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Enabling poor rural people
to overcome poverty

Republic of Yemen

Rural Growth Programme

Negotiated financing agreement

For: **information**

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 reseedling 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	
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	The percentages of expenditures to be financed is detailed below
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.