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Enabling poor rural people
to overcome poverty

Republic of Yemen

President's memorandum

Dhamar Participatory Rural Development Project

Modification to the loan agreement – Supplementary grant

Executive Board — Ninety-eighth Session
Rome, 15-17 December 2009

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

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Recommendation for approval

The Executive Board is invited to approve the modification to the loan agreement for the Dhamar Participatory Rural Development Project in the Republic of Yemen, as contained in paragraph 10.

President's memorandum

Dhamar Participatory Rural Development Project

Modification to the loan agreement – Supplementary grant

I. Background

1. At its seventy-sixth session in September 2002, the Executive Board approved a loan to the Republic of Yemen to finance the Dhamar Participatory Rural Development Project. The IFAD loan of SDR 10.90 million (equivalent to approximately US\$14.01 million) was extended on highly concessional terms. The total project cost amounted to US\$22.65 million, consisting of the IFAD loan, the cofinancing of US\$6.52 million (of which US\$4.36 million from the World Food Programme and US\$2.16 million from The Netherlands), the Yemeni Government's contribution of US\$1.49 million equivalent and the beneficiaries' contribution of US\$0.63 million equivalent. The loan agreement was signed on 18 February 2003 and the loan was declared effective on 12 July 2004. The project is under IFAD's direct supervision.
2. The envisaged cofinancing resources were expected to cost-share community participation, local institutional development, community infrastructure, capacity-building, village extension, environmental protection and coffee production. However, these resources did not materialize owing to changes in the priorities of the proposed cofinanciers, resulting in a financing gap of US\$6.52 million (2002 prices). This led to a significant reduction in the scope and volume of project activities and in the number of targeted villages and households, thereby reducing the overall flow of benefits. The financing gap is currently estimated to amount to US\$7.50 million, taking into account foreign and local inflation since 2002 and physical contingencies. The Government has recently requested IFAD assistance of about US\$7.50 million to cover this financing shortfall.

Project objectives

3. The project's overall goal is to support the rural population of Dhamar governorate by enhancing household food security, raising household incomes, and improving the living conditions and development participation of small farm households and village communities. Its specific objectives are to: (i) empower communities to organize themselves to participate in development planning and implementation; (ii) remove critical infrastructural and social constraints to productivity and advancement; (iii) support farming households in enhancing output to secure food supply, produce marketable surplus and pursue income-raising opportunities. The project covers the entire governorate, with investments focused in the western mountainous zone where the incidence of poverty is higher as a result of the area's remoteness, difficult terrain and small/fragmented landholdings. The target group consists of poor households with around 0.5 hectares of rainfed terraces each, the landless and sharecroppers. The project is designed to benefit some 26,000 households.

Current project status

4. The project's implementation performance is fully satisfactory, as assessed by IFAD supervision missions and confirmed by the Government. Participatory approaches have been established and mainstreamed for community engagement, planning and implementation, and representative community organizations are being formed. Ninety-two community infrastructure projects have been completed, providing a sustained flow of benefits for 58,000 rural inhabitants. Innovative extension methods have been introduced that are effectively enabling field demonstration, technology transfer and mass communication. The structure for informal rural finance has been

developed through the formation and operation of 124 savings and credit groups, together with their apex organization. Project management has adopted a management culture based on team spirit, gender sensitivity and transparency, and has developed conducive relationships with central authorities, the local administration and participating communities. The project is influencing national and governorate policies on community development and agricultural services.

Rationale

5. It is considered that the provision of IFAD's supplementary assistance to the Government to complete the project financing package is appropriate for three main reasons. First, the project design is compliant with applicable IFAD policies and guidelines, has been reviewed and cleared by all internal technical and management review mechanisms, and has already been approved by the Executive Board.¹ The provision of supplementary IFAD resources will simply cover the project's financing shortfall, without requiring any further design or review procedures. Second, the project is mature and operates successfully on the basis of a participatory and gender-sensitive approach; the provision of supplementary resources is expected to rapidly create significant benefits for the rural poor in a cost-effective manner. Third, the Government is committed to full implementation of the project in accordance with the project design parameters and legal documentation.

II. Proposed modifications to the loan agreement

6. The Government has formally requested that IFAD provide supplementary financing of US\$7.50 million for the project. This is possible in light of the increased allocation to Yemen under the performance-based allocation system for 2007-09. As Yemen is currently classified as a "high risk" country in "debt distress" (a "red" light country) under the Debt Sustainability Framework, it is eligible for IFAD financial assistance on 100 per cent grant terms. The supplementary financing will: (i) allow for the coverage of additional villages benefiting about 12,500 rural households; (ii) deepen and consolidate activities in villages that are already participating in the project; (iii) enable the target groups to improve their food security, household incomes and living conditions; and (iv) enhance the project's policy influence at the national and governorate levels, and allow increased attention to be given to the identification of best practices and knowledge products for broader application in the country.
7. The proposed supplementary resources will be integrated within the existing project design and will cover its financing shortfall. The project area, objectives, strategy, components, target groups and implementation arrangements will remain as indicated in the project design report and loan agreement. The proposed modifications to the loan agreement, which have been discussed and agreed with the Government, are as follows:
 - (a) Renaming of the loan agreement as the financing agreement, as the existing loan will be supplemented by the supplementary grant resources;
 - (b) Revision of the allocation of loan proceeds to include the supplementary grant resources; the SDR equivalent of the US\$7.50 million will be distributed across the existing expenditure categories;
 - (c) Fifteen-month extension of the project completion and loan/grant closing dates, from 30 September 2011 to 31 December 2012 and from 31 March 2012 to 30 June 2013 respectively, to allow sufficient time for the implementation of activities financed by the supplementary resources.

Total project cost

8. With these additional resources, together with increased resources from the Government and beneficiaries, the total project cost will increase from US\$22.65 million to US\$24.07 million. This will result in the following changes in

¹ Document EB 2002/76/R.20

allocation: (i) the community development component, from US\$8.66 million to US\$10.10 million; (ii) the agriculture and livelihood development and environment component, from US\$8.01 million to US\$7.05 million; (iii) the institutional support, technical assistance and training component, from US\$4.52 million to US\$4.39 million; and (iv) the project management component including the community development unit, from US\$1.45 million to US\$2.52 million.

Project financing

9. Project financing will be revised as follows: (i) the IFAD financing (loan and grant) will increase from US\$14.01 million equivalent of SDR to US\$21.51 million equivalent of SDR; (ii) the Government's contribution will increase from US\$1.49 million equivalent to US\$1.82 million equivalent; and (iii) the beneficiaries' contribution will increase from US\$0.63 million to US\$0.74 million equivalent.

III. Recommendation

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

RESOLVED: that the Fund shall provide a supplementary grant to the Republic of Yemen in an amount equivalent to four million six hundred and sixty thousand special drawing rights (SDR 4,660,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President