Document:	EB 2013/LOT/P.15/Rev.1
Date:	8 December 2013
Distribution:	Public
Original:	English

E

Enabling poor rural people to overcome poverty

President's report

Proposed grants to the Republic of Yemen for the

Rural Growth Programme

Note to Executive Board representatives

Focal points:

Technical questions:

Mohamed Abdelgadir
Country Programme Manager
Tel.: +39 06 5459 2627
e-mail: m.abdelgadir@ifad.org

Dispatch of documentation:

Deirdre McGrenra
Head, Governing Bodies Office
Tel.: +39 06 5459 2374
e-mail: gb_office@ifad.org

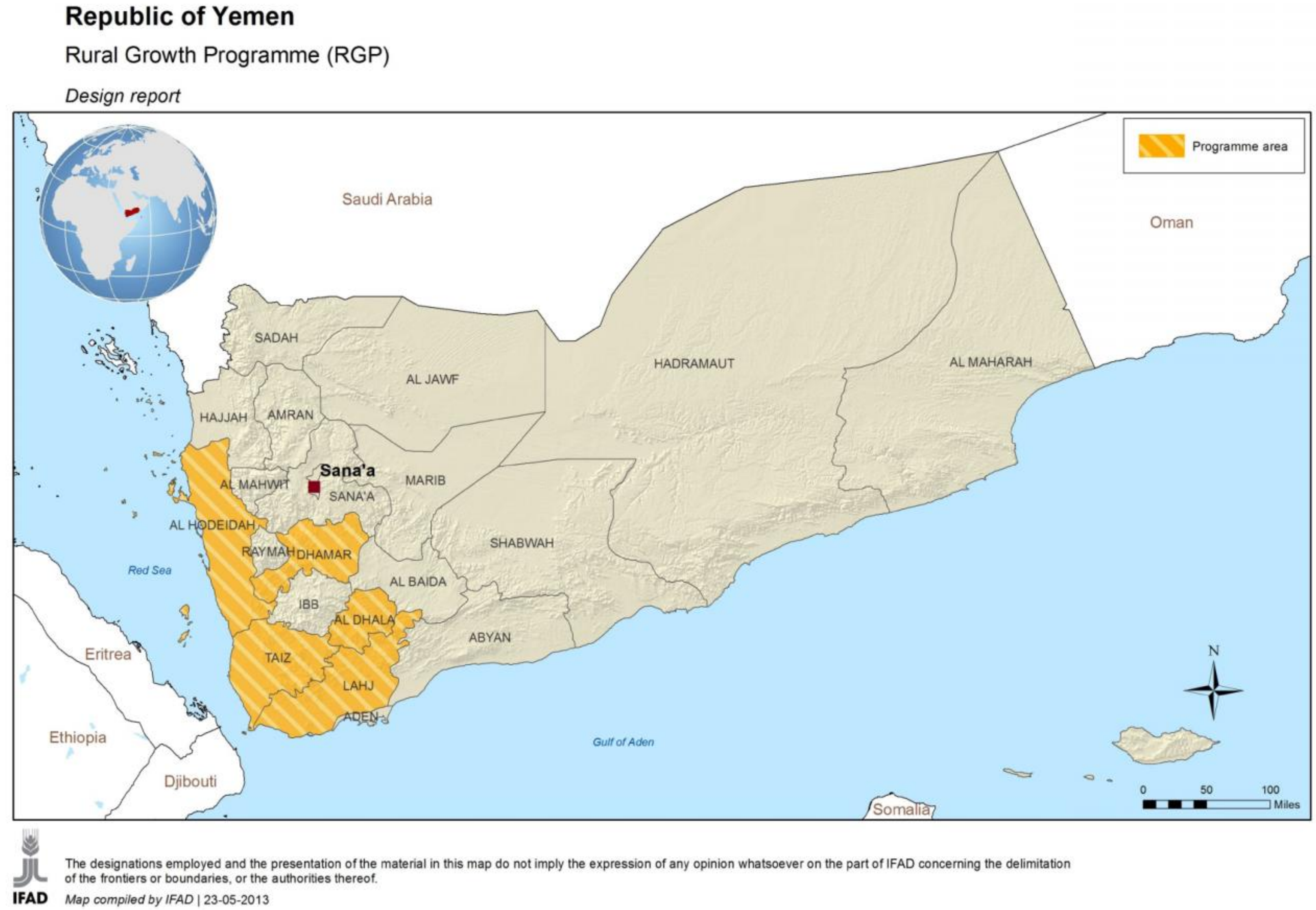
For: **Approval**

Contents

Abbreviations and acronyms

ADCRMP	Al Dhala Community Resource Management Project
ASAP	Adaptation for Smallholder Agriculture Programme
AWP/B	annual workplan and budget
CAP	community action plan
CBRIP	Community-Based Rural Infrastructure Project for Highland Areas
DPRDP	Dhamar Participatory Rural Development Project
M&E	monitoring and evaluation
NPCU	national programme coordination unit
PMU	programme management unit
UNOPS	United Nations Office for Project Services
USAID	United States Agency for International Development

Map of the programme area



Republic of Yemen

Rural Growth Programme

Financing summary

Initiating institution:	IFAD
Recipient:	Republic of Yemen
Executing agency:	Ministry of Agriculture and Irrigation
Total programme cost:	US$127.4 million
Amount of IFAD grant:	IFAD: SDR 9.74 million (equivalent to approximately US$15.0 million)
Adaptation for Smallholder Agriculture Programme (ASAP) Trust Fund grant:	ASAP Trust Fund: SDR 6.63 million (equivalent to approximately US$10.2 million)
Cofinanciers:	Islamic Development Bank (IsDB) European Union (EU) microfinance banks/institutions (MFBIs) Agriculture and Fisheries Production Promotion Fund (AFPPF) Global Environment Facility (GEF)
Amount of cofinancing:	IsDB: US$15.4 million EU: US$16.1 million MFBIs: US$17.7 million AFPPF: US$12.8 million GEF: US$10.0 million
Terms of financing:	Debt Sustainability Framework grant and ASAP grant
Contribution of recipient:	US$9.3 million
Contribution of beneficiaries:	US$21.0 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed grants to the Republic of Yemen for the Rural Growth Programme, as contained in paragraph 37.

Proposed grants to the Republic of Yemen for the Rural Growth Programme

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Yemen is the poorest country in the Middle East. While in 2008 some 40 per cent of rural Yeminis were living below the national poverty line (about US$2 per day), by the end of 2010, as a result of food and fuel price crises and the global financial crisis, rural poverty rates had increased to 48 per cent. The situation deteriorated further after the political and social violence of 2011/2012, when rural poverty is estimated to have reached over 60 per cent, implying that today around 15 million people in rural areas experience poverty and food insecurity. In addition, a large share of the population lives marginally above the poverty line and remains highly vulnerable to economic and natural shocks.

2. Low agricultural productivity, water scarcity, climate change and insufficient off-farm economic and employment opportunities are critical negative factors affecting rural areas and worsening rural poverty. Limited natural resources, especially water, and lack of access to basic services are the main factors driving rural-urban migration, with mountainous villages and settlements in particular increasingly being abandoned in the search for employment opportunities and better education and health services in urban areas. Access to transport, health and education is significantly worse in small settlements (less than 1,000 inhabitants), which are typically found in highland areas. This already dire situation will worsen with the projected negative impacts of climate change.

3. Population pressure is also making poverty reduction increasingly difficult. The annual population growth rate has averaged 3.2 per cent over the past 10 years, among the highest in the world. The population is therefore very young (median age of 18.1 years), with around 43.3 per cent of all Yemenis under 15 and 78 per cent under 30. If fertility rates remain at their current levels (4.45 children per woman), the population is projected to reach almost 40 million by 2025.

B. Rationale and alignment with government priorities and RB-COSOP

4. With declining oil revenues, depletion of freshwater resources and rapid population growth, Yemen is ranked the 11th most food-insecure country in the world, with one in three Yemenis suffering from acute hunger. Slightly more than half of the rural population (51 per cent) are food-insecure compared with 27 per cent in urban areas. Overall, 13 per cent of children under five are acutely malnourished and 60 per cent of Yemeni children stunted. Agriculture growth has lagged behind population growth since 2005, and the average productivity in agriculture, fisheries and forestry is low. Close to 50 per cent of rural households have less than one hectare of land, and 40 per cent are landless. Low agriculture growth, combined with large household sizes and limited off-farm opportunities, has resulted in significant poverty and food insecurity in rural areas. To tackle these problems, Yemen needs to diversify its economic base, reduce its dependence on oil, increase

agricultural production and productivity, and invest in sectors with high potential for market growth and job creation.

5. IFAD's previous experience in Yemen has shown that community-driven, area-based development initiatives can successfully address poverty and food insecurity while empowering remote rural communities, particularly rural women. This model requires simultaneously addressing a range of development challenges (knowledge and skills, financial services, infrastructure, access to input and output markets, and women's empowerment) through complementary interventions that create a virtuous cycle of dynamic rural economic growth. The proposed Rural Growth Programme, while placing a greater focus on climate resilience, will scale up, to incremental communities and governorates, the successful approaches, methodologies and activities of three IFAD-funded projects: the Dhamar Participatory Rural Development Project (DPRDP) and the pilot Community-based Rural Infrastructure Project for Highland Areas (CBRIP), both recently closed; and the ongoing Al Dhala Community Resource Management Project (ADCRMP).

6. These projects are considered to be flagship models for community development. In Dhamar, for example, over 25,000 smallholders adopted new technologies, and 20,000 reported increased yields: farmers using improved seeds reported yield increases of 33 per cent, and those using improved beehives reported yield increases of 300-600 per cent. About 90 per cent of women's savings and credit groups, 70 per cent of infrastructure management groups, and 80 per cent of the 1,500 microenterprises promoted were still operating three years after being established. These microenterprises typically generate profits of US$10-15 per day for their owners (all of whom are women), making them the main earners in their households. The average hungry period experienced by food-insecure households in the target area has fallen from six months to 2.1 months.

7. In Al Dhala, one of the poorest and most food-insecure governorates in Yemen, about 5,000 women and men smallholders are benefiting from community-led advisory services focusing on improved technologies (crop varieties, protected horticulture, drip irrigation). The project's investments in domestic water supply are estimated to save women in each household about US$70 and 300 labour-hours a year (previously, collecting water took from 2 to 5 hours of a woman's time). Beneficiary contributions are relatively high, ranging from 30 per cent for productive investments to 60 per cent for domestic water schemes. In 2011, beneficiary contributions actually increased as people feared that the project would be suspended, and they wanted to ensure that investments went ahead quickly. The project has a very positive reputation in the governorate, and this has contributed to improving stability in the area.

8. The CBRIP pioneered a method for contracting communities to design, construct and maintain access roads in highland areas. This approach built capacity, fostered community ownership, created jobs and linked remote villages to markets and services. The methodology was so successful that the executing agency, the Community Roads Unit, was mainstreamed into the Ministry of Public Works and Highways at project mid-term (in 2010), confirming the project's institutional policy impact and sustainability. Road construction is generating average cost savings of US$290/person/year due to reduced costs of travel and transportation of goods. An impact study of Al-Shahel Road in Hajjah revealed that, within three years of construction, ownership of vehicles and appliances had increased by 34 per cent, livestock by 93 per cent, and meat and milk production by 117 per cent, while the time spent by women collecting water and wood had decreased by 30 per cent. A trip from a village to the nearest market town now typically costs US$2.50 to US$5.00 less; and the costs of transporting wheat, gas cylinders and water have dropped by 50 per cent.

9. Although the previous IFAD-funded projects in Yemen provided opportunities in terms of enhancing agricultural production, strengthening community-based planning and contributing to poverty reduction, the possible impacts of climate change were not explicitly taken into account. A climate vulnerability assessment was therefore undertaken early in the design process to identify key risks and adaptive measures. The assessment helped to shape the programme's design and will guide decision-making during implementation.

II. Programme description

A. Programme area and target group

10. **Programme area.** The programme will scale up the successful activities of these previous projects, while also strengthening communities' climate resilience, first expanding to additional communities in Dhamar and Al-Dhala Governorates, and then to Hodeida, Lahej and Taiz Governorates. These five governorates have relatively high population densities, substantial rural poverty and serious food insecurity. All also have large areas identified as hotspots of climate change vulnerability. The programme will expand into additional governorates as additional financing becomes available.

11. **Target group.** The programme's target group will consist of poor food-insecure rural households living in selected communities with a specific focus on women and young people. However, other households will also benefit from the programme's investments in public goods and civil works such as roads and community drinking water schemes. Transparent targeting procedures, based on mechanisms applied by previous projects, will be implemented and will include geographic and direct targeting. Efforts will be made to ensure the involvement of women in decision-making and leadership positions in community organizations. At full development, the programme is expected to directly benefit around 1.2 million people, around 0.8 million of whom currently live below the poverty line.

B. Programme development objective

12. The programme's goal is to reduce poverty and food insecurity in rural areas and increase small farmers' climate resilience. Its development objective is to stimulate sustainable and resilient economic growth for women and men in rural communities. The programme's expected outcomes are: (i) households and communities empowered to manage their own development and engage in income-generating activities; (ii) natural resource management improved and focusing on climate resilience; and (iii) improved climate-resilient agricultural practices and technologies adopted.

C. Components/outcomes

13. The programme will have three components:

(a) **Community empowerment and livelihoods diversification:** The expected outcome of this component is: households and communities empowered to manage their own development and engage in income-generating activities. Investment under this component includes: (i) community institution-building; (ii) women's empowerment; (iii) microfinance; and (iv) income-generating activities;

(b) **Natural resources management and resilient infrastructure:** The expected outcome of this component is: improved natural resource management focusing on climate resilience. Investments supported under this component will focus on: (i) integrated water management and soil conservation; (ii) rangeland rehabilitation; (iii) drinking water; and (iv) adaptive engineering of rural roads (to harvest excess run-off and prevent flood damage and erosion);

(c) **Agriculture development:** The expected outcome of this component is: improved climate-resilient agricultural practices and technologies adopted. Investments under this component include: (i) extension support and input provision; (ii) irrigation efficiency; (iii) agriculture production and diversification (climate change-resilient crops/species, cropping practices and technologies); and (iv) applied research for vulnerability reduction; and

III. Programme implementation

A. Approach

14. Community mobilization will mainly be implemented by the PMUs while the majority of programme investments and activities will be implemented through partnerships with the relevant line ministries, externally financed programmes and the private sector (including NGOs), based on the model established by the ADCRMP and DPRDP. The main role of PMUs will be in procurement, supervision of service providers, contract management, and managing relationships with and mobilizing target communities. Partner and service provider performance will be subject to strict performance management and evaluation. PMUs will coordinate closely with the governorate, district and *uzla* (subdistrict) administration to ensure that planning at village unit level feeds into district and governorate development plans. In addition, each PMU will play an active role in the capacity-building of the local administration. All staff members will be recruited on a competitive basis in compliance with IFAD Procurement Guidelines. All staff contracts will be for an initial probationary period of six months compliant with Yemeni labour law, with the possibility of extension subject to satisfactory performance. A national programme coordination unit will be established in Sana'a and report to the national steering committee. The NPCU will provide PMUs with services related to cross-cutting and cross-governorate issues, and oversight and supervision of the work at the PMU level including periodic auditing. Its staff will be competitively recruited. The lead technical agency will be the Ministry of Agriculture and Irrigation.

B. Organizational framework

15. The programme's governance will be three-pronged:

(a) **District coordination groups** will be located in each district selected under the programme and headed by the general secretary of the district council. Their main responsibilities will be to: review community action plans (CAPs); coordinate between stakeholders and local partners; and resolve any implementation issues;

(b) **Governorate steering committees** will be established in each governorate and chaired by the governor. Their main responsibilities will be to: approve the governorate annual workplan and budget (AWP/B); coordinate between all stakeholders; coordinate with governorate development plans; review progress reports and performance of programme activities; resolve any implementation issues; and provide guidance to PMUs; and

(c) A **national steering committee** will be established in Sana'a and chaired by the Minister for Agriculture and Irrigation. Its main role will be to: provide strategic and policy guidance for programme implementation; approve the overall AWP/B; recruit an audit firm and approve its report; review recruitment processes and endorse the selection of PMU managers and key staff; review progress reports and performance; and resolve implementation problems not resolved at lower levels.

C. Planning, monitoring and evaluation, and learning and knowledge management

16. Planning will be based on community action plans (which will be guided by the climate vulnerability assessment). CAPs will cover a period of three years allowing

medium-term planning to simplify the process of AWP/B preparation and approval. Activities incorporated in CAPs will be aggregated and organized by component, and grouped for ease of procurement. This will form the basis for each governorate AWP/B. The AWP/Bs will be finalized by each PMU through a participatory approach with stakeholders, incorporating data from its monitoring and evaluation (M&E) system, regular participatory CAP reviews and recommendations of supervision missions and steering committees. Governorate AWP/Bs will be approved by the governorate steering committee before being consolidated by the NPCU. The consolidated national AWP/B will be submitted to the national steering committee for approval, and then to the Government of Yemen, IFAD and cofinanciers for concurrence.

17. The programme M&E system will be designed to offer comprehensive and reliable information to improve planning and decision-making for results-based management. The logical framework will constitute the basis for results-based M&E. The M&E system will have a three-tier structure: (i) output monitoring with a focus on physical and financial inputs, activities and outputs; (ii) outcome monitoring assessing the use of outputs and measuring benefits at beneficiary and community levels; and (iii) impact assessment to gauge programme impact on the target group in comparison with objectives. All M&E data, analysis and reporting will be disaggregated by gender. All M&E activities will be based on IFAD's Guide for Project M&E.

D. Financial management, procurement and governance

18. **Financial management.** An IFAD financial management assessment has rated the inherent fiduciary risk as high due to internal security concerns and weaknesses in public financial management. Programme control risks were also rated high due mainly to a wide geographical dispersion of programme activities and limited effectiveness of internal audit in line ministries. In addition, financial management capacities of three of the five PMUs could not be assessed at this stage since these will be set up during implementation. As a result, the overall financial management risk is rated high. To mitigate these risks, the following actions will be implemented: (i) ring-fencing PMU and NPCU budgets; (ii) recruiting a full-time internal auditor at the NPCU who will report to the national steering committee; (iii) procuring and installing multilingual accounting software before implementation begins; (iv) ensuring that staff, with appropriate qualifications and experience, are recruited; (v) involving communities in all phases of decision-making, planning, implementation and evaluation; and (vi) ensuring that all withdrawals conform with provisions of a programme implementation manual to be approved by IFAD to help strengthen internal controls. These actions will be specified as a set of conditions for disbursement and first replenishment, which will be detailed in the financing agreement and letter to recipient (LTR). The programme will use the imprest fund method for designated account advances; the procedure for accessing the imprest fund will be detailed in the LTR. An independent external auditor will be recruited to audit the annual financial statements for the programme in accordance with IFAD's procedures.

19. **Procurement.** The procurement of goods, works and services to be financed out of the proceeds of IFAD financing will be carried out by each PMU in accordance with IFAD's Procurement Guidelines and by observing the following specific principles: (i) procurement will be carried out in accordance with the financing agreement and any duly agreed amendments thereto;(ii) procurement will be conducted within the programme implementation period; (iii) the cost of the procurement is not to exceed the availability of duly allocated funds as per the financing agreement; and (iv) procurement is to be consistent with the duly approved AWP/B including a procurement plan for at least 18 months.

20. **Governance.** A framework for good governance has been included in the programme design report. This report also contains specific measures concerning:

(a) **Institutional arrangements:** The programme will be coordinated by a NPCU and managed by five PMUs based on principles of good governance, transparency and accountability;

(b) **Ethics:** A code of ethics will be applicable to, and signed by, the NPCU director, PMUs managers and employees;

(c) **Evaluation and impact assessment:** This will be outsourced to independent institutions to ensure analytical objectivity; and

(d) **Supervision:** IFAD's direct supervision includes assessment of fiduciary compliance and the responsibility and accountability framework.

E. Supervision

21. The programme will be directly supervised by IFAD. Direct supervision will be a continuous process requiring ongoing communication and engagement with the Government and NPCU/PMU management. It will encompass three areas: (i) loan administration, ensuring fiduciary compliance, with a focus on legal conditions, financial management and disbursements, and procurement and contracting; (ii) programme supervision, assessing implementation performance, with a focus on overall implementation performance and progress towards objectives, programme investments, activities and outputs, statutory requirements (AWP/B, monitoring, reporting), guidance, management, implementing institutions, targeting and gender mainstreaming; and (iii) implementation support.

IV. Programme costs, financing, benefits

A. Programme costs

22. The total programme costs, including price and physical contingencies, duties and taxes, are estimated at US$127.4 million over the seven-year implementation period. Programme costs by expenditure category include civil works, vehicles, equipment, technical assistance and services. Investment costs represent 94 per cent of the programme's total base costs. Recurrent costs represent 6 per cent of the total base costs, with salaries and allowances accounting for 5 per cent and operation and maintenance costs for 1 per cent. Expenditure on financial instruments will be financing to microcredit institutions for on lending to savings and credit groups.

23. **Exceptions to IFAD General Conditions for Agricultural Development Financing.** Retroactive financing will apply for eligible expenses incurred previous to entry into force of the agreement but after 20 September 2013, of up to US$400,000. It is proposed that a maximum amount equivalent to US$400,000 be authorized as retroactive financing in order to facilitate the start-up of programme activities. This will cover recruitment of key staff, installation and deployment of the accounting systems; modifications to the Loans and Grants Management Information System; recruitment of a consultant for the preparation of the programme implementation manual; and mobilization and sensitization of the communities in Dhamar and Al Dhala.

Table 1
Disbursement accounts by financiers and expenditure category
(Thousands of United States dollars)

	IFAD		ASAP		GEF		IsDB		EU		MFBIs		AFPPF		Government		Beneficiaries		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
I. Investment costs																				
A. Civil works	-	-	-	-	1 059	2	15 383	30	16 121	32	-	-	2 160	4	5 271	10	10 585	21	50 580	40
B. Vehicles	428	32	833	61	-	-	-	-	-	-	-	-	-	-	95	7	-	-	1 356	1
C. Equipment and material	1 809	5	1 361	4	3 004	8	-	-	-	-	11 767	32	10 599	29	2 563	7	5 512	15	36 615	29
D. Technical assistance			-		-		-		-		-		-		-		-		-	
National TA	-	-	-	-	2 236	81	-	-	-	-	98	4	-	-	412	15	-	-	2 746	2
International TA	200	55	164	45	-	-	-	-	-	-	-	-	-	-	-	-	-	-	364	0
Subtotal	200	6	164	5	2 236	72	-	-	-	-	98	3	-	-	412	13	-	-	3 110	2
E. Studies, training and workshops	3 216	28	5 511	47	2 763	24	-	-	-	-	130	1	32	0	-	-	-	-	11 652	9
F. Financial instruments	4 737	29	802	5	239	2	-	-	-	-	5 681	35	-	-	0	-	4 896	30	16 354	13
Total investment costs	10 390	9	8 671	7	9 302	8	15 383	13	16 121	14	17 676	15	12 792	11	8 341	7	20 993	18	119 667	94
II. Recurrent costs			-		-		-		-		-		-		-		-		-	
A. Salaries and allowances	3 780	58	1 116	17	670	10	-	-	-	-	-	-	-	-	982	15	-	-	6 548	5
B. Operation and maintenance	808	67	404	33	-	-	-	-	-	-	-	-	-	-	-0	-	-	-	1 213	1
Total recurrent costs	4 588	59	1 520	20	670	9	-	-	-	-	-	-	-	-	982	13	-	-	7 760	6
Total programme costs	14 978	12	10 191	8	9 971	8	15 383	12	16 121	13	17 676	14	12 792	10	9 323	7	20 993	17	127 428	100

B. Programme financing

24. The programme will be financed by: IFAD resources of US$25.2 million in the form of grants (inclusive of US$10.2 million for activities supported by the Adaptation for Smallholder Agriculture Programme (ASAP) Trust Fund (19.7 per cent of total costs); Islamic Development Bank (IsDB) resources of US$15.0 million in the form of a loan (11.7 per cent); European Union (EU) resources of US$16.0 million equivalent in the form of a grant (12.6 per cent); Global Environment Facility (GEF) resources of US$10.0 million (7.8 per cent); contribution of national microfinance banks/institutions (MFBIs) of US$17.7 million (13.9 per cent); beneficiaries' contribution of US$21.0 million mainly in kind (16.5 per cent); Agriculture and Fisheries Production Promotion Fund (AFPPF) contribution of US$13.3 million (10.4 per cent); and government resources of US$9.3 million (7.3 per cent). The Government's contribution covers the cost of duties and taxes as well as some investment costs for roads.

C. Summary benefit and economic analysis

25. The programme will reduce poverty and food insecurity and increase smallholder climate resilience by stimulating resilient and sustainable rural economic growth. A total of about 176,000 households (about 1.2 million people) will benefit. More specifically, the programme is expected to support: (i) implementation of CAPs in each of the 550 village units integrating climate adaptation priorities based on vulnerability assessment; (ii) construction of 275 water-harvesting structures with a catchment area of 1,340 hectares (around 13,400 households), developing access to drinking water in 120 village units (38,400 households), restoring 1,150 hectares of abandoned terraces to productive use (11,500 households) and climate-proofing at least 244 kilometres of rural roads; (iii) enhancing agricultural production as a result of better access to inputs, more efficient drip irrigation systems on 3,338 hectares (33,380 households), improved agriculture diversification through greenhouses for 27,500 households and provision of updated technical assistance by 1,100 village agriculture technicians (private extension workers); (iv) provision of economic opportunities to around 66,000 individuals (of whom at least 50 per cent women) in expanding income-generating activities and microenterprises and small businesses using skills gained in literacy, life-skills, business management and technical training courses; (v) provision of financial resources of 100,000 individuals through savings and credit groups and associations and later through their linkage with licensed microfinance banks; and (vi) provision of access to drinking water to reduce time and labour that women and girls spend in water collection and enable women to focus more on education, training and productive activities.

26. The base case economic internal rate of return (EIRR) is estimated at 15 per cent. The base EIRR includes the costs of all investments for all programme components as well as their replacement and recurrent costs; on the benefits side, it includes

exclusively the benefits quantified previously. The base case net present value of the programme's net benefit stream, discounted at 10 per cent, is US$50.5 million.

D. Sustainability

27. The sustainability of programme interventions is ensured by the integration of lessons learned during implementation of the projects being scaled up, particularly with regard to: (i) empowering communities to drive planning, implementation and M&E to the extent feasible; (ii) ensuring sustainability of infrastructure investments through effective mobilization, training and regular follow-up of users' associations by specialized field staff with a deep understanding of the communities in which they work and extensive training in conflict resolution; (iii) linking savings and credit groups to microfinance institutions; (iv) providing incentives to service providers to improve the quality of services offered to clients through performance-based contracts; and (v) supporting village agriculture technicians. The climate financing and integration of adaptive planning will ensure that investments are more sustainable and contribute to vulnerability reduction.

28. **Scaling-up.** The programme will scale up, to incremental communities and governorates, the successful approaches, methodologies and activities of three IFAD-funded projects. The programme is structured to establish or use appropriate drivers, spaces and pathways for this, and to further future scaling-up to additional communities and governorates.

E. Risk identification and mitigation

29. The programme's risks have been assessed and mitigated in the design. Residual risk is moderate or exogenous. The programme's design draws lessons from previous and ongoing IFAD investments in Yemen, as well as those of other financiers and partners. The projects to be scaled up (ADCRMP, DPRDP and CBRIP) were among the few projects to successfully continue implementation during the crisis. This was possible because insecurity was mainly in urban areas; moreover, the projects themselves contributed to improving security in their target areas. Additional risks are mainly related to the weak governorate structure, a factor behind the decision to create semi-autonomous programme management structures at both the national and the governorate levels.

V. Corporate considerations

A. Compliance with IFAD policies

30. The programme fits perfectly within the overall IFAD Strategic Framework 2011-2015. The programme's goal is to improve food security in rural areas, reduce rural poverty and improve smallholder climate resilience. Its development objective is to stimulate sustainable rural economic growth for women and men in rural communities. The programme intends to work with local communities and enhance their capacities and resilience to economic and climate shocks. Its expected outcomes are: (i) households' and communities' resilience to political, economic, climatic and other shocks enhanced; (ii) infrastructure and natural resource base made climate-resilient; (iii) improved gender-sensitive and climate-resilient agricultural practices and technologies; and (iv) rural women and men with increased access to economic opportunities. Achievement of these outcomes will contribute to each of the five strategic objectives of the Strategic Framework.

B. Alignment and harmonization

31. The programme is aligned with the priorities of the Government's Transition Plan for Stabilization and Development 2012-2014, with the Development Plan for Poverty Reduction 2012-2015, with the climate change adaptation priorities identified in Yemen's National Adaptation Programme of Action, with the National Water Sector Strategy and Investment Programme, and with the Ministry of Planning and International Cooperation's transitional National Food Security

Strategy. It also accords with the Joint United Nations Framework to Support the Transition in Yemen, 2012-2014, which aims to provide an immediate, concerted and multidimensional response consistent with and complementary to existing humanitarian and development plans. Importantly the programme responds directly to the Gulf Cooperation Council–brokered Agreement on the Implementation Mechanism for the Transition in Yemen, which calls for "establishing and implementing an initial programme of economic stabilization and development and addressing the immediate needs of the population in all regions" of the country. Support for community-level institutions will ensure that they are effectively integrated within existing district and governorate administrative structures for sustainability and impact.

C. Innovations and scaling up

32. The programme is innovative is that it is built around climate vulnerability reduction and will adopt several approaches to address climate change-related issues and their impact on the rural economy. These approaches include: (i) provision of financial services and promotion of income-generating activities to support the implementation of the disaster-risk CAPs; (ii) promotion of climate-resilient agricultural approaches and technologies, including sustainable agricultural practices and research for the promotion of drought- and heat-tolerant crops; (iii) construction/rehabilitation of resilient water infrastructure enabling improved water management for both drinking water and irrigation; and (iv) restoration of natural resources and support to improve communities' management of natural assets.

D. Policy engagement

33. The programme will provide implementation support at country level with a specific focus on introducing a broad programmatic view of development investments, influencing policy on the basis of operational experiences, developing systems and institutions for poverty reduction, and facilitating financial and operational partnerships. It is also expected that the NPCU at national level will link governorate PMUs into national and international networks of learning and knowledge-sharing. NPCU staff will identify and promote best practices and encourage replication, and be responsible for promoting the programme's policy dialogue objectives.

VI. Legal instruments and authority

34. A programme financing agreement between the Republic of Yemen and IFAD will constitute the legal instrument for extending the proposed financing to the recipient. A copy of the negotiated financing agreement is attached as an annex.

35. The Republic of Yemen is empowered under its laws to receive financing from IFAD and from the Adaptation for Smallholder Agriculture Programme (ASAP) Trust Fund, acting through IFAD in its capacity of trustee of the ASAP Trust Fund.

36. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the policies and criteria for IFAD financing.

VII. Recommendation

37. I recommend that the Executive Board approve the proposed financing in terms of the following resolutions:

> RESOLVED: that the Fund shall provide a grant under the Debt Sustainability Framework to the Republic of Yemen in an amount equivalent to nine million seven hundred and forty thousand special drawing rights (SDR 9,740,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant under the Adaptation for Smallholder Agriculture Programme to the Republic of Yemen in an amount equivalent to six million six hundred and and thirty thousand special drawing rights (SDR 6,630,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement: "Rural Growth Programme"

(Negotiations concluded on 20 November 2013, in Rome)

Grant Number: ________
ASAP Grant Number: ________

Programme Title: Rural growth 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 Programme described in schedule 1 to this Financing Agreement;

B. The Islamic Development Bank (the "IDB") has agreed to extend financing in the form of a loan (the IDB loan) to the Recipient of approximately fifteen million United States Dollars (USD 15 000 000) equivalent to assist in co-financing the Programme on terms and conditions set forth in an Agreement (the "IDB Financing Agreement") signed between the Recipient and the IDB on 25th of July 2013;

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 sixteen million United States Dollars (USD 16 000 000) 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 will receive a Grant from the Global Environment Facility (GEF) which the Fund will make available to the Recipient, in the form of a Grant and in the amount of ten million United States Dollars (USD 10 000 000), in accordance with the terms of an Agreement to be entered between the Fund and the Recipient;

E. The Fund will provide Six million six hundred and thirty thousand special drawing rights (SDR 6 630 000) from the proceeds of the Trust Fund for the Fund's Adaptation for Smallholder Agriculture Programme (ASAP) approved by the IFAD Executive Board at its 105th Session, with the purpose of financing, in the form of grants, some components of the Programme to increase the resilience of small farmers to climate change in the five key ASAP outcome areas; and

F. Additional financing for the Programme is expected to be provided by domestic sources including micro finance institutions, Agriculture and Fisheries Production Promotion Fund beneficiaries and the Recipient.

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 Schedule 3 (Special Covenants).

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 a Financing 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 Financing is composed of:

   1.1. a Grant of Nine million seven hundred and forty thousand special drawing rights (SDR 9 740 000) (the Grant).

   1.2. a Grant from the ASAP of Six million six hundred and thirty thousand special drawing rights (SDR 6 630 000) (the ASAP grant).

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 headquarters of the Central Bank of Yemen. Upon the Recipient's request, IFAD shall make one or more withdrawals from the Grants accounts on behalf of the Recipient and deposit such amount in the Designated Account. The Designated account shall be operated by the National Programme Coordination Unit (NPCU) 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 six (6) Programme Accounts in Yemeni Rial (YER) for the benefit of the Programme opened in commercial banks (government or private) acceptable to the Fund. This account shall be used for all eligible expenditures. The NPCU and Programme Management Units (PMUs) will be authorized to operate their respective accounts.

5. The Recipient shall provide counterpart financing for the Programme in the amount of nine million three hundred thousand United States dollars (USD 9 300 000) equivalent, which includes taxes and duties.

Section C

1. The Lead Programme Agency shall be the Ministry of Agriculture and Irrigation (MAI).

2. The following are designated as additional Programme Parties (stake holders): The Public Works Project, the Community Roads Unit, the Agricultural Research and Extension Authority, the Adult Literacy Organisation, the Small and Medium Enterprises Promotion Service, the Economic Opportunities Fund, the Social Fund for Development, and the National Irrigation Programme.

3. The Programme Completion Date shall be the seventh anniversary of the date of entry into force of this Agreement.

Section D

The Financing 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.

2. The following are designated as additional general conditions precedent to withdrawal:

(a) The recruitment of key Programme staff at NPCU (the Director and the Finance manager) and PMU managers and accountants in the five governorates

(b) The Designated account has been opened;

(c) The accounting system has been installed and deployed at the NPCU and each PMUs;

(d) The Programme Implementation Manual (PIM) has been approved by IFAD.

3. 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.

THE REPUBLIC OF YEMEN

____
Authorized Representative
(Insert name and title)

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

____
Kanayo F. Nwanze
President

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. *Target Population*. The Programme's target group will consist of poor food insecure rural households living in selected communities with a specific focus on women and youth. However, other households will also benefit from the programmes investments in public goods and civil works such as roads and community schemes for drinking water. Transparent targeting procedures, based on mechanisms applied by ongoing projects will be implemented. Efforts will be made to ensure the involvement of women in decision-making and leadership positions in community organizations.

2. *Programme Area*. The Programme, will scale up, to incremental communities and governorates, the successful approaches, methodologies and activities of three IFAD-funded projects: the Dhamar Participatory Rural Development Project (DPRDP) the pilot Community-based Rural Infrastructure Project for Highland Areas (CBRIP), and the Al Dhala Community Resource Management Project (ADCRMP). Within Dhamar and Al-Dhala governorates the Programme intends to reach additional communities, before expanding to Hodeida, Lahej and Taiz governorates.

3. *Goal and Objective*. The Programme's goal is to reduce poverty and food insecurity in rural areas and increase smallholder climate resilience. Its development objective is to stimulate sustainable and resilient economic growth for women and men in rural communities.

4. *Outputs*. The programme's expected outcomes are: (i) household and community empowered to manage own development and engage in income generating activities; (ii) natural resource management improved and focusing on climate resilience, and (iii) improved, climate resilient agricultural practices and technologies adopted.

5. *Components*. The Programme consists of three technical complementary and mutually reinforcing components: These are: (i) Component 1: Community Empowerment and Livelihoods Diversification; (ii) Component 2: Natural Resources Management and Resilient Infrastructure; and (iii) Component 3: Agriculture Development.

A. **Component 1: Community Empowerment and Livelihoods Diversification**

The outcome of this component is to empower households and communities to manage their own development and engage in income generating activities. It consists of four sub-components: (i) community institutions building; (ii) women's empowerment and life-skills training; (iii) microfinance; and (iv) income generating activities.

Sub-component 1.1: Community Institutions Building.

The programme will support the establishment/strengthening of Community Development Associations (CDAs) and CDA registration under the Ministry of Social Affairs and Labour. Registration will provide the legal and regulatory framework for CDA operations as well as for the use of community contracting. The programme will ensure that CDA executive committees include at least one-third of female members. Each community will be assisted to undertake a participatory diagnosis of their development issues and constraints. Investments and activities to overcome these constraints will be identified through a participatory process and incorporated in Community Action Plans (CAPs).

Sub-component 1.2: Women's Empowerment.

The objective of this sub-component is to ensure that women have with the basic knowledge, skills and capacity to engage in planning and implementation of development activities in their communities and to benefit from opportunities available for income generation and employment. This will be achieved through the provision of literacy and life-skills training.

Sub-component 1.3: Microfinance.

The main objective of this sub-component is to promote the creation of one grass-root level SCG in each selected VU, federated at district or governorate level within a Saving and Credit Association (SCA). SCAs will provide services to affiliated SCGs, and will act as financial intermediaries for licensed microfinance institutions (MFIs) to which they are linked, thus providing SCG members with access to larger resources and more diversified financial products. The Programme foresees to have at least 100 000 of the target group to be members of SCGs with at least 80% of them being women.

Through awareness campaigns and support from PMU field staff, the programme will assist communities to create and register SCGs and SCAs and elect their governing bodies.

Resources mobilized by SCAs (savings, matching grants and refinancing loans) will be used to extend short and medium term loans to members (no restriction will be put on the use of loan proceeds, but SCAs will ensure that borrowing members have the capacity to pay back their loans). Loans extended by SCAs to their members will average USD 250 and repayment will be rigorously enforced.

Sub-component 1.4: Livelihoods Diversification.

The main objective of this activity is to promote in a sustainable manner young and women-managed farm and off-farm micro and small enterprises as well as income generating activities as a means for resilience to shocks.

The NPCU Business Development/Rural Finance Specialist will liaise with NGOs, consulting firms, training centres or institutions competitively selected by the NPCU to ensure the strengthening of entrepreneur's technical skills through appropriate training while he/she will provide the entrepreneur with financial management courses. Training will also include environmental and climate change adaptation issues provided by the NPCU Environment and Climate Change Specialist.

Matching grants will be extended by the NPCU from a Financial Facility for MSEs (FIFAMSEs). A FIFAMSEs Investment Committee composed of the NPCU Business Development/Rural Finance Specialist, the Governorate-related PMU Manager and the Gender and Community Development Specialist will decide on the level of grant for each investment.

B. **Component 2: Natural Resources Management and Resilient Infrastructure**

The expected outcome of this component is to improve natural resource management and infrastructure and climate resilient. Investments considered under this sub-component will focus on: (i) soil and water conservation; (ii) rangeland rehabilitation and management; (iii) drinking water; and (iv) construction/rehabilitation of quaternary roads

Sub-component 2.1: Integrated Water Management and Soil Conservation.

The objective of this sub-component is to support off-farm agricultural production in selected VUs through land conservation works and enhanced efficiency in water harvesting in order to restore agricultural land and increase its productivity and fertility. Under this sub-component, activities will further include terrace rehabilitation, wadi bank protection and reforestation. The programme will promote reforestation activities of hillsides.

Sub-component 2.2: Rangeland rehabilitation.

The objective of this sub-component is to increase rangeland productivity by improving carrying capacity and enhancing vegetation growth. Investments considered will include reseeding of indigenous herbaceous leguminous and cereal species and perennial forage crops, micro-catchment water harvesting, as well as soil conservation and stock water provision. Capacity building to local communities will also be provided by the programme.

Sub-component 2.3: Drinking water.

The objective of this sub-component is to provide communities with reliable and safe access to drinking water during the dry season. The programme will support both individual household and community drinking water schemes including roof rainwater harvesting structures, protected shallow wells, and gravity-fed springs based on sustainable use of locally available resources and more resilient to changing climatic conditions.

Sub-component 2.4: Construction/Rehabilitation of Quaternary Roads.

The main objective of this sub-component is to improve the quality and climate resilience of roads infrastructure to provide improved and reliable access to markets and supply of services and to open up communities in highland areas. In that respect, the Programme will enhance technical sustainability of existing earth/gravel quaternary roads through: (i) introduction of necessary erosion protection works, including through tree/shrub plantation; (ii) introduction of climate resilience in design and structures in roads; (iii) emphasis on road maintenance, and (iv) community involvement.

Component 3: Agriculture Development

The expected outcome of this component is to improve climate resilient agricultural practices and the technologies adopted. This will include enhanced on-farm water use efficiency and soil fertility regimes for food and feed crops, agricultural diversification, reduction of postharvest losses, and improved livestock feeding and health. Investments under this component include: (i) extension support and inputs provision; (ii) irrigation efficiency; (iii) agriculture production diversification, and (iv) research and development.

Sub-component 3.1: Extension support and inputs provision

The programme will train several lead farmers within each community as Village Agriculture Technicians (VATs) who then will act as resource persons to provide extension and advice to local farmers. The programme will ensure linkages between VATs and the Agriculture Research Extension Authority (AREA), MoAI Agricultural Offices, Directorate General of Animal Resources and the Central Veterinary Laboratory. The programme will support the establishment of a small local input supply shop in each village unit managed by one trained VAT, identified by the CDAs, who is willing to invest his/her own funds

Sub-component 3.2: On-Farm Irrigation Efficiency

This sub-component aims at improving irrigation water use efficiency through dissemination and promotion of proven technological packages for water saving and on-farm environmental modification and control. Modern irrigation systems will be promoted by the programme in each VU where water harvesting structures (small and medium dams, water retention barriers and farm ponds) have been implemented or rehabilitated under the programme, so as to extend the benefit of community water management to each individual.

Sub-component 3.3: Agriculture Production and Diversification

Diversification of agricultural production for enhanced resilience will be promoted in various ways. The programme will promote protected vegetable production by piloting the use of low-cost greenhouses and simple tunnel net-shade low systems. The programme will demonstrate first and eventually promote such systems as sorghum-clitoria fodder under spate/well irrigation and rainfed conditions, depending on the available source of irrigation.

Sub-component 3.4: Applied Research for Vulnerability Reduction

Through this sub-component, support will be provided by the programme to AREA to conduct several research trials in each governorate based on their specific agro-ecological conditions and projected impacts of climate change on local agriculture. These will aim at testing appropriate technologies, techniques and management practices that will enhance climate change resilience and risk mitigation. The programme will support research for the identification of crop alternatives at both the varietal and species level, by establishing and evaluating pilot demonstration plots of alternative crops established in selected VUs.

II. Implementation Arrangements

A. Programme organizational framework

The Lead Programme Agency will be the Ministry of Agriculture and Irrigation. The Community Actions Plans (CAPs) will be considered the first level of programme planning and implementation at Village Unit (VU) level. The CAPs at village levels will feed the district and governorate development plans. At each governorate level, the coordination of programme planning and implementation will be the responsibility of the Programme Management Unit (PMU) reporting to a Governorate Steering Committee (GSC). Overall coordination at national level and support for cross-cutting issues will be provided by a National Programme Coordination Unit (NPCU) located in Sana'a and reporting to a National Steering Committee (NSC).

The annual work plan and budget (AWPB) will be prepared by the Village Development Committees through a participatory approach with stakeholders, internally reviewed and consolidated, and approved by the PMUs at the Governorates levels. The Governorate AWPBs will be approved by the Governorate Steering Committee before being consolidated by the NPCU. The consolidated national AWPB will be submitted to the National Steering Committee for approval, and then to the Recipient, IFAD and cofinanciers for review and concurrence.

The Programme will be implemented by public and private sector service providers contracted by the respective PMUs and NPCU. The procurement and contracting of service providers for the implementation of Programme activities will be subject to IFAD prior review and concurrence according to the Fund guidelines.

B. Programme Implementation

B.1. Programme Management Units

1.1 *Functions.* The PMUs main role will be related to procurement and supervision of service providers, contract management, and mobilizing and managing relationships with target communities. PMUs will coordinate closely with the Governorate, District and Uzla administration to ensure that planning at VU-level feeds into District and Governorate development plans. In addition, each PMU will play an active role in the capacity building of the local administration. Each Governorate PMU will be responsible for their financial management and accounting, and will be supported by a qualified accountant.

1.2. *Composition.* Each PMU will be headed by a Programme Manager (PM) with expertise in agriculture/rural development and staffed with a small team of professionals: (i) an accountant; (ii) a procurement officer; (iii) an M&E officer; (iv) a rural engineer; (v) a gender and community development officer, and (vi) two field managers supervising community facilitators operating at VU level. In addition, support staff (secretary, drivers and guards) will be recruited by each PMU.

1.3 *Recruitment.* In each governorate, PMUs will operate with a minimal staff and implementation will be contracted out to specialized public and private service providers. All staff members will be recruited on a competitive basis in compliance with IFAD's procurement guidelines. Existing staff will be re-interviewed for their roles based on updated job descriptions. All staff contracts will be for an initial probationary period of six months compliant with Yemeni labor law, with the possibility of extension subject to satisfactory performance. All staff positions are considered for the whole duration of the Programme, except that for the rural engineer and the gender and community development specialist whose positions are ending after 5 years of entry into force of this agreement.

B.2. National Programme Coordination Unit.

2.1. *Function.* The National Programme Coordination Unit (NPCU) will be located in Sana'a within the Agriculture and Fisheries Production Promotion Fund (AFPPF) but will be reporting to the Ministry of Agriculture and Irrigation (MAI). The NPCU will provide PMUs with services related to cross-cutting and cross-governorate issues. The finance manager and two accountants will be responsible for the coordination and submission of all financial management and accounting related issues.

2.2 *Composition.* The staff of the NPCU will be competitively recruited. The NPCU will include the following positions: (i) Programme Director; (ii) Finance Manager; (iii) Internal Auditor; (iv) Consolidation accountant; (v) Senior M&E and KM specialist; (vi) Senior Procurement Officer; (vii) Environment and Climate-Change Specialist; (viii) Business Management/Rural Finance specialist; (ix) Secretary, and (x) support staff.

B.3. Governance

The programme's governance will be threefold: (i) District Coordination Groups; (ii) Governorate Steering Committees; and (iii) a National Steering Committee.

3.1. *District Coordination Groups (DCG)*.

3.1.1 *Composition*. Located in each district and headed by the General Secretary of the District Council, DCG will also include: (i) executive members of the Local District Council; (ii) the President of each Community Development Association supported by the Programme in the District; (iii) the PMU Gender and Community Development Specialist, and (iv) two community facilitators (one man and one woman).

3.1.2. *Responsibilities*. The main responsibilities of each District Coordination Group will include: (i) review of Community Action Plans (CAPs); (ii) coordination between stakeholders and local partners from the public and private sectors; (iii) conflict resolution.

3.2. *Governorate Steering Committees (GSC)*.

3.2.1. *Composition*. Governorate Steering Committees (GSCs) will be established, chaired by the Governor. They will also include: the General Secretary of the Local Council; the General Manager of the Agriculture and Fisheries Department of the MoPIC; the General Manager of the Loan and Grant Department of the MoF (in charge of loans and credits); the General Manager of the Planning Department; the General Manager of the Women Development Department and the General Manager of the Project Department of the MoAI; the Agriculture and Irrigation Office Manager, and the PMU Manager.

3.2.2. *Responsibilities*. The main responsibilities of each GSC will include: (i) approval of Governorate Annual Work Plan and Budget (AWPB); (ii) ensure coordination between all stakeholders; (iii) ensure coordination with Governorate development plans; (iv) review progress reports and performance of Programme's activities.

C. Programme Implementation Manual (PIM)

The Programme will be executed as provided for in the Implementation Manual, which shall provide, among other things: the administrative and financial procedures; the roles and responsibilities of the programme implementation units; the detailed description of the implementation arrangement for the Programme components and the project typologies and targeting selection and control procedures. .

Schedule 2

Allocation Table

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

Category	Grant amount allocated (expressed in SDR)	ASAP Grant Allocated (expressed in SDR)	% of eligible expenditure to be financed (excluding taxes and duties)
I. Vehicles	250 000	310 000	The percentages of expenditures to be financed is detailed below
II. Equipment and Material	940 000	1 180 000	
III. Consultancies	2 000 000	3 120 000	
IV. Credit, Guarantee Funds	2 890 000	470 000	
V. Salaries and Allowances	2 210 000	650 000	
VI. Operating Costs	470 000	240 000	
Unallocated	980 000	660 000	
TOTAL	**9 740 000**	**6 630 000**	

(b) The terms and percentages of eligible expenditures to be financed by each Category, used in the Table above, are defined as follows*:*

"Vehicles" under Category I, shall mean eligible expenditures, net of all duties and taxes, incurred related to:

(i) Component 1: Vehicles financed 100% from ASAP Grant, for each of the 5 Governorates.

(ii) Programme implementation: Vehicles financed 100% from IFAD, for each of the 5 Governorate PMUs and the NPCU.

"Equipment & Material" under Category II, shall mean eligible expenditures, net of all duties and taxes, incurred related to:

(i) Component 1: Furniture for Community Development Association (CDAs) financed 100% from ASAP Grant, for each of the 5 Governorates.

(ii) Component 3: Veterinary kits financed 100% by ASAP Grant, for each of the 5 Governorates; Investment financed 30% from IFAD; Demonstrations financed 60% from IFAD and 20% from ASAP Grant, for each of the 5 Governorates.

(iii) Programme implementation: Computers, projectors, printers, GPS, camera and office furniture financed 100% from IFAD, for each of the 5 Governorate PMUs and the NPCU.

"Consultancies" under Category III, shall mean eligible expenditures, net of all taxes, incurred related to:

(i) Component 1: Studies and Technical Assistance in Community Institutional Building financed 100% from ASAP Grant; International Technical Assistance for Saving and Credit Associations (SCA) and Saving and Credit Groups (SCG) financed 100% from IFAD; Studies for exposure visits and value chain analysis financed 100% from ASAP Grant; and Studies for fair participation financed 80% from ASAP Grant. Financing relates to 5 Governorates.

(ii) Component 3: Studies for Capacity Building of Village Agriculture Technicians financed 100% from ASAP Grant for 5 Governorates.

(iii) Programme implementation: Studies, Capacity Building, Technical Assistance, Workshops and Audit financed 100% from IFAD for 5 PMUs and NPCU

"Credit, Guarantee Funds" under Category IV, shall mean eligible expenditures, net of taxes, incurred related to:

(i) Component 1: Savings Credit Association Capitalization and Savings Credit Group Matching Grants financed 100% from IFAD; Matching and Energy Grants for Income Generating Activities financed 100% from IFAD; Market Promotion financed 80% from ASAP Grant. Financing relates to 5 Governorates.

(ii) Component 2: Operation Costs for Village Agriculture Technicians financed 100% from ASAP Grant for Al Dhala and 100% by IFAD for Dhamar and Taiz.

"Salaries and Allowances" under Category V, shall mean eligible expenditures, net of taxes, incurred related to:

(i) Component 1: Equipment for Community Facilitators financed 100% from ASAP Grant, for 5 Governorates.

(ii) Programme implementation: Personnel Costs financed 60% from IFAD and 25% from ASAP Grant, for 5 PMUs and NPCU.

"Operating Costs" under Category VI, shall mean eligible expenditures incurred related to:

(i) Programme implementation: Operation and Maintenance of vehicles, equipment, offices and Steering Committee Meetings, financed 60% from IFAD and 40% from ASAP Grant for 5 PMUs and NPCU.

2. *Retroactive financing*. The Financing shall retroactively finance up to USD 400 000 of eligible expenditures incurred after 20th of September 2013 for: Recruitment of the key staff; Installation and deployment of the accounting systems; Alternations to LGMIS; Recruitment of a consultant for the preparation of the PIM; and Mobilization and sensitization of the communities in Dhamar and Al Dhala. These expenditures will be eligible under Categories III (Consultancies), V (Salaries and Allowances) and VI (Operating Costs).

Schedule 3

Special Covenants

Gender. For the purposes of this Agreement the Recipient shall ensure that the Programme benefits are delivered to poor rural women in the Programme area. The AWPBs and progress reports shall be disaggregated by gender as appropriate.

Logical framework

Objective Hierarchy	Key Performance Indicators	Means of Verification	Risks/Assumptions
Goal			
Poverty and food insecurity reduced and smallholder climate resilience increased	• 800,000 poor rural people/120 000 HHs lifted out of poverty [Total 1.18 million individuals/176,000 HHs]. • 800,000 poor rural people/120 000 poor smallholder HHs increased climate resilience - ASAP • 50 per cent reduction in average length of hungry period among beneficiaries • Reduction in chronic child malnutrition (Baseline in rural areas [2012]: 63.5 per cent) • Increase in HH asset ownership index	Baseline & impact surveys Government data (CSO) UNDP/World Bank poverty assessment UNICEF/WFP food security assessments	Improved security (A) Improved macro-economic conditions (A) Stable political transition (A)
Programme Objective			
Resilient and sustainable rural economic growth stimulated	• US$500 increase in household income through economic diversification and access to financial services after 5 years • per cent increase in the Community Capability Index (CCI)[1] as compared to baseline – ASAP	Baseline and impact survey	
Outcomes and Outputs by Component			
Component 1: Community Empowerment and Livelihood Diversification			
Outcome 1: Household and community empowered to manage own development and engage in income-generating activities	• At least 50 per cent of CDAs with medium-term climate resilient CAPs, reviewing them annually - ASAP • Increase in average HH savings (US$300 after 5 years) • #, value, and size of loans by SCGs (> 400 000 loans; US$48 million; US$120) and MFIs/commercial banks (> 11 000 loans; US$8 million; US$750)	Baseline & impact surveys CDA reports Interviews/focus groups Programme administrative reports SCAs and MFIs records	Traditional views of women's role in family and society can be changed (A)
Output 1.1: Representative CDAs established / strengthened	• 550 CDAs formed, strengthened and legally registered • 30 per cent of leadership positions in CDAs held by women	CDA reports Field staff reports Programme administrative records SCGs/SCAs reports MFBIs reports	Intra-community conflicts prevent formation of effective CDAs (R)
Output 1.2: Basic/vocational training provided for women target groups	• At least 50 000 women receive literacy/life skills training • At least 30 000 women receive vocational training		
Output 1.3: Basic financial services made available	• SCGs established with 100 000 members (at least 70 per cent women) • At least 70 per cent of SCGs have access to financial resources from MFIs		PFIs unwilling to partner with SCAs (R)
Output 1.4: Income-generating activities promoted	• At least 50 000 beneficiaries establish or expand an income-generating activity (of whom at least 50 per cent are women) (ASAP)		

[1] The CCI is the IFPRI tool used to measure community capabilities in the domain of natural resource governance.

Objective Hierarchy	Key Performance Indicators	Means of Verification	Risks/Assumptions
Component 2: Natural Resources Management and Resilient Infrastructure			
Outcome 2: Natural resource management improved and focusing on climate resilience	• US$55 million worth of new/existing rural infrastructure, including irrigation systems, made climate resilient - ASAP • 1 hr/day/HH reduction in time spent collecting water • 275 Soil and water conservation schemes proposed within CAPs implemented - ASAP	CDA reports Programme administrative reports Studies & surveys	
Output 2.1: Integrated water management plans implemented in target areas	• Water harvesting and storage efficiency increased by 30 per cent in all target areas compared to baseline • 1 220 ha of agricultural land rehabilitated and back in production - ASAP	Baseline & impact surveys CDA reports Field staff reports Programme administrative records WUAs & LMAs reports	Communities within watersheds willing to collabourate to plan and implement watershed management development schemes (A)
Output 2.2: Rangeland rehabilitated and carrying capacity increased	• 80 per cent of rangeland rehabilitation schemes (including reseeding and eradicating non-beneficial species) within CAPS are implemented • 50 rangeland resource assessment and monitoring plans developed and functional		
Output 2.3: Rural infrastructure made more resilient	• At least 244 km of quaternary roads upgraded and constructed with strengthened climate resilience, including features to protect against flood damage and to harvest water - ASAP • US$4 reduction in overall transportation cost • At least 80 per cent of the dry season drinking water supply measures proposed by the CAPs are implemented.	Baseline & impact surveys CDA reports Field staff reports Programme administrative records WUAs & LMAs reports	Communities willing to collabourate to plan and implement public infrastructure projects and to participate in their financing (A)
Component 3: Agriculture Development			
Outcome 3: Improved, climate resilient agricultural practices and technologies adopted.	• At least 70 per cent of smallholders in each target community adopt resilient agricultural practices or technologies by completion - ASAP • 30 per cent increase in yields/unit of water used – ASAP	Baseline & impact surveys CDA reports Government data (MoAI, MoTI, YSMO)	Farmers willing to adopt new technologies (A)
Component 4: Programme Management			
Outcome 4: Effective programme management arrangements operational	• Annual supervision missions provide 'satisfactory' rating for programme management	IFAD Supervision reports	
Output 4.1: Project management and coordination units established	• 5 Governorate-level PMUs established 3 months after entry into force • 1 NPCU established prior to start-up • National and Governorate steering committees established • Service providers and partners strengthened to cope with CC		