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تمكين السكان الريفيين الفقراء
من التغلب على الفقر

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Negotiated financing agreement: "YemenInvest-Rural Employment Programme"

(Negotiations concluded on 10 November 2011)

FINANCING AGREEMENT

Grant Number:

Programme Title: YemenInvest - Rural Employment Programme (the "Programme")

The Republic of Yemen (the "Recipient")

and

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

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

hereby agree as follows:

- A) The Recipient has requested financing from the Fund for purposes of partially financing the Programme described in Schedule 1.
- B) The Fund and the Recipient will seek to identify additional external financing of approximately twenty-one million two hundred and ninety thousand United States Dollars (USD 21 290 000) equivalent to assist in cofinancing the Programme, on terms and conditions to be set forth in an Agreement between the Recipient and the cofinancier(s).
- C) Additional financing for the Programme is expected to be provided by domestic sources including the Economic Opportunities Fund (EOF), commercial banks and microfinance institutions, private investors and beneficiaries.

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), the Special Covenants (Schedule 3) and the Fund's General Conditions.
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 Grant to the Recipient (the "Financing"), which the Recipient shall use to implement the Programme in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Grant is five million seven hundred twenty thousand special drawing rights (5 720 000 SDR).
2. The first day of the applicable Fiscal Year shall be 1st January.
3. There shall be a Designated Account in USD for the purpose of financing the Programme. The Designated Account shall be opened and maintained in the Central Bank of Yemen or in a commercial bank licensed by the Central Bank of Yemen, acceptable to IFAD. Upon the Recipient's request, IFAD shall make one or more withdrawals of up to USD 2 000 000 in the aggregate from the Grant account on behalf of the Recipient and deposit such amount in the Designated Account. The Designated Account shall be operated by the EOF and shall be protected against set off, seizure or attachment on terms and conditions proposed by the Recipient and accepted by IFAD.
4. There shall be two Programme Accounts, one in YER and other in USD for the benefit of the Programme in a commercial bank acceptable to the Fund or in the Central Bank. The Chief Executive Officer and the Chief Financial Officer of the EOF will be authorized to operate these Accounts.
5. The Recipient shall provide counterpart financing for the Programme in the amount of nine hundred and forty thousand United States Dollars (USD 940 000) equivalent.

Section C

1. The Lead Programme Agency shall be the Economic Opportunities Fund (the EOF).
2. The following are designated as additional Programme Parties: the International Labour Organisation (ILO), the Yemen Geological Survey and Mineral Resources Board (YGSMRB), the Yemen Standardisation and Metrology Organisation (YSMO); interested microfinance banks/institutions and commercial banks licensed by the Central Bank of Yemen, and contracted service providers such as engineering firms, contractors, consulting firms, NGOs and business service providers.
3. The Programme Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.

Section D

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

Section E

1. The following are designated as additional grounds for suspension or cancellation of this Agreement:
 - (a) The Programme Implementation Manual, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Programme.
 - (b) Any competent authority has taken action for the dissolution of the EOF, the modification of the distribution of membership between public and private sectors of the

EOF's Board of Directors, or the merging of the EOF with any other institution; and the Fund has determined, following consultation with the Recipient, that any such event listed above is likely to have a material adverse effect on the Programme.

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

- (i) The composition of the Board of Directors of Economic Opportunities Fund (EOF) is approved by IFAD;
- (ii) The Designated Account and Programme Accounts have been duly opened;

(b) The following is designated as an additional specific condition precedent to withdrawal under categories III (Training, TA and Contractual Services), IV (Financial Instruments), and V (Studies): The framework for the EOF's Programme Implementation Manual has been completed to the satisfaction of the Fund.

(c) The following is designated as an additional specific condition precedent to withdrawal under category IV (Financial Instruments) for the purpose of making an equity investment:

- (i) the EOF has prepared written guidelines governing the process of preparing, making and managing an equity investment, and these have been approved by the Fund.

3. This Agreement is subject to ratification by the Recipient.

4. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Recipient:

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

For the Fund:

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

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

Authorised Representative

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. *Target Population.* The Programme shall benefit unemployed and underemployed women and men in rural areas living below the poverty line. Within these target groups, priority will be allocated to women and young labour market entrants whose participation will be supported through specific targeting measures. The Programme will be national in scope but will initially focus on seven governorates – namely Abyan, Al Baida, Dhamar, Hajjah, Hodeidah, Lahj and Taiz (the “Programme Area”). Expansion to other Governorates will be based on the business case and security considerations.
2. *Goal.* The goal of the Programme is to improve the economic status of poor rural households.
3. *Objectives and outcomes.* The objectives of the Programme are to create sustainable and diversified employment opportunities for unemployed and underemployed women and men in rural communities. The expected outcomes are: (i) growth and profitability of business in targeted sectors increased; (ii) rural entrepreneur’s access to a range of financial services increased; (iii) target group’s access to employment and training opportunities improved; and (iv) Corporate Social Responsibility (CRS) and Decent Work agendas gradually implemented.
4. *Components.* The Programme shall consist of the four components: (a) value chain upgrading; (b) rural investment financing; (c) rural labour market intermediation; and, (d) policy and partnerships.

Component 1: Value Chain Upgrading

This component will invest in three core activities: cluster establishment; business capacity development; and market promotion. Establishment of clusters with common infrastructure and services will generally focus on the natural stone and handloom textile sectors, while business capacity development and market promotion will cover all rural sectors and enterprises accessing programme-supported financing packages. Appropriate legal arrangements will be made for participating investors to own and manage each cluster site and its assets. Cluster management procedures will be elaborated and the capacity of cluster management staff built. The Programme will support the EOF to establish and administer a business services delivery scheme designed to make demand-driven business services and training available to enterprises receiving Programme financing. Market promotion initiatives will be undertaken including market studies, participation in domestic and international trade fairs, trial shipments, promotion of compliance with international product and process standards and improving available of trade information in order to enhance market access. Support will be provided for the product research and development and for stakeholder-driven apex organisations in supported sectors.

Component 2: Rural Investment Financing

This component will improve availability of appropriate financing options for the sustainable expansion of rural micro, small and medium-sized enterprises with market growth and job creation potential. The Programme will support the EOF to make equity investments in rural enterprises with market growth and job creation potential; these investments will amount to a maximum of 49% of the equity in any enterprise. The EOF will engage a

qualified third party to review due diligence assessments and business plans prepared for each equity investment. The EOF will establish an independent investment committee to evaluate each equity investment proposal prior to final approval; where IFAD financing is to be used, IFAD will serve as a non-voting member on this committee. The Programme will also support a refinancing 'Open Window', managed by the EOF, to provide refinancing of medium-long term loans extended by participating financial institutions (PFIs) to eligible rural enterprises with market growth and job creation potential. Refinancing agreements will be signed between the EOF and PFIs whose eligibility to participate will be determined through due diligence assessment and comprehensive audit undertaken by a local reputable audit firm. The deposit in the shareholder's account of Al Amal Bank will also be increased.

The EOF will support the establishment of community managed revolving facilities (CRFs), financed by dividends from the EOF investments. These will provide poor women and young people with access to financing for micro-enterprises and income-generating activities. A limited amount of non-reimbursable matching cofinancing will also be provided to poor women and young people accessing Programme-refinanced loans from PFIs and financing from CRFs. A limited amount of capacity building support will be provided to partnering financial institutions and CRFs on demand.

Component 3: Rural Labour Market Intermediation

This component aims to improve the target groups' access to employment and training opportunities. A labour force needs assessment and an assessment of existing training opportunities and institutions will be conducted. Curricula related to the targeted sectors will be developed, together with the relevant partner organisations, and the Programme will provide training of trainers support to selected training institutes/providers interested to implement the new curriculum. Twinning arrangements, exchanges and overseas study visits between the training institutes, enterprises and overseas specialised institutes will be promoted. A range of additional measures will be implemented to improve availability within target rural communities of information on available employment and training opportunities. Specific emphasis will be placed on promoting women's and youth's access to training and employment opportunities. Specific efforts will be made to promote youth enterprise and enable young people in rural areas to access business and financial services offered by the Programme.

Component 4: Policy and Partnerships

This component will empower the Economic Opportunities Fund to serve as a catalyst for the gradual introduction and adoption of CSR and the Decent Work agenda in Yemen. It will facilitate policy development and build partnerships to mainstream these social agendas into the national legal framework and within the business community through training sessions, workshops and the production of focused knowledge products. Activities may include the preparation of CSR strategies, workshops and awards. The Programme will work closely with the International Labour Organisation to support the Government to incorporate the Decent Work agenda in the legal and regulatory framework on employment and working conditions and will develop a 'Letter of Commitment' to implement specified principles of the Decent Work agenda to be signed by all investors with which the EOF enters into equity investments. The EOF will develop appropriate partnerships with relevant public, private, civil society and community organisations and with international institutions and financiers, and participate in relevant workshops and knowledge networks in which it has strategic interest.

II. Implementation Arrangements

Programme Management

1. The Economic Opportunities Fund, created by Presidential Decree 183/2010, will be the Lead Programme Agency and will be responsible and accountable for the management and implementation of the Programme. The EOF is a public-private partnership working to improve the economic status of poor women and men in rural areas. It is governed by a Board of Directors representing the public and private sectors. The Board is responsible and accountable for guiding the operations of the EOF under principles of good governance, business ethics, transparency, equity, efficiency, sustainability and corporate social responsibility. The EOF will convene regular meetings with stakeholders to ensure that the EOF's strategic and operational agenda is driven by the concerns of target groups. The EOF's CEO and core professional staff will be selected by the Board of Directors based on a competitive recruitment process subject to IFAD approval, and will receive highly competitive salary levels. As the quality of staff is of fundamental importance in determining the quality of EOF's performance, the Board will closely monitor staff performance.

2. Under this Programme, the EOF and links with key Ministries will be strengthened. Programme coordination units will be established within the Ministry of Agriculture and Irrigation and within the Ministry of Oil and Minerals, for coordination of relevant aspects of EOF-managed projects and programmes. As necessary, additional staff with relevant skills and experience will be recruited on a competitive basis to ensure the effective management of this Programme.

Organisational Framework

1. The Programme will be implemented by public and private sector service providers contracted by the EOF on a performance-basis. The procurement and contracting of service providers for the implementation of Programme activities will be subject to IFAD prior review and concurrence. With respect to the business services voucher scheme, inclusion of service providers in the approved service providers directory will not be subject to IFAD prior review or concurrence but strong feedback mechanisms will be included in the scheme and poorly performing service providers will be removed from the directory.

2. The annual work plan and budget will be prepared by the Management Team of the EOF through a participatory process with stakeholders, internally reviewed, consolidated, and approved by the EOF's CEO. The proposed AWPB will subsequently be reviewed and approved by the EOF's Board of Directors, and then submitted to Recipient and IFAD for review and approval in relation to IFAD financing.

Schedule 2

Allocation Table

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

Category	Grant Amount Allocated (expressed in SDR)	% of eligible expenditure to be financed
I. Civil Works	500 000	100% net of taxes
II. Vehicles, Equipment and Materials	120 000	100% net of taxes
III. Training, TA and Contractual Services	1 530 000	100% net of taxes and beneficiaries' contribution and other cofinancers
IV. Financial Instruments	1 940 000	100% net of beneficiaries' contribution and other cofinancers
V. Studies	670 000	100% net of taxes
VI. Recurrent Costs	390 000	100% net of taxes and EOF's contribution
Unallocated	570 000	
TOTAL	5 720 000	

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

- i) *Civil works* includes the costs of infrastructure feasibility studies, engineering design, physical works and site supervision of Programme activities with the exclusion of those related to the natural stone sector.
- ii) *Financial Instruments* includes equity financing, debt financing, refinancing, grant financing and other financial instruments. It excludes physical investments in the natural stone sector.
- iii) *Recurrent Costs* includes the costs of salaries, allowances, and all other operating costs.

Schedule 3

Special Covenants

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

1. Gender: The Recipient shall ensure that the Programme benefits are also delivered to poor rural women in the Programme area. The Programme AWPB and progress reports shall be disaggregated by gender as appropriate.
2. Until such time as Specific Condition 2(c)(i) in Section E of the Financing Agreement is met, the Recipient shall indicate, in each withdrawal application requesting funds under category IV (Financial Instruments), whether the related expenditures are for equity investments.

Logical framework

Objective Hierarchy	Key Performance Indicators (at programme completion, disaggregated by age/gender/sector)	Means of Verification
Goal	<ul style="list-style-type: none"> Increase in asset ownership index Reduction in prevalence of child malnutrition Reduction in % of food insecure rural households, from 38.1% (2010) Increase in secondary school enrolment rates (%) 	<ul style="list-style-type: none"> Baseline & impact surveys WFP data UNESCO/government data
<i>Economic status of poor rural households improved</i>		
Development Objective	<ul style="list-style-type: none"> 28 000 jobs created by programme completion 80% of enterprises supported, operating 3 years after receiving financing 	<ul style="list-style-type: none"> Enterprise reports & MOSAL surveys Financial statements of MSMEs
<i>Sustainable and diversified employment opportunities for unemployed and underemployed women and men in rural communities created.</i>		
Programme Outcomes and Outputs		
Outcome 1: Growth and profitability of businesses in targeted sectors increased.	<ul style="list-style-type: none"> Increase in number of registered businesses in target sectors Increase in value of total domestic production of NS and handloom textiles Increase in average profitability of businesses after 3 years 	<ul style="list-style-type: none"> GIA data GSMRB, YTC, apex organisations Financial statements of MSMEs
Output 1.1 – Value chain clusters operational	<ul style="list-style-type: none"> # of enterprises operating on cluster sites By YR3, 100% of cluster O&M costs covered by rents/service charges 	<ul style="list-style-type: none"> Cluster management reports
Output 1.2 – Business services support scheme operational	<ul style="list-style-type: none"> Vouchers (for services) redeemed (#/value/av. cost sharing at least 25%) People accessing advisory services facilitated by the programme People receiving training (vocational/business and entrepreneurship) 	<ul style="list-style-type: none"> Service provider records EOF administrative records
Output 1.3 – Access to domestic and export markets increased	<ul style="list-style-type: none"> Value of sales through programme supported retail outlets Increase in sales of programme supported enterprises to export markets 	<ul style="list-style-type: none"> GSMRB, YTC, apex organisations Retailers records
Outcome 2: Rural entrepreneurs have improved access to a range of sustainable financial services	<ul style="list-style-type: none"> Financial institutions participating in the programme At least 30% increase in PFI's short-term rural lending At least 15% increase in PFI's long-term rural lending and <i>musharaka</i> 	<ul style="list-style-type: none"> PFI records EOF financial statements
Output 2.1 – EOF's equity and refinancing facilities operational	<ul style="list-style-type: none"> Return on EOF investment activities (100% repayment of EOF refinancing) Value of the gross refinanced loans portfolio (individuals/enterprises) 	<ul style="list-style-type: none"> EOF financial statements and data Equity financing contracts
Output 2.2 – Alternative financing mechanisms for poor rural communities operational	<ul style="list-style-type: none"> 6000 CRF loans and 6000 EOF co-financed loans issued by completion 100% repayment of CRF credit 	<ul style="list-style-type: none"> CRF and EOF reports and financial statements
Outcome 3: Target groups' access to employment and training opportunities improved	<ul style="list-style-type: none"> Reduction in average job search time reported in rural communities 100% of new employees in supported enterprises receive training 	<ul style="list-style-type: none"> Household/focus group interviews MOSAL reports
Output 3.1 – Increased rural availability of information on training and employment	<ul style="list-style-type: none"> % of target group with regular (at least monthly) access to information on training and employment opportunities 	<ul style="list-style-type: none"> Service provider records Focus groups
Output 3.2 – Increased availability of market-demanded training opportunities	<ul style="list-style-type: none"> # of staff of service providers certified to deliver new curricula # of employees of enterprises attending targeted training 	<ul style="list-style-type: none"> Service providers, including TOT Focus groups/reports
Outcome 4: CSR and Decent Work Agendas are gradually implemented	<ul style="list-style-type: none"> % of Yemeni businesses with approved CSR strategy Increased % of employees with positive perceptions of working conditions 	<ul style="list-style-type: none"> Yemeni Businessmen's Club Focus groups/enterprise visits
Output 4.1 - Awareness of the CSR and Decent Work Agendas is increased	<ul style="list-style-type: none"> Participants in CSR and Decent Work workshops (#) Decent Work "Letters of Commitment" signed (100% of equity investments) 	<ul style="list-style-type: none"> Workshop reports Letters of commitment
Output 4.2 – EOF partnerships with relevant organizations strengthened	<ul style="list-style-type: none"> Memoranda of Understanding entered into (#) Formal networks/communities joined (#) 	<ul style="list-style-type: none"> EOF annual reports Memoranda of Understanding