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تمكين السكان الريفيين الفقراء
من التغلب على الفقر

:

Omer Zafar

+39 06 5459 2348 :

o.zafar@ifad.org :

:

Deirdre McGrenra

+39 06 5459 2374 :

d.mcgrenra@ifad.org :

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Negotiated financing agreement: "Economic Opportunities Programme"

(Negotiations concluded on 12 April 2010)

Grant Number: _____

Programme Title: Economic Opportunities Programme (the "Programme")

The International Fund for Agricultural Development (the "Fund" or "IFAD")

and

The Republic of Yemen (the "Recipient")

(each a "Party" and both of them collectively the "Parties")

WHEREAS:

A. The Recipient has requested financing from the Fund for purposes of partially financing the Economic Opportunities Programme described in Schedule 1 to this Financing Agreement;

B. the Islamic Development Bank (the "IDB") intends to extend financing in the form of a loan (the IDB loan) to the Recipient of approximately ten million five hundred thousand United States dollars (USD 10 500 000) equivalent to assist in co-financing the Programme on terms and conditions to be set forth in an Agreement (the "IDB Financing Agreement") between the Recipient and the IDB;

C. In order to provide additional financing for the implementation of the Programme, the Fund will receive a contribution from the European Community which the Fund has agreed to make available to the Recipient, in the form of a Grant and in the amount of six million five hundred thousand Euro (EUR 6 500 000 which includes IFAD's administrative and management fees), in accordance with the terms of the Contribution Agreement to be entered between the Fund and the Commission of the European Communities.

D. The Fund adheres to the principles and guidelines as set out in the Financial and Administrative Framework agreement (FAFA) entered into between the EU and the UN of 29 April 2003 and to which the Fund acceded in 27 September 2004.

NOW THEREFORE the Parties hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.

3. The Fund shall provide Grant to the Recipient (the "Financing"), which the Recipient shall use to implement the Programme in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Grant is eight million five hundred thousand Special Drawing Rights (SDR 8 500 000).
2. The first day of the applicable Fiscal Year shall be 1st January.
3. There shall be a Designated Account in USD for the purpose of financing the Programme. The Designated Account shall be opened and maintained in the Central Bank of Yemen or in a commercial bank licensed by the Central Bank of Yemen, acceptable to IFAD. Upon the Recipient's request, IFAD shall make one or more withdrawals of up to USD 1,300,000 in the aggregate from the Grant account on behalf of the Recipient and deposit such amount in the Designated Account. The Designated account shall be operated by EOF and shall be protected against set off, seizure or attachment on terms and conditions proposed by the Recipient and accepted by IFAD.
4. There shall be a Programme Account in YER for the benefit of the Programme in a commercial bank acceptable to the Fund. The Chief Executive Officer and the Chief Financial Officer will be authorized to operate the account.
5. The Recipient shall provide counterpart financing for the Programme in the amount of one million two hundred thousand United States dollars (USD 1 200 000) equivalent.

Section C

1. The Lead Programme Agency shall be the Economic Opportunities Fund (the EOF).
2. The following are designated as additional Programme Parties: contracted service providers; mobilisation teams, YSMO and SMEPS; licensed microfinance banks/institutions (Al Amal Microfinance Bank, Tadhamon Microfinance Institution, and any other interested microfinance bank/institution licensed by the Central Bank of Yemen), commercial banks, leasing companies, venture capital institutions, and insurance companies.
3. The Programme Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

Section D

The Grant will be administered and the Programme supervised by the Fund.

Section E

1. The following are designated as additional grounds for suspension of this Agreement:
 - (a) The Programme Implementation Manual, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Programme.

- (b) Any competent authority has taken action for the dissolution of the EOF, the modification of the distribution of membership between public and private sectors of the EOF's Board of Directors, or the merging of the EOF with any other institution; and the Fund has determined that any such event listed above is likely to have a material adverse effect on the Programme.
2. (a) The following are designated as additional general conditions precedent to withdrawal:
- (i) The EOF has been legally created by the Recipient, and the composition of its Board of Directors has been approved by IFAD;
- (ii) The EOF's CEO and CFO have been selected on competitive basis, and their respective nominations have been approved by IFAD.
- (b) The following is designated as an additional specific condition precedent to withdrawal under categories I (Civil Works), II (Equipment and Materials), III (Training, TA and Contractual Services), and IV (Financial Instruments): The framework for the EOF's Programme Implementation Manual has been completed to the satisfaction of the Fund.
- (c) The following are designated as additional specific conditions precedent to withdrawal under category IV (Financial Instruments):
- (i) for those licensed microfinance institution(s) in which the EOF will hold equity, a Shareholder's Agreement will be finalised between the EOF and such licensed microfinance institution(s), satisfactory to the Fund.
- (ii) for any participating financial institution in which the EOF will not hold equity, a Subsidiary Financing Agreement will be finalised between the EOF and the respective financial institution, satisfactory to the Fund.
3. This Agreement is subject to ratification by the Recipient.
4. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

International Fund for Agricultural
Development
Via Paolo di Dono 44
00142 Rome, Italy

For the Recipient:

Minister for Planning and International
Cooperation
Ministry of Planning and International
Cooperation
P.O. Box 175
Sana'a, Republic of Yemen

This agreement, dated _____, has been prepared in the (English) language in six (6) original copies, three (3) for the Fund and three (3) for the Recipient.

For the Fund

For the Recipient

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. *Target Population.* The Programme shall target poor women and men in rural areas. Its specific target groups shall consist of smallholders cultivating coffee, smallholders interested in horticulture, poor landless households interested in honey production and horticulture, and poor landless households engaging in micro-businesses.
2. *Programme Area:* The Programme is national in scope. It shall initially focus on a limited number of coffee-producing districts within eight governorates (Abyan, Amran, Dhamar, Hodeidah, Ibb, Lahej, Taiz, Sana'a); however, it will have the flexibility to cover other governorates based on the value chain, the business case, and market demand (such as honey production in districts of Hadhramout and Shabwa).
3. *Goal:* The goal of the Programme is to improve the economic status of poor rural women and men.
4. *Objective and Outputs:* The Programme's objective is to create sustainable economic opportunities for poor women and men in the programme areas. Its outputs are to stimulate the growth and technological improvement of selected value chains and rural business activities; promote linkages between producers' organizations and markets through contractual arrangements; promote compliance with national and international food quality and safety standards; develop public economic infrastructure in support of selected value chains; and, expand the rural outreach of financial institutions and enhance access to sustainable rural financial services.
5. *Components:* The Programme shall consist of three interlinked Components: (a) value chain development; (b) economic infrastructure; and (c) rural finance.

Component 1: Value Chain Development

5.1 The objective of this Component is to improve the incomes of participating coffee producers and landless households engaging in commercial horticulture and honey production in selected settlements, as well as in rural micro-businesses. This will be achieved through support for value chain processes and actors, improved market relationship governance, and enhanced access to economically viable investment opportunities. It consists of three sub-components: (i) cluster development through the creation or strengthening of producers' associations, strengthening of value chain linkages, and capacity building for value chain actors; (ii) export promotion consisting of improved access to markets, development of classification and certification services, and introduction of quality and food safety standards; (iii) off-farm micro-and small enterprise development consisting of training and advisory services for micro-entrepreneurs (mainly women and young people).

Component 2: Economic Infrastructure

5.2 The objective of this Component is to support infrastructure investments that are critical for the production and marketability of the selected high value agricultural commodities. It will be implemented in selected settlements where the Programme will provide value chain support and where poor irrigation practices constitute the main cause of low productivity and depletion of water resources. The infrastructure investments to be financed will consist of off-farm water harvesting structures and piped conveyance

systems to field edge, focusing on increasing the reliability of irrigation water supply by reducing water losses and harvesting flood flows.

Component 3. Rural Finance

5.3 The objectives of this Component are to: develop sustainable access to adapted financial products and services to be provided by microfinance banks/institutions and commercial banks for producers and processors of coffee, honey and vegetables, and for micro-entrepreneurs operating micro-businesses; and, increase the outreach and develop the capacity of microfinance banks/institutions in rural areas (specifically in the selected Programme settlements). It consists of two sub-components: (a) microfinance outreach through equity participation in Al Amal Microfinance Bank and possibly other licensed microfinance institutions, establishment of shareholder's current account(s), financing for rural network development, and provision of credit funds; and (b) PFI capacity building through training programmes and product development for participating microfinance institutions and commercial banks, and the introduction of micro-insurance instruments.

II. Implementation Arrangements

A. Programme Management

1. The Economic Opportunities Fund will be the Lead Programme Agency and will be responsible and accountable for the management and implementation of the Programme. The Economic Opportunities Fund will be a public-private partnership working to improve the economic status of poor women and men in rural areas. It will be governed by a Board of Directors representing the public and private sectors. The EOF will be managed based on the principles of good governance, business ethics, transparency, equity, efficiency and sustainability, and operated on the basis of private sector principles and speed.

2. The EOF will be located in Sana'a. The EOF will be managed by a CEO selected by the EOF's Board on a competitive basis. It will consist of three offices: (a) the administration office responsible for financial management, procurement and contracting, monitoring and evaluation; (b) the investment office, responsible for managing investments in value chain development, economic infrastructure and financial services; and (c) the capacity building office, responsible for mobilising producers' associations and organising business advisory services. The EOF will also have a small internal audit unit reporting directly to the CEO. All key EOF staff will be recruited on competitive basis subject to IFAD's prior review and concurrence, and will receive competitive salary levels approved by the Board of Directors.

B. Programme Implementation

1. Programme activities will be implemented by public and private sector service providers contracted by the EOF. For value chain development, service providers will include mobilisation teams, YSMO, SMEPS, and other relevant entities. For economic infrastructure, service providers will include engineering designers, contractors, and construction supervisors. For rural finance, service providers will include licensed microfinance institutions (Al Amal Microfinance Bank, Tadhamon Microfinance Institution, and other microfinance institutions to be licensed), commercial banks, leasing companies, venture capital institutions, and insurance companies. Contracts with service providers will be performance-based. The selection and contracting of service providers for the implementation of Programme activities will be subject to IFAD prior review and concurrence.

2. The annual work plan and budget (AWPB) will be prepared by office managers of the EOF through a participatory approach with stakeholders, internally reviewed and consolidated, and approved by the EOF's CEO. The proposed AWPB will subsequently be reviewed and approved by the EOF's Board of Directors, and then submitted to Recipient, IFAD and cofinanciers for review and concurrence.

Schedule 2*Allocation Table*

1. *Allocation of Grant Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Grant and the allocation of the amounts of the Grant to each Category and the percentages of expenditures for items to be financed in each Category:

Category	[Grant Amount Allocated] (expressed in SDR)	Percentage
I. Civil Works	53 000	100% net of taxes and co-financiers' contributions
II. Equipment and Materials	86 000	100% net of taxes and co-financiers' contributions
III. Training, TA and Contractual Services	1 705 000	100% net of taxes, co-financiers', beneficiaries' and EOF contributions
IV. Financial Instruments	4 315 000	100% net of taxes, co-financiers' and PFIs' contributions
V. Operating Costs	1 491 000	100% net of taxes, co-financiers' and EOF contributions
VI. Unallocated	850 000	
TOTAL	8 500 000	

(b) The terms used in the Table above are defined as follows:

"Civil Works" includes the costs of infrastructure feasibility studies, engineering design, physical works and site supervision.

"Equipment and Materials" includes the costs of equipment, materials, vehicles, inputs and other similar items.

"Financial Instruments" includes equity participation, shareholder's current account, credit funds, venture capital and micro-insurance.

"Operating Costs" includes the costs of salaries, allowances, and all other operating costs.

Schedule 3

Special Covenants

For the purposes of this Agreement the Recipient shall ensure that the following provisions are complied with:

Gender. The Recipient shall ensure that the Programme benefits are also delivered to poor rural women in the Programme Areas. The Programme AWPB and progress reports shall be disaggregated by gender as appropriate.

Key reference documents

County reference documents

Development Plan for Poverty Reduction 2006-2010
Agricultural Statistics Yearbook 2008

IFAD reference documents

Country Strategic Opportunities Paper 2008-2012 (2007)
Programme Concept Note and Key Files (2009)
Programme Final Design Report (2010)

Other miscellaneous documents

Assessment of MSE Financial Needs in Yemen, International Finance Corporation (2007)
Yemen Country Profile 2008, Economist Intelligence Unit (2008)
Yemen Country Reports, January-December 2009, Economist Intelligence Unit (2009)
Small and Medium Enterprise Development in Yemen, World Bank (2009)
Country Assistance Strategy 2006-2009, International Development Association (2005)
Country Assistance Strategy 2010-2013, International Development Association (2009)
FAO Yearly Statistics (FAOSTAT, AQUASTAT)

Logical framework

Objective Hierarchy	Key Performance Indicators	Monitoring Mechanisms and Information Sources	Assumptions(A)/Risks (R)
Goal			
Economic status of poor rural women and men improved	<ul style="list-style-type: none"> Households with improvement in asset ownership index ; Reduction in the prevalence of malnutrition for children; Households with increased incomes/food security. 	<ul style="list-style-type: none"> Baseline & impact surveys (gender disaggregated) M&E and impact assessments; Government health/socio-economic statistics; Programme completion report; RIMS annual reporting and impact surveys. 	<ul style="list-style-type: none"> Stable internal security(A); Governance improves (A); Macro-economic conditions improve (A).
Purpose/Objective			
Sustainable economic opportunities for poor rural women and men created	<ul style="list-style-type: none"> Increase in coffee and vegetable production; Economically sustainable beehive packages in use (#); Economically sustainable high tunnels in use (#); Viable micro-businesses after 3 years; Full-time job equivalents created and women's share; 	<ul style="list-style-type: none"> M&E evaluation and assessment; Producers' & exporters' associations statistics; Business plans. 	<ul style="list-style-type: none"> Stable internal security(A) Drop in commodities prices on the international market (R); Yemeni coffee market niche maintained in both quantity and price (A).
Outputs			
Growth and technological improvement of selected value chains and rural business activities stimulated	<ul style="list-style-type: none"> Drip irrigation adoption rate; Average yield/ha/hive/m² coffee/honey/horticulture; Avg. micro-business profitability after 3 years; Number of people accessing training/advisory services; People trained in income generating activities; Enterprises accessing financial and non-financial services; 	<ul style="list-style-type: none"> M&E evaluation and assessment; Producers' associations statistics; Processors' statistics & financial statements; Business plans. 	<ul style="list-style-type: none"> Drip irrigation adoption rate >80% in a settlement (A);
Linkages between producers' associations and markets through contractual arrangements promoted	<ul style="list-style-type: none"> Contract farming contracts signed (#); Number of producers engaged in contract farming (by commodity, by gender); Increase in farm-gate prices (per commodity); Change in profit distribution (per commodity). 	<ul style="list-style-type: none"> Contracts; Processors' statistics & financial statements; registration books of PAs; M&E evaluation and assessment. 	<ul style="list-style-type: none"> Agents & collectors opposed to direct producer/processors linkages (R); PFI's not considering contract farming or tripartite agreements as sufficient collateral (R).
Compliance with quality and food safety standards and export certification promoted	<ul style="list-style-type: none"> Increase in commodity volumes certified; Increase in volumes meeting health standards; Incremental coffee & honey output exported; 	<ul style="list-style-type: none"> Export statistics from Government; Statistics from YSMO. 	
Economic public infrastructure in support of selected value chains developed	<ul style="list-style-type: none"> Volume of water saved (in m³); Average % of decrease in water bill at HH level; Value chain producers benefiting from infrastructure investments (#, by commodity); Infrastructure investment IRR per settlement; 	<ul style="list-style-type: none"> Contracts to architects and contractors; Minutes of final acceptance committee; M&E evaluation and assessment; Minutes of settlements' and producer associations; Households' surveys. 	<ul style="list-style-type: none"> Severe droughts for several years continuously (R).
Rural outreach of financial institutions and enhance access to sustainable rural financial services expanded	<ul style="list-style-type: none"> Equity participation in MFIs retained; Financial institutions participating in programme (#); New rural service points/PFI; Vol. of credit/alternatives disbursed to target groups; Loan recovery rate; Increase in monetised savings; Producers insured (#) and premiums collected; 	<ul style="list-style-type: none"> Microfinance banks/institutions and commercial banks audited financial statements; Central Bank's quarterly & annual reports; M&E evaluation and assessment; Micro-insurance fund financial statements. 	<ul style="list-style-type: none"> EOF to participate in equity of all licensed pro-poor gender-oriented microfinance banks operating in rural areas (A); Commercial banks not interested in financing rural activities (R).
A sustainable Fund managed through a private/public partnership established	<ul style="list-style-type: none"> EOF sustainability Seats allocated to private & public sector in EOF Board Amount of financial resources channelled through EOF outside of the EOP. 	<ul style="list-style-type: none"> EOF audited financial statements; Minutes of Board of Directors meetings. 	<ul style="list-style-type: none"> New IFAD operations to channel their resources through EOF (A); Government and/or co-financiers to channel funds through EOF (A).

