multi-purpose coops practise varied activities e.g. production, supply of inputs, marketing; 	<ul style="list-style-type: none"> • Very few cooperatives are active. Majority of them have weak capacity and are ineffective; • Fisheries cooperatives far more successful; 	<ul style="list-style-type: none"> • Development of the capability of cooperatives to deliver credit effectively would necessitate considerable time and technical support;
Service Providers			
Social Fund for Development (SFD)	<ul style="list-style-type: none"> • Leader in Yemen of participatory approaches • Strong experience of participatory infrastructure construction • Developing capacity in economic infrastructure development • Has demonstrated concern to reach the poor • Competence/commitment staff • Presence in all Governorates • Strong body of trained consultants 	<ul style="list-style-type: none"> • Limited experience in implementing agricultural projects • Overconfidence in own capacity 	<ul style="list-style-type: none"> • Problem of overlap with various ministries • Competition with other agencies • Cooperation with IFAD financed projects would contribute to enhancing experiences in agricultural productive activities, strengthening SFD's rural development capacity and wield greater influence in Yemeni RD policy

Key file 3: Complementary donor initiative/partnership potential

Donor/Agency	Nature of Project/Programme	Project/Programme Coverage	Status	Complementarity/ Synergy Potential
World Bank (IDA)	<ul style="list-style-type: none"> • Groundwater and Soil Conservation Project – Funding for water use efficiency in groundwater irrigation; spate irrigation improvement, water harvesting and soil conservation in uplands, terrace rehabilitation and wadi protection 	<ul style="list-style-type: none"> • Countrywide 	<ul style="list-style-type: none"> • On-going 	Strong – IFAD financed projects will need to harmonise implementation modalities to prevent confusion for communities
	<ul style="list-style-type: none"> • Social Fund for Development III 	<ul style="list-style-type: none"> • Countrywide 	<ul style="list-style-type: none"> • Ongoing 	Very Strong – selected partner to implement productive rural development component
	<ul style="list-style-type: none"> • Rural Water Supply and Sanitation Project 	<ul style="list-style-type: none"> • Ibb, Abyan, Hajja, Amran, 	<ul style="list-style-type: none"> • Ongoing 	Strong, potential partner for funding and implementing drinking water schemes
	<ul style="list-style-type: none"> • Third Public Works Project 	<ul style="list-style-type: none"> • Countrywide 	<ul style="list-style-type: none"> • Ongoing 	Strong –potential partner to cooperate in funding rural infrastructure schemes
	<ul style="list-style-type: none"> • Management and Preservation of Fishery Resources (Fisheries V) 	<ul style="list-style-type: none"> • Coastal areas 	<ul style="list-style-type: none"> • Ongoing 	Strong – implementing fisheries development initiatives (market development, resource management, control and supervision)
European Union	<ul style="list-style-type: none"> • Grant funds for rural roads and irrigation systems through counterpart funds linked to food aid assistance • Support of fisheries development 	<ul style="list-style-type: none"> • Countrywide • Coastal areas 	<ul style="list-style-type: none"> • Ongoing • Ongoing 	Strong – potential partner for funding and implementing fisheries and water development initiatives
France	<ul style="list-style-type: none"> • Part of proceeds from monetization of food assistance used to support coffee project with MAI 	<ul style="list-style-type: none"> • Countrywide 	<ul style="list-style-type: none"> • Ongoing 	Strong –potential financier for promotion of crop diversification aspects of the project
Germany/GTZ	<ul style="list-style-type: none"> • IDAS 3 capacity building of community organizations in planning and skills development 	<ul style="list-style-type: none"> • Taiz, Ibb, al Baidha, Lahej, Abyan 	<ul style="list-style-type: none"> • Completed 	Lessons learnt should be shared with IFAD-funded projects
CARE	<ul style="list-style-type: none"> • Domestic water supply and terrace rehabilitation 	<ul style="list-style-type: none"> • Mahweet 	<ul style="list-style-type: none"> • Completing 	Has created precedent for donor driven participatory approaches, technical standards average, high staff to results ratio

Key file 4: Target group identification, priority issues and potential response

Typology	Priority Needs	Potential Response
Small farmers	<ul style="list-style-type: none"> • Access to improved rainfed technology • Access to veterinary services • Access to good extension for rainfed crops, fruits, vegetables, honey production • Access to female extensionists for livestock husbandry • Education in improved crop and animal husbandry • Awareness of improved range management practices • Improved road infrastructure to access markets and services • Improved access to water • Improved access to social services (medical and educational) • Higher standards of education 	<ul style="list-style-type: none"> • Improvements in local landraces • Establishment of improved seed production and marketing groups • Support to water harvesting at the household and community levels for domestic and irrigation use; • Training of community animal health workers and veterinary technicians • Formation of village groups for livestock holding, to transmit improved husbandry and nutrition advice • Extension in improved crop husbandry practices which, combined with the improved seeds, should significantly increase yields and production • Skill and management training to improve farmers' ability to increase their off-farm income generating potential • Formation and training of community groups /committees to enable them to access funding and support to improve their social services • Cooperation with rural micro-finance institutions
Landless poor	<ul style="list-style-type: none"> • Access to improvements in livestock husbandry (extension, nutrition, animal health services) and ensuring that women have access to these services • Skill development for men and women to improve off-farm income generation potential locally and in neighbouring towns • Access to micro-credit • Agricultural skill development and access to improved seeds to increase income from sharecropping • Management skill development for micro-enterprises and community activities 	<ul style="list-style-type: none"> • Access to improved drinking water supplies • Technical and managerial training to improve skills and potential income generation for men and women • Formation of producer and community groups to improve access to services • Improvements in community productive infrastructures • Establishment of micro enterprises • Provision of rural micro-finance • Provide employment in terrace rehabilitation, wadi protection and other infrastructure construction • Training of community animal health workers, particularly women
Artisanal fishermen	<ul style="list-style-type: none"> • Protection from resource depletion by industrial fleet • Improved market infrastructure and competition • Access to financing 	<ul style="list-style-type: none"> • Resource management/policy reform • Shore facilities • Rural finance
Poor Rural Women	<ul style="list-style-type: none"> • Improved access to water • Higher incomes from agriculture and livestock • Access to credit • Literacy and life skills training • Livestock husbandry training • Training in management and income generating skills 	<ul style="list-style-type: none"> • Training of female community facilitators and female extension workers • Capacity-building of women to participate in community development and in preparation and implementation of sub-projects • Provide adult literacy classes • Training for technical and managerial skills for micro-enterprises • Provide access to rural financial services • Water harvesting to provide more and better quality drinking water • Provide employment in terrace rehabilitation and other infrastructure improvement sub-projects

