

Document:	<u>EB 2008/95/R.38/Rev.1</u>
Agenda:	<u>11(e)(iii)</u>
Date:	<u>17 December 2008</u>
Distribution:	<u>Public</u>
Original:	<u>English</u>

**E**



Enabling poor rural people  
to overcome poverty

## **Republic of Yemen**

### **President's memorandum**

#### **Pilot Community-Based Rural Infrastructure Project for Highland Areas**

#### **Modification to the financing agreement**

Executive Board — Ninety-fifth Session  
Rome, 15-17 December 2008

---

For: **Approval**

## **Note to Executive Board Directors**

This document is submitted for approval by the Executive Board.

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

**Omer Zafar**

Country Programme Manager  
telephone: +39 06 5459 2348  
e-mail: [o.zafar@ifad.org](mailto:o.zafar@ifad.org)

Queries regarding the dispatch of documentation for this session should be addressed to:

**Deirdre McGrenra**

Governing Bodies Officer  
telephone: +39 06 5459 2374  
e-mail: [d.mcgrenra@ifad.org](mailto:d.mcgrenra@ifad.org)

## **Recommendation for approval**

The Executive Board is invited to approve the modification to the financing agreement for the Pilot Community-Based Rural Infrastructure Project for Highland Areas in the Republic of Yemen, as contained in paragraph 8.



## **President's memorandum**

# **Pilot Community-Based Rural Infrastructure Project for Highland Areas**

## **Modification to the financing agreement**

### **I. Background**

1. At its eighty-fourth session in April 2005, the Executive Board approved a loan and a grant to the Republic of Yemen to finance the Pilot Community-Based Rural Infrastructure Project for Highland Areas. The IFAD loan of SDR 5.90 million (equivalent to approximately US\$9.01 million) was extended on highly concessional terms, and was complemented by a component grant of SDR 0.27 million (equivalent to approximately US\$0.40 million). The total financing amount was within the allocation for Yemen under the performance-based allocation system (PBAS). The total project cost amounted to US\$10.85 million, consisting of the IFAD loan and grant, the Government's contribution of US\$0.62 million equivalent and local communities' contribution of US\$0.82 million equivalent. The financing agreement was signed on 1 June 2006 and became effective on 1 March 2007. The cooperating institution is the United Nations Office for Project Services.

#### **Food price crisis impact and response**

2. Already faced with severe challenges due to poverty, food insecurity and degradation of the natural resource base, Yemen is now also seriously affected by the food price crisis, which has sharply driven up the costs of imported food (particularly cereals) and fertilizers. The Government has requested IFAD to assist the country in coping with the crisis through infrastructural support related to agricultural production; marketing and resource protection; and capacity-building in crisis management and project/fiduciary management. It is considered that IFAD assistance will be best provided within the framework of the loan and grant package of the Pilot Community-Based Rural Infrastructure Project for Highland Areas.

#### **Project objectives**

3. The project's overall goal is to improve the living standards of the rural poor in highland areas. Its specific objectives are to: (i) empower communities to address their infrastructure constraints and reduce their isolation proactively; (ii) improve overall mobility and access to markets and services in highland areas; (iii) institutionalize community-led village access road improvement within the overall framework of rural road network development; and (iv) provide poor rural households with greater access to a sustainable drinking water supply. It is executed by the Community Roads Unit of the Rural Access Programme under the Ministry of Public Works and Highways. The project area consists of 12 highland governorates, namely Albaida, Al-Dhala, Al-Mahweet, Amraan, Dhamar, Hajjah, Ibb, Raymah, Saadah, Sana'a, Taiz and Lahj. The target group consists of poor rural communities in areas of economic potential where isolation and the lack of basic infrastructure are limiting factors to development and major contributors to poverty. The project was originally designed to benefit over 300,000 people.

## II. Proposed modifications to the financing agreement

4. In September 2008, the Government formally requested that IFAD increase the financing approved for the project. This is possible because of the increased allocation to Yemen under the PBAS in the last revision, as well as Yemen's current Debt Sustainability Framework status as eligible for highly concessional assistance and its classification as having medium debt vulnerability. Specifically, the Government sought supplementary financing of approximately US\$3.50 million in the form of a loan and a grant, each of about US\$1.75 million. This supplementary financing will allow for the inclusion of a range of market-derived infrastructure facilities related to agriculture, to benefit about 140,000 rural inhabitants, and relevant capacity-building at the national, project and local levels.
5. The proposed increased loan and grant amounts will be provided to the Republic of Yemen substantially under the same terms and conditions as approved by the Executive Board in April 2005. The project objectives, strategy, target groups and implementation arrangements will remain as described in the project design report and the financing agreement. The proposed modifications to the financing agreement are as follows:
  - (a) Expansion of the scope of the upgrading of village access roads component to include other market-derived infrastructure facilities related to agriculture; and allocation of an additional US\$1.75 million of loan funds and US\$0.95 million of grant funds to this component;
  - (b) Expansion of the scope of the capacity-building and policy dialogue component to include technical assistance, training and capacity-building activities for crisis management, project/fiduciary management and local governance; and allocation of an additional US\$0.65 million of grant funds to this component; and
  - (c) Allocation of an additional US\$0.15 million of grant funds to the project management component to support the delivery of infrastructure and capacity-building activities.

### **Total project cost**

6. With these additional resources, the total project cost will increase from US\$10.86 million to US\$14.36 million. This will result in the following allocation increases: (i) upgrading of village access roads component, from US\$5.61 million to US\$8.31 million; (ii) capacity-building and policy dialogue component, from US\$0.36 million to US\$1.01 million; and (iii) project management component, from US\$0.54 million to US\$0.69 million.

### **Project financing**

7. Project financing will be revised as follows: (i) the IFAD loan will increase from US\$9.01 million equivalent of SDR to US\$10.76 million equivalent of SDR; (ii) the IFAD grant will increase from US\$0.40 million equivalent of SDR to US\$2.15 million equivalent of SDR. The Government's contribution and the communities' contribution will remain unchanged.

### **III. Recommendation**

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

RESOLVED: that the Fund shall make a supplementary loan to the Republic of Yemen in various currencies in an amount equivalent to one million two hundred thousand special drawing rights (SDR 1,200,000), bringing the total amount of the loan to seven million one hundred thousand special drawing rights (SDR 7,100,000), to mature on or prior to 15 October 2048 and to bear a service charge of three fourths of one per cent (0.75 per cent) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions approved by the Executive Board at its eighty-fourth session in April 2005.

RESOLVED FURTHER: that the Fund shall provide a supplementary grant to the Republic of Yemen in various currencies in an amount equivalent to one million two hundred thousand special drawing rights (SDR 1,200,000), bringing the total amount of the grant to one million four hundred and seventy thousand special drawing rights (SDR 1,470,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions approved by the Executive Board at its eighty-fourth session in April 2005.

Lennart Båge  
President