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Report No: 52365- YE

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR 38.7 MILLION
(US\$60.0 MILLION EQUIVALENT)

TO THE

REPUBLIC OF YEMEN

FOR A

SOCIAL FUND FOR DEVELOPMENT PHASE IV PROJECT

March 2, 2010

Human Development Department
Country Department 3
Middle East and North Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective February 17, 2010)

Currency Unit = Yemeni Rial (YER)
YER 1 = US\$0.00486
US\$ 1 = YER 206

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AFMIS	Accounting & Financial Management Information System
AGFUND	Arab Gulf Program for United Nations Development
BDS	Bid Data Sheet
BO	Branch Office
CAS	Country Assistance Strategy
CBO	Community-based organization
CLD	Community and Local Development Program
CLTS	Community-led Total Sanitation
CPAR	Country Procurement Assessment Report
CQ	Consultant's Qualification
CSO	Civil Society Organization
DA	Designated Account
DPPR	Development Plan for Poverty Reduction
EC	European Commission
EER	External Environmental Reviewer
EIA	Environmental Impact Assessment
ELD	Empowerment for Local Development Program
EMP	Environment Management Plan
EOI	Expression of Interest
EPA	Environment Protection Authority
FBS	Fixed Budget Selection
GDP	Gross Domestic Product
GFCRP	Global Food Crisis Response Program
GIS	Geographical Information System
HBS	Household Budget Survey
IAD	Internal Audit Department
ICB	International Competitive Bidding
ICR	Implementation Completion and Result Report
IDA	International Development Association
IFR	Interim Financial Report
IS	International Shopping
ISA	International Standards on Auditing
LA	Local Authority
LCS	Least Cost Selection

LIW	Labor Intensive Works Program
MD	Managing Director
MDG	Millennium Development Goals
MENA	Middle East & North Africa
MFI	Micro Finance Institution
MIS	Management Information System
MOF	Ministry of Finance
MOLA	Ministry of Local Administration
MOPIC	Ministry of Planning and International Cooperation
MSE	Micro and Small Enterprise
NCB	National Competitive Bidding
NGO	Non Governmental Organization
NMF	National Microfinance Foundation
NPM	National Procurement Manual
NS	National Shopping
PAC	Project Appraisal Committee
PAD	Project Appraisal Document
PDO	Project Development Objective
PFS	Project's Financial Statements
PIC	Project Implementation Committee
PO	Project Officer
POM	Project Operation Manual
PWP	Public Works Program
QCBS	Quality and Cost based Selection
RCT	Randomized Controlled Trial
SA	Sponsoring Agency
SBD	Standard Bidding Document
SFD	Social Fund for Development
SMED	Small and Micro Enterprises Development
SMEPS	Small and Micro Enterprise Promotion Services Agency
SOE	Statement of Expenditure
SSS	Single Source Selection
SWF	Social Welfare Fund
TOR	Term of Reference
TOSU	Training and Operational Support Unit
UM	Unit Manager
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WA	Withdrawal Application

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REPUBLIC OF YEMEN

SOCIAL FUND FOR DEVELOPMENT PHASE IV PROJECT

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REPUBLIC OF YEMEN
SOCIAL FUND FOR DEVELOPMENT IV
PROJECT CONCEPT NOTE
MIDDLE EAST AND NORTH AFRICA

MNSHD

<p>Date: March 2, 2010 Country Director: A. David Craig Sector Manager/Director: Roberta V. Gatti/Steen Jorgensen Project ID: P117949 Lending Instrument: Specific Investment Loan</p>	<p>Team Leader: Trina Haque Co Team Leader: Mira Hong Sectors: Pre-primary education (30%); Sub-national government administration (25%); Other social services (20%); General water, sanitation and flood protection sector (15%); Micro- and SME finance (10%) Themes: Rural services and infrastructure (30%); Participation and civic engagement (20%); Small and medium enterprise support (20%); Other public sector governance (20%); Gender (10%) Joint IFC: Joint Level:</p>
--	---

Project Financing Data			
<input type="checkbox"/> Loan <input type="checkbox"/> Credit <input checked="" type="checkbox"/> Grant <input type="checkbox"/> Guarantee <input type="checkbox"/> Other: <div style="text-align: right;">For Loans/Credits/Others:</div>			
Total Project Cost (US\$m.): 60.0			
Cofinancing:			
Total Bank Financing (US\$m.):		60.00	
Financing Plan (US\$m)			
Source	Local	Foreign	Total
International Development Association (IDA)	55.00	5.00	60.00
Total:	55.00	5.00	60.00

Recipient:

Republic of Yemen

Responsible Agency:

Social Fund for Development
Fij Attan, PO Box 15485
Yemen, Republic of
Tel: (967-1) 449-671
lamis@sfd-yemen.org

Estimated disbursements (Bank FY/US\$m)									
FY	10	11	12	13	14	15			
Annual		8	20	20	7	5			
Cumulative		8	28	48	55	60			
Project implementation period: Start: June 1, 2010 End: June 30, 2015									
Expected effectiveness date: June 1, 2010									
Expected closing date: December 31, 2015									
Does the project depart from the CAS in content or other significant respects? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Ref. PAD I.C.									
Does the project require any exceptions from Bank policies? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Ref. PAD IV.G.									
Have these been approved by Bank management? <input type="checkbox"/> Yes <input type="checkbox"/> No									
Is approval for any policy exception sought from the Board? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No									
Does the project include any critical risks rated "substantial" or "high"? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Ref. PAD III.E.									
Does the project meet the Regional criteria for readiness for implementation? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Ref. PAD IV.G.									
Project development objective Ref. PAD II.C., Technical Annex 3									
Project description [one-sentence summary of each component] Ref. PAD II.D., Technical Annex 4									
Which safeguard policies are triggered, if any? Ref. PAD IV.F., Technical Annex 10									
Significant, non-standard conditions, if any , for: Ref. PAD III.F.									
Board presentation:									
None.									
Grant effectiveness:									
<ul style="list-style-type: none"> The updated Operational Manual for SFD IV, satisfactory to the Association, has been adopted by the Board of SFD. The Subsidiary Grant Agreement has been executed on behalf of the Recipient and SFD. 									
Covenants applicable to project implementation:									
<ul style="list-style-type: none"> The Recipient shall ensure that the SFD carries out the Project in accordance with its obligations under the EMP, the Project Agreement and the Operational Manual. On or about April 15, 2013, the Recipient shall carry out jointly with the Association and the SFD, a midterm review of the progress made in carrying out the Project (the Midterm Review). 									

I. STRATEGIC CONTEXT AND RATIONALE

A. Country and sector issues

1. **Yemen, one of the poorest countries in the MENA region, faces daunting challenges in an uncertain global and regional environment.** Living conditions for much of Yemen's population of 23 million remain difficult. With a GDP per capita of US\$1,209 (PPP), 34 percent of the population lives in poverty and the country ranks 140 out of 182 countries in the 2009 Human Development Index. Yemen is also facing rapid population growth (over 3.5 percent a year), lack of clear alternatives to the oil economy, limited institutional capacity and outreach of the State, rapidly-depleting water reserves (with aquifers feeding major cities expected to dry up within the next 15 to 30 years), poor infrastructure, and acute gender inequality issues.

2. Already a food insecure nation, with about 32 percent of the population considered undernourished (one of the highest in the region), and given the high dependence on staple food imports, the reduction in oil prices has led to economic hardships and a surge in the food crisis and poverty, especially for the majority of the population residing in rural areas. Political crises have meant that the limited resources for human development and poverty alleviation are further constrained.

3. **The fiscal situation is fragile.** Expenditures far exceeded revenues in 2009, and unless action is rapidly taken, the situation is likely to further deteriorate in 2010. This is a severe constraint on the Government's ability to provide essential services and to address poverty. A steep decline in oil revenues is evident, attributable in part to oil price fluctuations, but mainly to production decline as reserves diminish. The authorities have borrowed domestically to finance a growing deficit (estimated at 7 percent for 2010), but have not significantly adjusted expenditure.

4. **Political tensions and security concerns are long-standing.** Following an attempted terrorist act which has links to terrorist elements in Yemen, international attention regarding the security situation in Yemen has increased significantly. However, much of this attention focuses on problems which have existed here for many years—the Northern al-Houthi rebellion, political tensions in some districts in the South, and the al-Qaeda threat. The new-found attention reflects, for the most part, an increase in awareness, not necessarily an increase in risk. On the other hand, this new awareness of the challenges being faced by Yemen has also increased the desire of the international community to provide support for the development of Yemen. Most major countries and international organizations have expressed continuing support, and in many cases significantly greater support, for the economic development of Yemen.

5. Having said that, there have been events which have increased certain aspects of the risk profile in Yemen. The most noteworthy of these is that in light of the successful actions taken by the Government against al-Qaeda, the risk is that as elsewhere al-Qaeda will seek to demonstrate that it remains operational by carrying out a high-profile terrorist act against western interests in Yemen. At the moment, there is not an expectation that al-Qaeda would begin a concerted campaign against the Government of Yemen.

6. **The World Bank Group is committed to being an integral part of the international effort to help foster stability in Yemen and stands ready to work with other donors to help**

accelerate implementation of externally-funded projects. With an IDA allocation of about US\$135 million per year, the Bank has 20 active projects in Yemen (total commitment: about US\$1 billion, of which US\$500 million undisbursed) covering a broad range of sectors (education, water, roads, agriculture and fisheries, urban development, energy, public sector, health). IDA also provides significant analytical and advisory services. IFC has a portfolio of five operations (total US\$150 million).

7. **Reducing poverty in Yemen requires, among others, village-level infrastructure improvements and greater access to social services delivered through diversified, localized approaches that address the needs of marginalized rural areas** where indicators are farthest from the targets laid out in the Millennium Development Goals (MDGs). Poverty is pervasive in rural areas, where much of the population resides. The dispersion of the population and the difficult topography pose a serious challenge to delivering social services: Yemen has around 35,000 official villages (with approximately 136,000 human settlements), many with less than 100 households, which makes the provision and maintenance of social services very expensive. The Social Fund for Development (SFD) has a solid track-record of promoting development in such areas. SFD was established in 1997 as an autonomous State organization under the Council of Ministers. The Prime Minister is the Chairman of its Board of Directors. Since its establishment, SFD has become one of Yemen's main development actors, with support from the Government and the donor community. SFD plays a vital role in improving living standards in rural areas by providing funds to needy communities so that access to social services can improve. SFD follows a demand-driven approach and thereby promotes its activities among the target communities and motivates them to apply for priority services. It has been rapidly expanding its operations both geographically and by sector. Its involvement has included areas such as education, health, water and environment, agriculture, village access roads (rural feeder roads), micro and small enterprise (MSE) development, social protection and workfare programs.

8. **SFD achievements over the past decade have been significant.** These include:

- First, the latest impact evaluation has shown that a high proportion of its resources are benefiting the poorest households in Yemen: 42 percent of SFD funds go to the poorest decile, 59 percent to the poorest quintile and 69 percent to the poorest three deciles. Only three percent of resources are received by households in the top decile. This pro-poor bias is especially significant given Yemen's very high level of poverty across the population and the relatively flat income distribution (Gini coefficient of 0.38). The benefit incidence analysis also shows that SFD is targeting poor women. Half of SFD's beneficiaries are female and about 12 percent of SFD-affected households are led by a woman (compared with 7.2 percent national average of households headed by women). Second, extending basic service coverage to the poorest communities continues to be the main focus of SFD's operations. For example, under the 3rd phase alone, the Community Development Program's support included building and rehabilitating 7,606 classrooms benefiting 684,046 children, training 220 health care institute cadres and 1992 health care workers, building 187 water harvesting systems, carrying out 114 hygiene and environmental awareness campaigns, and building 92 feeder roads benefiting 531,810 people.
- Third, while Micro and Small Enterprises (MSEs) are of great importance worldwide for poverty alleviation, job creation, and economic growth, Yemen is considered an undesirable

environment for MSEs due to various factors, including a lack of skilled labor, low supply of financial and non-financial services, high illiteracy rates and a lack of basic infrastructure. In response to these challenges, the SFD has been providing microfinance and business services through intermediaries, while at the same time building and consolidating their capacity to provide high quality services. The number of active borrowers associated with MFIs supported by SFD has reached more than 40,000, and 80 percent of them are women. The cumulative number of disbursed loans has reached more than 274,000 loans during the past ten years.

- Fourth, under its newest program, the Labor-Intensive Works program (LIW), to date, 36,000 people have worked 5,760,000 hours benefiting 16,000 households, and US\$6.1 million have been paid as wages which is about 75 percent of the total amount disbursed under an IDA Grant under the Global Food Price Crisis Response Program. A beneficiary assessment is underway and the results are expected to become available early next year. The already evident success of this program has recently led to the demand for the program's expansion and the EU is contributing Euro 17.5 million funded through the EU Food Price Crisis Rapid Response Facility under the Global Food Crisis Response Program (approved by the World Bank Vice President on December 17, 2009).¹

B. Rationale for Bank involvement

9. The World Bank has been a leading partner in the SFD since its inception and the Government has requested the Bank to play its continued leadership role in organizing support for the fourth phase of the Social Fund for Development. The Bank will bring its global, regional, and country experiences regarding social funds and microfinance to the fourth phase. The Bank's Project Appraisal Document is seen as the base document attesting to the quality of the SFD's program and hence crucial to mobilizing additional resources from other partners.

10. Moreover, domestic resources remain insufficient for financing basic infrastructure and for setting up local systems. The Bank's support through IDA financing is essential to encourage other donor involvement and to leverage large donor resources for promising organizations such as SFD in Yemen. Of the US\$80 million received in the first phase, IDA financed US\$30 million. Phase II received US\$175 million, of which only US\$75 million was IDA-financed. In Phase III, IDA's US\$70 million has leveraged an additional almost US\$800 million in donor funds from other partners.

11. Implementing lessons learned from previous phases of SFD's operation can make the fourth phase even more effective in alleviating poverty in rural areas. SFD has successfully completed two phases of operation and is about to conclude its third phase. Since its first phase, SFD has adopted a policy of continuous learning through its operations. It has accessed international knowledge of best practices, and has undergone multiple rounds of impact evaluation and regular internal and external revision. The dynamic nature of SFD's thinking and operations and its autonomy are important strengths in the proposal to support the fourth phase of SFD.

¹ The EU Trust Fund is parallel financing (and not co-financing) for the current LIW activities.

12. The project will respond to the overall objective of the CAS for 2010-2013, which is to facilitate Yemen's further progress towards the MDGs. By supporting the fourth phase of SFD, the project will most directly contribute to the strategic objective of helping to foster human and social development, which includes cross-sectoral issues such as gender, youth, and Qat; education and health; and community development and social protection.

13. Finally, in light of the continuing conflict and security-related uncertainties in Yemen, the Bank is focusing on interventions that can have an impact even in the short-term, such as addressing basic needs and safety nets for the poor through SFD.

C. Higher level objectives to which the project contributes

14. SFD IV will be a major contributor to Yemen's efforts to make **progress towards the MDGs** and supports key elements of Yemen's current Poverty Reduction Strategy Paper. This includes: better human capital by expanding basic education, closing the gender gap in basic and secondary education, and improving access to health care; ensured environmental sustainability including policies for and investment in water sustainability and soil conservation; and improved governance through encouraging better budgeting and expenditure controls, as well as high fiduciary standards.

15. The contributions of SFD IV to Yemen's overall developmental efforts are expected to go much deeper than the results as measured by improvements in human development indicators. SFD is seen as being a fair and impartial institution which reaches communities with much-needed services regardless of their political affiliation. This quality of SFD is **essential as a stabilizing force** in a context marked by armed conflict and/or other forms of political grievance.

16. Given its additional emphasis on building the capacity of local governments to engage in participatory planning and investments, SFD IV will also contribute to **bottom-up building of capacity for effective decentralization**. This objective will be further enhanced by SFD's continued efforts to empower communities through self-help initiatives.

II. PROJECT DESCRIPTION

A. Lending instrument

17. The proposed Social Fund for Development Phase IV Project (SFD IV) will be financed by a US\$60 million equivalent IDA Grant. The financing instrument will be a Specific Investment Loan (SIL).

B. Project development objective and key indicators

18. By assisting in the scale-up of the SFD activities, the project will contribute to achieving the national poverty reduction and development goals of Yemen. Specifically, *the Project Development Objectives (PDOs) of SFD IV are to: (i) improve access to basic services; (ii) enhance economic opportunities; and (iii) reduce the vulnerability of the poor.* The Key Performance Indicators are:

	Key Performance Indicators	Underlying Logic
i.	* <i>Participation</i> : 70% of households agree with the selection of the community-demand driven project as a priority of the community	Ensuring that SFD's activities are responsive to the needs of the poor.
ii.	* <i>Poverty Targeting</i> : 50% of CLD resources go to the lowest three income deciles of households	Demonstrating that SFD resources are targeted to poorer households.
iii.	* <i>Education usage</i> : net enrolment rate in basic education in beneficiary communities (60% for girls and 75% for boys)	Measuring improved utilization of education services in SFD's geographically targeted areas.
iv.	* <i>Water usage</i> : Percentage of households in rural CLD areas where time to collect water is 30 minutes or less	Measuring improved coverage of water services in geographically targeted areas.
v.	* <i>Rural roads</i> : time taken to reach nearest market / town (90 minutes)	Measuring improved accessibility in geographically targeted areas.
vi.	* <i>Microfinance access</i> : 100,000 active clients accessing microfinance services supported by SFD directly or indirectly (sex disaggregated) (60% women)	Measuring performance of micro-finance activities.
vii.	* <i>Reduced vulnerability</i> : at least 70% of LIW direct beneficiary households are able to meet their basic cereals consumption levels.	Measuring effectiveness of the labor-intensive works program as a safety net in targeted areas.

C. Project components

19. The project has four components, consisting of four operational Programs which will be implemented by the SFD: (i) Community and Local Development (CLD) program; (ii) Small and Micro Enterprises Development (SMED) program; (iii) Capacity-Building (CB) program; and (iv) Labor-Intensive Works (LIW) program.

20. **Component 1: Community and Local Development (CLD) program** (*estimated IDA contribution US\$25 million equivalent*). The objective of this component is to improve access to basic social services. Under this program, SFD will continue to implement community-based subprojects in various sectors, while building the capacity of local authorities and engaging select districts in implementing development projects. Specifically, this component will do this through:

- Provision of Sub-grants for the carrying out, by communities and local authorities, of Subprojects consisting of infrastructure and other services in various sectors, including: education, health, special needs groups, water and sanitation, cultural heritage, agriculture, and rural roads.
- Carrying out, through the provision of goods, training and consultants' services, activities to develop SFD's annual operational plans as well as the capacity of select local authorities and communities in participatory planning and management of development activities.

21. **Component 2: Small and Micro Enterprises Development (SMED) Program** (*estimated IDA contribution US\$5 million equivalent*). The objective of this component is to support the overall SMED program of SFD which is: (i) strengthening and building capacity of local microfinance providers; and (ii) actively promoting entry into the market by creating an enabling environment and by encouraging the establishment of new financial service providers managed on a private sector basis by international investors with strong technical partners. This component will be supported through:

- provision of Sub-grants to Eligible Intermediaries to build up the institutional capacity of such Eligible Intermediaries to deliver financial and business development services; and
- carrying out, through the provision of goods, training and consultants' services, a program to further support the institutional capacity of micro finance institutions and to create an enabling environment for small and micro enterprises development, including through the establishment of a credit bureau, the development of consumer protection legislation and associated regulations, and the development of financial literacy training programs.

22. **Component 3: Capacity-Building Program** (*estimated IDA contribution US\$5 million equivalent*). A third set of activities will support the other three programs through a focus on capacity-building of local entities, including local and central government bodies, NGOs, and communities. The component will also support the strengthening of SFD's own institutional capacity, to include for example monitoring and evaluation, management, and transparency. This component will be supported through:

- carrying out, through the provision of Sub-grants, goods, training and consultants' services, Subprojects to develop or enhance the capacity of select governmental organizations, local authorities, community-based organizations, non-governmental organizations, private sector groups and individuals in the areas related to SFD activities.
- carrying out, through the provision of goods, training, consultants' services, and operating costs, a program to strengthen the institutional capacity including the project management capacity of SFD.

23. **Component 4: Labor-Intensive Works (LIW) Program** (*estimated IDA contribution US\$25 million equivalent*). The objective of this component is to provide a cash-for-work safety net to target households to bridge their consumption gap during shocks and stagnation of agricultural seasons, while increasing the productive assets of communities and households. It will also aim to raise awareness among the targeted communities about the dangers of malnutrition and damages of Qat, and build the capacity and enhance the skills of the targeted communities to cope with future shocks. This component will be supported through:

- provision of Sub-grants to targeted communities for the carrying out of labor-intensive works Subprojects in: irrigation, water harvesting, agricultural terraces rehabilitation, agricultural land improvement, maintenance and improvement of village access earth roads, the improvement of drinking water sources, watershed management and other fields based on the priority needs of each community.

- carrying out, through the provision of goods, training and consultants' services, activities to develop the SFD's annual operational plans as well as the capacity of select local authorities and communities in participatory planning and management of development activities.

D. Lessons learned and reflected in the project design

24. Many lessons in different areas were learned from the three phases (these are mainly documented in the ICR for the SFD I & II projects, and the impact evaluation reports conducted in 2001-2003 and 2006-2007, and institutional impact evaluation conducted in 2009), and from the experience of Social Funds in other countries.

Lessons from Yemen

- a) Absolute importance of an autonomous SFD, which has been secured by law.
- b) Strengthen integration of social funds into country and sector strategies and pay more attention to long-term effects and ensure efficiency of resource allocation
- c) Significance of coordinating with line ministries as well as other Bank- and donor-financed projects, to which the SFD is dedicating concerted effort.
- d) Importance of decentralizing SFD regional offices: the nine branch offices now have more decision-making ability and the capacity of staff has been continuously built to reach out to remotely located communities.
- e) Importance of using mixed targeting mechanisms to reach out to the poor and vulnerable on the one hand and to address issues of national priority, like girls education, on the other.
- f) Having robust and transparent policies, systems and procedures has been the backbone of SFD's ability to withstand external pressure, and its neutrality as an organization is key to its ability to operate in nearly all communities.
- g) Conflict sensitive development/conflict resolution mechanism: development of guidelines supported with staff training.
- h) Major importance of microfinance to the poor and vulnerable, given that the majority of employment in Yemen is in the informal sector (with a high proportion of these groups involved).
- i) Water and Environment: adopt a more strategic and deliberate approach to ongoing reforms, with specific targets set for the implementation of SFD technologies and community development approaches by other stakeholders; for the development of systematic training and capacity building programs (with success measured by increased and improved outcomes, rather than by the number of people trained); and for the development and introduction of new technologies and approaches to fill gaps identified by the sector working group.
- j) LIW: targeting, selection criteria, communications, implementation, and monitoring process need to be strengthened for better results and to improve sustainability.
- k) Community contributions to projects: unified approach to be adopted at national level for the relevant sectors (e.g., community mobilization and contributions for water, road, and

integrated intervention programs). Attention should be paid to ensuring that required contributions do not put undue pressure on poor communities.

- l) The partnership between local authorities and communities is the best form of sustainability. Work to create the partnership and support the role of local authority on a real partnership basis.
- m) Build on its comparative advantage in supporting institutional development and capacity building at all levels of governance and government, and particularly in supporting decentralization. Applying the best balance in SFD's support between community-led initiatives and national policies (e.g., national strategy, governorate and district plans, etc.) in the implementation of poverty reduction program is needed.
- n) Lessons from the Integrated Interventions Program should be captured and transferred across other SFD programs, for example, on how to sustain effective community structures that can manage and deliver services to their people, and how to deepen the engagement of women in programs.

Lessons from International Experience

- a) SFD as a flexible institution is uniquely positioned to deliver a range of social risk management functions for the poor and vulnerable population with the changing country context and government needs: SFD can strengthen local institutions (risk mitigation), increase access to basic services (risk reduction), and assist groups affected by external shocks through public works programs (risk coping).
- b) Include social fund instruments as part of the central level institutional fabric of the state and their ability to complement longer-term efforts aiming to reform the ministries and to decentralize authority and institutional capacity at sub-national and local levels of government.
- c) SFD policies should be complementary to, and not a substitute for effective sectoral policies; nor should SFD try to fulfill the investment financing needs of all poor communities. The impact and sustainability of social fund investments are heavily dependent on effective strategies for service delivery which are under the auspices of line ministries and local governments.

E. Alternatives Considered and Reasons for Rejection

25. **Should SFD IV move to support full-scale decentralization of services vs. gradual bottom-up capacity-building of local authorities.** This was a key question considered by SFD and its partners during the “visioning” process for SFD IV. Based on consultations with a variety of local partners, on-the-ground experience with local authorities in different parts of the country, and a review of international experience of social funds and their contributions to decentralization strategies, SFD took the decision to adopt a gradual, step-by-step capacity building approach to supporting local authorities, including through grants for small projects for local authorities who have demonstrated their ability to manage and account for resources. Most districts are found to have weak management capacity. This will be addressed by the national Government through public sector management-related investments, to be complemented by SFD investments in capacity-building of local authorities in aspects where SFD has a

comparative advantage (e.g., participatory planning, learning-by-doing management of investment projects).

26. **Pooling donor financing.** Given that SFD has so many financing partners, and yet there is a unified program which all donors are supporting, the question of whether donor funds should be pooled was explored. The option of pooling was, furthermore, a potential instrument to harmonize reporting arrangements across donors which could have helped reduce transaction costs for the Government. After some discussion, however, it was agreed that SFD had already demonstrated its ability to handle separate financing channels, and that partners had invested in harmonizing reporting arrangements. Thus while there is no actual “pooled financing”, there is a de-facto “pooled financing” arrangement which is working well. Under these circumstances, it was agreed that formal pooling will not yield obvious value-added, although should the situation change in terms of fiduciary or other implementation risk, the option of formal pooling could be revisited (e.g., through a Bank-administered but SFD-executed Multi-Donor Trust Fund with the Bank’s safeguards for the pooled funding).

III. IMPLEMENTATION

A. Partnership arrangements

27. The success attributed to the SFD over the last three Phases has engendered considerable donor support for its activities. The current list of the donors includes: the Abu Dhabi Fund, the Arab Fund for Social and Economic Development, DFID, EC, IFAD, KfW, the Islamic Development Bank, the Kuwaiti Fund, Netherlands, the Oman Government, the OPEC Fund, the Saudi Fund, and the U.S. Government. The French and Italian Governments have supported the SFD through seconding experts to the SFD. All of the above donors, the Government of Yemen, and communities have contributed about US\$1.2 billion for the third phase activities, have confirmed continued support to the SFD, and are in different stages of preparing future support. All donors have a parallel financing relationship with the SFD, but within a harmonized framework of joint reviews and common results monitoring framework.

B. Institutional and implementation arrangements

28. The project will be implemented by the SFD. The SFD is an autonomous organization under the Prime Minister’s Office. Its Board of Directors has government representation, NGO representation, private sector representation, and financial sector representation. The Board reviews policy issues and approves important documents like annual plans, and budgets and amendments to the Operational Manual. The Executive body of the SFD is headed by a Managing Director (MD) who has full authority to manage the operations, including all personnel and operational matters. Besides the SFD’s office in Sana’a, there are nine regional branch offices country-wide.

29. Over the last twelve years, capacity was built gradually to identify, prepare, and supervise the implementation of development projects. The SFD now has the capacity to commit subprojects valued at around US\$14 million every month and the capacity to disburse approximately the same amount. Main functions have been gradually decentralized, and the regional offices are now making a large number of the operational decisions. The final approval

of subprojects continues to be done at Sana'a level by a subproject committee to insure quality of interventions and compliance with policies and standards, and to avoid the political pressures on regional offices.

30. The SFD has a dynamic group of staff in Sana'a as well as in the regional offices. It has developed its organizational structure and subprojects cycle very professionally during the first two phases. It has a state-of-the-art MIS system that was designed in-house and that captures all aspects of the subproject cycle from the submission of the request to closure and evaluation of the subproject.

31. An assessment of the financial capacity of the SFD was conducted in December 2009 and January 2010. The assessment concluded that the SFD possesses a sound financial management system which is capable of capturing, summarizing, recording, and reporting its transactions in an accurate and timely manner.

32. Based on the experience of the first three phases, the contracting arrangement will be as follows: IDA signs a Financing Agreement with the Republic of Yemen and a Project Agreement with the SFD. The Republic of Yemen, represented by the Ministry of Planning and International Cooperation (MoPIC), signs a Subsidiary Grant Agreement with the SFD. A designated account is opened in a commercial bank in the name of the SFD. The MoPIC designates the Managing Director of the SFD as the authorized signatory for the grant funds. The SFD gets an authorized allocation in the designated account on a quarterly basis (based on IFRs).

C. Monitoring and evaluation of outcomes/results

33. SFD's Monitoring and Evaluation (M&E) function during the fourth phase will consist of four principal activities: (i) Conducting evaluation surveys and impact studies of all SFD's programs by the M&E Unit with the support of external experts; (ii) Increasing use of the MIS to store baseline data, and to track SFD implementation efficiency and the status of the subprojects implemented; (iii) Capacity building in monitoring and evaluation for the M&E Unit, program units and branch offices as well as at the national level; and (iv) Communicating SFD's evaluation results as well as promoting the use of the evaluation findings. Each of these four principal activities is described below.

34. **Analysis of outcomes and impact evaluation studies.** To report on the development objective, the M&E Unit will conduct impact evaluation studies at the household and community level for SFD's main programs: Local and Community Development, Small and Microenterprise Development, Capacity Building and Labor Intensive Work. The following set of studies is expected to be conducted:

- i. *An outcome and impact analysis.* Since the establishment of SFD, three impact evaluation studies have been conducted (including an on-going one) for five sectors: education, health, water, feeder roads and microfinance as well as a qualitative beneficiaries assessment that include—in addition to the aforementioned sectors—activities of capacity-building including support to NGOs and local authorities as well as special needs groups. The methodology for these evaluations has improved over time. For the third phase quantitative impact evaluation which is currently nearing completion, the

evaluation will be making ex-post comparisons and difference-in-difference comparisons of communities that received SFD assistance during the third phase to communities that are in the pipeline to receive assistance. A similar “pipeline” approach will be adopted for the Phase IV evaluation, thereby allowing for comparison of treatment and comparison communities. SFD will continue to conduct this study every three years with improved methodologies, which will be based on quasi-experiment evaluation design. Better integration between the quantitative and qualitative study will be one of the improvements. The study will comprise four sectors (water, health, education and roads). Other individual studies will be carried out for SFD’s support to health cadre training, microfinance and rooftop rainwater harvesting.

- ii. *Outcome analysis for SFD support within the capacity building program.* The assumption is that the capacity-building program will not only pave the way for smoother implementation of community development projects and ensuring their sustainability, but will also help strengthen community self-help. The capacity building component will support local authorities to plan and execute projects in a participatory way. During Phase IV, an assessment will be conducted for the Empowerment for Local Development (ELD) Program to include both community and local authority levels.
- iii. *Impact evaluation of the Labor-Intensive Works (LIW) Program.* An evaluation of the LIW program is being developed using a randomization design and this will continue during the fourth phase. The strategy consists of conducting three evaluation studies starting in 2010, with the second scheduled in 2011 and the third in 2013–14 in order to determine the impact of the program on household and community socio-economic outcomes. For the 2010 impact evaluation study, SFD has randomly selected 100 communities that will receive the LIW program in the next year (treatment group) and 100 communities that will not receive any interventions (control group). A baseline pre-LIWP and follow-up survey after the intervention in a sample of both “treatment” and “control” communities will be used to estimate the impact of the workfare assistance on various household outcomes, including consumption and human development indicators.
- iv. *Evaluation of Rainfed Agriculture and Livestock Project.* The evaluation of rural producing groups will focus on beekeeping and livestock activities (the two activities account for 70 percent of the project). The baseline data have been collected and it is expected that a second survey will be conducted in 2011. The evaluation of terrace rehabilitation will also be added because of the importance of the activities. The evaluation of this program is conducted with the support of the University of California, Berkeley, USA.
- v. *Annual project survey.* To report on the intermediate results as outlined in the Results Framework, an annual project survey will be conducted for a sample of completed projects in education, health, water and roads annually.

35. **Increasing use of the MIS in monitoring and evaluation.** SFD’s MIS captures most of the sectors’ input and output indicators to allow for timely reporting. Further improvements will be implemented to facilitate the M&E activities, e.g., recording in the MIS the regular project

follow-up conducted by the branch offices during and after implementation. This will enable the M&E Unit to analyze such data and estimate the level of project operations.

36. **Capacity Building for Monitoring and Evaluation.** Priority will be given to increasing the M&E capacity of staff, focusing on data analysis, using both quantitative and qualitative methods. Workshops and training will also target SFD staff at all levels. The M&E Unit will seek to increase awareness and understanding of the importance of evaluation at the national level.

37. **Communications and use of evaluation findings.** The findings of the various studies will be presented to SFD staff in detail. The M&E unit will request responses to the findings, including how they could be used to improve or refine the interventions. The findings of evaluation studies will also be communicated to a wider audience, including parliamentarians, central and local authorities, donors and media.

D. Sustainability

38. The Government of Yemen is committed to extending services to all poor citizens, using the SFD as a major instrument. The sustainability of SFD’s investments is ensured by at least two features: that a subproject is demanded by a community and that the community contributes to its implementation, and SFD ensures that the relevant sector authorities (e.g., in education, health) agree to the provision of recurrent expenditures, including staff, as a pre-requisite to commencement of the subproject. In SFD IV, moreover, the added orientation of building capacity of district authorities to undertake participatory planning and carry out investments is expected to further improve the sustainability of SFD’s investments at the local level.

E. Critical risks and possible controversial aspects

39. The overall country level risks and the decentralized coverage of the project suggest an initial **Substantial** risk rating for Yemen SFD IV. Given SFD’s successful implementation track-record of over a decade, however, as well as the mitigation mechanisms in place, the overall risk rating for the proposed Project after mitigation is **Moderate**.

Risk Factors	Description of Risk	Rating of Risk ^a	Mitigation Measures	Rating of Residual Risk ^a
I. Sector Governance, Policies and Institutions				
Sector Specific Risks	Financial sustainability: Government spends only 0.6% of GDP on safety net and the sector development is heavily donor-dependent Some communities and	High	Ongoing policy dialogue is being carried out on the subsidy reform, and the Government is committed to reallocate a portion of the savings from the reform to the social programs including social safety net. HBS is under preparation	Substantial

Risk Factors	Description of Risk	Rating of Risk^a	Mitigation Measures	Rating of Residual Risk^a
	households may get double benefits through SFD and other SSN programs while needy communities and households are excluded.	Substantial	which will provide data for updating poverty mapping. SFD, SWF and PWP are discussing arrangements for data exchanges SWF recently developed a database of 1.62 million HHs providing a good database of the poor.	Moderate
II. Operation-Specific Risks				
Technical Design	Social and political pressures may arise which exclude some regions from the project benefits during the current period of political turmoil and widespread poverty.	Substantial	Clear targeting criteria are set for geographic selection. Districts will maintain their rights of benefiting from their regular fund allocation	Moderate
	Substitution effects between food and Qat consumption will occur under workfare program.	Substantial	Monitoring substitution effects through the household surveys. Government has embarked on a public information campaign to raise public awareness. Participation of women as they are more likely to use the money on food for the family.	Moderate
	SFD to be able to reach poor and vulnerable	Substantial	A mix of targeting and fund allocation mechanisms used by the SFD to ensure targeting	Moderate
	Extremely vulnerable families will not be reached by the program	Substantial	Utilizing data of poor households from the SWF national survey (covering 1.6 million households) for targeting.	Moderate
Implementation Capacity	SFD has substantial experience with Bank-funded projects	Low		
Sustainability	Community-based O&M to break down after a while	Substantial	Regular visits to completed subprojects. Support to capacity building even after completion of subprojects	Moderate
	Districts supported by SFD	High	Capacity building will be	Substantial

Risk Factors	Description of Risk	Rating of Risk^a	Mitigation Measures	Rating of Residual Risk^a
	are not able to implement projects		provided to local authorities with close monitoring in place	
Social and Environmental Safeguards	Subprojects cause adverse environmental and social impacts.	Moderate	An EMP has been prepared that will guide implementation of subprojects	Low
Social	Elite Capture	Moderate	<p>The participatory techniques and the governance mechanisms incorporated in the SFD's Operational Manual will ensure transparency of processes and reduce opportunities for elite capture.</p> <p>SFD will carry out consultation workshops with stakeholders including NGOs and civil society organizations.</p>	Moderate
Financial Management	Financial management and disbursement in a decentralized setting	Substantial	<p>The project implementation will be ringfenced through the use of the SFD's structure. The SFD departments, units and staff including the financial staff will be used to implement SFD IV. The SFD is adequately staffed and has significant experience in implementation World Bank projects.</p> <p>The SFD has an automated accounting system which is deemed adequate for this project.</p> <p>The SFD has an Operational Manual satisfactory to the World Bank and adequate for the project which will be updated and adopted, as satisfactory to the Association, as a condition of Effectiveness.</p> <p>The project's accounts will be reviewed quarterly and audited annually by an independent</p>	Moderate

Risk Factors	Description of Risk	Rating of Risk^a	Mitigation Measures	Rating of Residual Risk^a
			private external auditor acceptable to the World Bank. The SFD has an Internal Audit Department adequately staffed. The SFD has significant experience in Bank's disbursement guidelines. Disbursement to the beneficiaries from the grant funds will follow the SFD's Operational Manual and the World Bank Guidelines.	
III. Overall Risk (including Reputational Risk)				
Overall Risk				Moderate
^a Rating of risks on a four-point scale – High, Substantial, Moderate, Low – according to the likelihood of occurrence and magnitude of potential adverse impact.				

F. Grant conditions and covenants

40. Conditions of Grant Effectiveness.

- The updated Operational Manual for SFD IV, satisfactory to the Bank, has been adopted by the Board of SFD.
- The Subsidiary Grant Agreement has been executed on behalf of the Recipient and SFD.

41. Covenants Applicable to Project Implementation.

- The Recipient shall ensure that the SFD carries out the Project in accordance with its obligations under the EMP, the Project Agreement, and the Operational Manual.
- On or about April 15, 2013, the Recipient shall carry out jointly with the Association and the SFD, a midterm review of the progress made in carrying out the Project (the Midterm Review).

IV. APPRAISAL SUMMARY

A. Economic and financial analyses

42. International experiences have shown that social funds programs can constitute a cost-effective mechanism to channel public resources towards the provision of social services (Rawlings and Van Domelen, 2001). Although an a priori cost-benefit analysis would require knowing the exact composition of SFD IV investments, guidance from the international experiences and from previous phases of SFD can help illustrate the costs and benefits of the proposed project.

43. This economic analysis of SFD IV is based on the results of SFD II as well as the mid-term review report for SFD III (the ICR and the quantitative impact evaluation of SFD III are currently in progress). The analysis focuses on three issues: (i) the economic viability and cost effectiveness of the projects financed by the SFD; (ii) the appropriateness of the current portfolio of subprojects given beneficiaries demands; and (iii) the effectiveness of the targeting mechanism and the subprojects' incidence.

44. The main results of the analysis can be summarized as follows. First, there is some evidence that subprojects financed by the SFD can be more cost-effective than similar subprojects financed by the Government. That is, an SFD-financed project achieves the same output/outcome at lower cost. For instance, the analysis shows that the costs of school construction under the SFD were lower than those carried out by other programs in Yemen, which are also cost-effective mechanisms. Second, ex-post evaluations show that a sizable share of the SFD expenditures concentrate on the poorest of the poor (lowest income decile). Finally, the analysis illustrates that SFD interventions can have important impacts on human development indicators. In the case of previous phases of SFD, there is evidence that interventions in the construction of schools have been associated with an increase in overall enrollment rates, and especially girls' enrollment rates.

B. Technical

45. Technical standards and specifications for different types of subprojects have been developed under previous phases of SFD implementation and will be utilized under SFD IV. These specifications are consistent with sectoral norms where such norms exist.

C. Fiduciary

46. The Bank conducted Procurement and Financial Management Assessments for the SFD IV in December 2009 and January 2010.

47. **Financial Management.** A Financial Management (FM) assessment was conducted at SFD. The objective of the assessment was to determine whether: (i) the SFD has adequate FM arrangements to ensure project funds will be used for the purposes intended in an efficient and economical way; (ii) the controls and processes at the SFD can be relied upon and (iii) the FM system in place is able to generate reliable and accurate project reports on a timely basis.

48. The FM assessment confirmed that SFD has adequate FM capacity to implement the Project. The SFD has been implementing a number of World Bank-financed projects, including SFD I, II and III which had components similar to three of the four operational programs proposed under SFD IV (CLD, CB and SMED). Additionally, in 2006 SFD began to implement workfare programs (e.g., LIW), and has implemented the Emergency Additional Financing Grant of US\$10 million under the GFCRP which was approved on June 11, 2008 and which has disbursed 100 percent of its funds. Also, recently, the SFD has been approved to implement a similar LIW program for Euro 10.197 million as part of the EU's contributing of Euro 17.5 million funded through EU Food Price Crisis Rapid Response Facility under the GFCRP, administered by the Bank.

49. The SFD departments, units and staff, including the financial staff, will be used to implement SFD IV. The SFD FM Department based in Sana'a is adequately staffed with a qualified financial manager assisted by a deputy financial manager and six accountants. Besides the SFD's office in Sana'a, there are nine branch offices country-wide. The branch offices are adequately staffed with operational staff and accountants. The SFD's internal controls are deemed adequate, the internal audit department is adequately staffed, and current staffing is sufficient to cover this project. The flow-of-funds procedures, including the controls over cash balances and transfers to SFD's branch offices, are acceptable and will be used under the project. The SFD has developed Operational Manual setting out the structure of the several programs, including fiduciary arrangements and the relation with the branch offices which are deemed to be adequate and will be used for the project. The SFD will be issuing on a quarterly basis, Interim Unaudited Financial Reports (IFRs) reviewed by an external auditor acceptable to the Bank, and on an annual basis, Project Financial Statements (PFS) and overall Entity's Financial Statements, audited by an external auditor acceptable to the Bank.

50. Evaluating the nature of the inherent risks in the country system and taking into consideration the FM arrangements already in place in the SFD, the overall risk rating of the project implemented by the SFD has been assessed as **Moderate**. There are no FM Conditions for the project. The FM arrangements will continue to be monitored throughout project implementation.

51. **Disbursement and Flow of Funds.** The project funds will be channeled through the SFD and deposited into a separate segregated USD Designated Account (DA) in a commercial bank acceptable to the World Bank, to be opened and maintained by the SFD and under conditions acceptable to the World Bank. Advances based disbursement will be the main disbursement method, along with Reimbursement, Direct Payment and Special Commitments. Requests for payments from the Grant funds will be initiated through the use of the Bank's Withdrawal Applications (WAs) supported by Interim Unaudited Financial Reports (IFRs) and Form of payments against contracts subject to the World Bank's prior review, for two quarters as provided in the IFRs. Disbursement to the beneficiaries from the SFD's segregated DA will follow the SFD's Operational Manual and the World Bank Guidelines.

52. **Procurement.** The SFD's procurement management capacity has benefited from the leadership provided by management to ensure procurement procedures set out in the Operational Manual (OM) of the SFD which has been continuously updated are satisfactorily complied with. The OM provides detailed responsibilities of the Procurement Unit in the center and its oversight of the activities of Procurement Specialists posted to Branch Offices at the Governorate level. Under SFD IV, there was an increased focus on strengthening the capacity of Branch Offices to administer procurement activities in a more effective and transparent way as part of the effort to enhance decentralized governance and project management.

53. Procurement activities for the Labor Intensive Works Program will be carried out jointly by the Sana'a based Procurement Unit of the SFD and the newly established Labor-Intensive Program whose clear mandate is to enable the SFD Branches at the Governorate level to design, appraise and implement "Workfare" programs.

D. Social

54. **Poverty targeting.** The project will contribute to increased benefits to rural and urban populations through the SFD's social development role with its firm focus on poverty alleviation based increasingly on partnerships with institutions at the local and national levels. An Impact Evaluation conducted in 2006 found that in terms of targeting the poor, the SFD has performed exceptionally well, i.e., 50 percent of its funds go to the poorest income decile, 64 percent to the poorest quintile, and 73 percent to the lowest three income deciles. Only 3 percent of resources are received by households in the richest decile. These figures are considerably better than those found in other Social Investment Funds where similar analytical procedures have been applied, and represent an impressive improvement on the situation reported in 2003 when 44 percent of the SFD resources went to the poorest three deciles.

55. **Participation and inclusion.** The project will support overall participation by a wide range of stakeholders in project preparation and design, including local communities, political leaders, and government offices. By establishing community groups, and promoting awareness of the importance of electing representatives who will serve the whole community, the SFD is contributing to reviving the traditional systems of social capital and self-help, which has been in decline since 1970s. The use of participatory methodologies is creating space for diverse interests to be identified and mediated from an early stage, and hence contributes to the reduction in conflict over resources among communities. The fact that elected representatives of the community oversee the implementation of contracts is evidence that the SFD is treating communities as partners rather than recipients².

56. The project will assist the SFD to strengthen its approach to working with poor women and men to promote women's roles and contributions, including creating awareness of gender concerns at the community level. The project will also support improved SFD coordination efforts with governorates and districts, depending on the capacity of local authorities, as well as strengthening the SFD's NGO/CSO partnerships to most effectively engage in policy dialogue concerning development impact and sustainability.

57. Due to the small-scale nature of the infrastructure work, the community participatory approach, the SFD *Operational Manual's* focus on avoidance of resettlement impacts, and the existence of a general Resettlement Policy Framework for Yemen, the Project is not expected to trigger Involuntary Resettlement (OP 4.12). Prior to SFD Phase III implementation, the Involuntary Resettlement (OP 4.12) Policy was specifically discussed. SFD stated categorically that this Policy would not be invoked by any subproject funded under Stage III and therefore OP 4.12 was not triggered. Similarly during the screening process for SFD IV subprojects, those that have the potential to trigger OP 4.12 will be excluded.

58. **Consultations.** Continuous consultation with SFD stakeholders has been ongoing during the third phase operation. As part of its 'visioning' exercise for future programs, the SFD discussed the "vision" paper with a wide group of stakeholders including line ministries, NGOs, CBOs, and development partners. For the Labor Intensive Works (LIW) program, the joint review team visited five subproject sites in four different governorates and met with beneficiaries

² 2006 Impact Evaluation Study. ESA Consultores Internacional. April 2007

to observe the project impact and document lessons learned. A beneficiary assessment of the LIW program has been carried out which included meetings with stakeholders. Several consultations took place with a wide range of stakeholders for the institutional impact evaluation (2009) and these consultations are well documented in the report. For example, as part of the evaluation, 20 participants representing 17 NGOs from the national level as well as NGOs from 5 governorates (Aden, Amran, Dhamar, Ibb, and Sana'a) participated in a discussion of SFD's support to the NGO sector (April 2009). In addition, a consultation workshop for SFD Phase IV was carried out on January 23, 2010 in Sana'a led by DFID, involving civil society, government, and donor representatives. In the course of implementation, SFD IV will be conducting consultations with community members as part of the subproject cycle, as well as on a program-wide level as part of the beneficiary assessments included in the periodic impact evaluations.

E. Environment

59. The Social Fund for Development Phase IV project has components that are similar to those of the previous phases, with the inclusion of a new **Labor-Intensive Works (LIW) program component**. The LIW includes the rehabilitation of community assets in the fields of soil protection, agricultural terraces rehabilitation, maintenance and improvement of local feeder roads, streets pavement and other types of labor-intensive work based on the demand and priority needs of each community. The **Community and Local Development program (CLD) component** will continue to implement subprojects in various sectors, including education, health, special needs groups (disabled persons, orphans, women at risk, among others), water and sanitation, culture heritage, and agriculture and rural roads.

60. The project is classified as an **Environmental Category B** according to the World Bank's Operation Policy on Environmental Assessment (OP 4.01), requiring partial assessment. An Environmental Management Plan (EMP) dated May 2004 was appraised and implemented under SFD III. The EMP was further updated in February 2010, and will be used during implementation of SFD IV. Environmental auditing procedures similar to those under SFD III will continue under SFD IV. The EMP will also be included in SFD's Operational Manual.

61. The project has also triggered the OP on Physical Cultural Resources (OP 4.11) as the CLD component will implement subprojects to preserve some cultural heritage sites in Yemen. For this positive effort to preserve cultural assets, SFD is using qualified national and international expertise to secure quality interventions, trying at the same time to enhance and expand national technical capacity. The French Government has seconded a cultural heritage expert to work with SFD. SFD has secured Yemen's membership in the UNESCO International Center for the Study of the Preservation and Restoration of Cultural Property (ICCROM), in addition to carrying out a number of explicit activities for technical and institutional capacity building for relevant partners. Recently, SFD and the Ministry of Culture have signed a Memorandum of Understanding (MOU) which supports SFD's vision in Phase IV, and both parties will work together to achieve critical objectives. Some of these are: (i) convincing and providing support to the Ministry of Higher Education to adopt standard conservation as a mandatory subject in the curricula of Architecture and Engineering faculties in Public and Private universities, and (ii) pushing forward the draft of the Preservation of the Historic Cities and Sites law, which represents the necessary legislative basis for protecting Yemen's Cultural

Heritage. Currently, Yemen does not have any guidelines for preservation and restoration of cultural heritage. The issue of chance finds will be covered under the EMP.

62. SFD has developed thorough procedures for screening of subprojects that it has used during the previous phases. Consequently for SFD IV, IDA funds will not be used towards the funding of any category A type subprojects. SFD classifies them as List A, which is comparable to the Bank's EA category A. Such subprojects (including Category A type subprojects relating to cultural heritage) will be excluded from IDA funding when SFD comes across them during the subproject screening process. The EMP shall make clear that subprojects which involve land acquisition leading to resettlement are excluded from all SFD (IDA and non-IDA) financing.

63. In accordance with the World Bank Disclosure Policy, the executive summary of the revised EMP have been translated into Arabic and both versions have been disclosed in-country, at the Infoshop, and on the SFD website on February 2, 2010, before the project appraisal mission.

F. Safeguard policies

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP 4.01)	[X]	
Natural Habitats (OP/BP 4.04)		[X]
Pest Management (OP 4.09)		[X]
Physical Cultural Resources (OP/BP 4.11)	[X]	
Involuntary Resettlement (OP/BP 4.12)		[X]
Indigenous Peoples (OP/BP 4.10)		[X]
Forests (OP/BP 4.36)		[X]
Safety of Dams (OP/BP 4.37)		[X]
Projects in Disputed Areas (OP/BP 7.60)*		[X]
Projects on International Waterways (OP/BP 7.50)		[X]

G. Policy Exceptions and Readiness

64. No policy exceptions are being sought for this Project.

65. The SFD is an existing organization with an established reputation of successfully delivering on its core mandate and programs. The proposed Project is considered ready for implementation.

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

Annex 1: Country and Sector or Program Background

REPUBLIC OF YEMEN

SOCIAL FUND FOR DEVELOPMENT PHASE IV PROJECT

I. Main Constraints to Service Delivery

66. Reducing poverty in Yemen remains a major challenge, and, increasingly, one that requires diversified and localized approaches addressing the need of poor communities with the human development indicators in many areas obviously below national averages and far away from achieving MDGs—a situation which calls for a multi-dimensional / multi-sectoral response, especially in light of the geographical diversity, various needs and immediate priorities of scattered and often isolated poorer settlements. However, an integrated approach is an expensive and lengthy one—and could be politically challenged in Yemen's context, which requires at least a possible response from a relatively long menu of interventions corresponding to the most prevailing sorts of needs.

67. Severe capacity problems also hinder Yemen's struggle to overcome the many challenges it faces. The government's overall capacity and especially its capacity to deliver social services effectively, efficiently, and equitably is weak. Furthermore, the capacity of local governments to identify local problems, needs of the local population, and formulate programs and projects to deal with these problems is also weak. Civil society organizations, while also suffering from weak capacities, are often closer to communities and more familiar with their problems.

68. SFD's operations have been harmonized with national development plans and aim to contribute to their implementation. To this end, the SFD has developed a comprehensive vision of its operations for each phase in line with the national DPPR, MDGs, the government investment program and the State efforts to mobilize resources.

69. Furthermore, Yemen has growing disparities among rural-urban areas as well as growing social disparities. As the Yemen Country Social Analysis underlines, the gap between the rich and poor is widening, along with the concentration of economic and political power, and the weakening of the traditional systems of social cohesion, governance and accountability, without them being replaced by yet functioning "modern" mechanisms.

70. In addition these challenges, the following specific issues prevent the efficient delivery of these services:

- **Lack of coordination among sectors.** Most interventions in Yemen are sectoral interventions that have had limited success in areas of multidisciplinary nature. Local governments that are supposed to enforce the coordination lack the capacity as mentioned. No integrated approaches are used by line ministries, and the few bodies with inter-ministerial coverage (like the childhood and motherhood council) are not of operational nature.

- **Poverty-focused system for fiscal resource allocations needs to be strengthened.** Poverty and needs-based criteria exist for inter-governmental fiscal allocations. The fact remains, however, that political and tribal pressures also play an important role in starting new projects.
- **Remote areas are problematic in service delivery.** This is because of the lack of representation of line ministries, local contractors, and the inability of communities in these areas to voice their needs and demands to Sana'a.
- **Service delivery is top-down.** Very few government agencies are trying to adopt participative approaches in service delivery; a reality that adversely affects the sustainability of services since communities do not always feel ownership of these investments. This also affects the cost effectiveness of service delivery, since participation also decreases cost when communities contribute to the cost of investments and bear some operational costs.
- **Security issues raise problems for service delivery and highlight the importance of impartial and transparent decision-making.** While an overwhelming majority of the population lives in safe and peaceful environments, the situation remains complex. An insurgency in the northernmost province of Sa'ada, violent confrontations in some districts in the southern part of the country, sporadic attacks against foreign interests, tensions over the Government's efforts to manage the threat posed by terrorist groups, and social unrest linked to persistent poverty – all have contributed to projecting the image of a country afflicted by widespread violence. While the challenges to service delivery are real, they have existed for a number of years.

71. A key objective of the Government's poverty reduction strategy is to improve living conditions and social indicators. Over the past few years, the Government has successfully focused on expanding access to basic services in a context of rapid demographic growth. But improving living conditions in Yemen will require taking sustained action on a number of fronts, through a combination of sectoral and cross-sectoral approaches. In an environment of limited resources, and building on existing programs and partnerships, the implementation of community-level development actions and an enhancement of the social protection system are key elements of the poverty reduction strategy. SFD has a strong track record of resource mobilization and implementation performance.

72. Various programs supported by SFD and aspects of SFD's activities address the issues highlighted above.

II. Context of Local Governance evolution in Yemen

73. The contextual analysis done within the National Strategy for Local Governance had identified several structural gaps and weaknesses faced by different local authorities across the country, e.g, responsibilities, human resources, local finance, organizational division, administrative structures, monitoring, accountability and community participation.

74. The strategy proposed addressing these gaps and weaknesses through establishment of a national long term integrated program involving all concerned parties. The said program is still under preparation; SFD is represented in the technical committee overseeing this task.

75. Additional areas of weakness were indicated by international consultants³ in their report of March 2008 which concluded that the Government of Yemen's effort to promote decentralization is encountering several challenges, among which are:

- Lack of a new architecture of the sub-national system of governance and public administration, including new inter-governmental relations and autonomous Local Government associations.
- Lack of redistribution of government functions across the tiers of the system, with an appropriate use of both delegation and devolution modalities.
- Lack of a system-wide reassignment of fiscal resources, powers and financial management responsibilities consistent with the above functional assignments.
- Lack of a new system for hiring, compensating, managing, training and evaluating the civil service and other personnel of the newly created Local Governments.

76. Since enhancing the developmental role of local authorities is a main objective of the National Reform Agenda (NRA) which addresses judicial reforms, administrative reforms, financial and economic reforms in addition to improving the governance system, sufficient progress in the above areas is essential to create an enabling context for local authorities.

77. In light of the above context, SFD has opted for a gradual expansion that responds to the continuous contextual development at the national level.

III. The Local Development National Strategy & the Executive Program of the Strategy

78. SFD has been a key contributor to the development of the national strategy towards greater local level empowerment and decentralization. Its main contributions are outlined below:

- **The Training and Operational Support Unit (TOSU) directly participated with the committees and technical teams** charged with the preparation of the strategy. Through this participation, TOSU presented a summary of the expertise acquired by the SFD as a result of its work with the community, NGOs, and the local authority which contributed to enriching the strategy, especially the components concerning the reinforcement of participation and community auditing in all phases of local development. TOSU, with the cooperation of the Local Administration Ministry, implemented a series of workshops with the participation of representatives from the leaderships, local authorities' members, and civil society organizations from all governorates and, a large number of districts. These workshops greatly facilitated the participation of local authorities in the Strategy preparation. At present, TOSU

³ *Towards the Formulation of the National Program for Local Governance and Development*, March 2008, by Local Development International s.a.s.

is participating in the team authorized by the Government to develop the national program for the implementation of the strategy.

- A major initiative has been the design and implementation of the **Empowerment for Local Development Program (ELD)** which is based on the summary of SFD background and experiences and which concentrates on empowering all levels concerned with the development process. This starts with the village community, sub-district, and the local authority at the level of district and ends with the governorate. The program provides mechanisms for bridging the gap between those levels which include producing participatory plans, community organization, activation of self-help initiatives, as well as the issues related to community control and auditing. The program has had the contribution of all SFD branches, and has covered (1230) villages in (10) districts of seven governorates by the end of the year 2009. Preparation is underway for implementing the Program in (11) districts during the remaining period of SFD Phase III.
- The SFD contribution to this sub-sector had started when the local authorities were established after enactment of the Local Authority Law. The first training course targeted the members of all local councils in all districts including members of local council administrative committees at the district level, and the plans and budgets committees. The topics of the training program included development concepts, community participation issues and their levels, sustainability, project life cycle, preparation of plans and budgets, in addition to training on analysis of local councils' organizational and institutional problems, communication techniques, meetings' management, and drafting reports. The training program was implemented on-site in small groups to ensure the training quality, and used modern training techniques. The total number of participants reached 8,000.
- The SFD will continue to build capacities and provide organizational support to SFD partners including central and local government bodies, with concentration on supporting efforts to realize good governance and activate local development within the framework of the national strategy for local government.
- The SFD and other donors including the UNDP, with the latter also acting as implementation supervisor, participated in financing the **Decentralization & Local Development Support Program** from its inception at the end of 2003 until its closure in 2009. The SFD is considered as the largest supporter to this Program. The main aim of SFD was to contribute to the strategy preparation, and to provide a practical experiment using a decentralized approach, for applying the processes of planning and implementation of development projects. The SFD has taken over the full responsibility of supporting 10 districts from the total number of 26 districts whose budgets were supported by the Program.

79. Other important contributions by SFD during Phase III include:

- SFD support to a number of local authorities in the field of institutional development studies for the main offices of some governorates and districts with the participation of their staff. Support was also provided to bridge some gaps in its interventions.

- Adoption by SFD branches of local authorities' plan-based projects for the purpose of encouraging these authorities, and deepening partnership with them, especially those who had started methodical drafting of their plans by relying on the community priorities, consistent with SFD policies.
- Adoption by the SFD, with community participation, of a number of initiatives listed among the local communities' plans.

IV. SFD's Operational Modality within a Challenging Political and Security Situation

80. Continued efforts will be needed to consolidate political stability and security throughout the country - two key pre-conditions for effective economic and social development. Although there are diverging views among observers as to the prospects for such efforts to be successful, there is recognition that service delivery by the Government must be viewed as being impartial. SFD can play a vital role here as it has a track record of using transparent and objective decision-making criteria.

81. Conflict is relevant to staff members implementing SFD's activities. In practice, staff, especially those at the branch level, are working in contexts of conflict, while for some, dealing with disputes is a daily task. As SFD's allocation of resources extends to all districts in the country, and given its role as one of the few (if not only) organization to have nation-wide reach, it has greater ability to operate in areas which may be deemed inaccessible by others due to violence. Having robust and transparent policies, systems and procedures is deemed by SFD staff to be the backbone of SFD's ability to withstand external pressure, and its politically neutral fund allocation is key to its ability to operate in nearly all communities. Operationally, given the prevalence of conflicts at some levels, staff have developed skills and strategies to avoid and mediate disputes. Yet, there is neither policy nor means of recording prevention or mediation efforts available in SFD. As a result, opportunities for systematizing approaches and developing good practices have been missed (although not necessarily lost).

V. Micro and Small Enterprise Financing and Development

82. During Phase III, SMED has evolved from a micro-credit project manager into a microfinance sector development facilitator, with over 40,000 active microfinance clients today. These clients are predominantly served by sustainable *institutions* that are operating in an increasingly enabling environment.

83. SMED's strategy has been two-fold: (i) strengthening and building capacity of microfinance providers through a process of merger and consolidation with the aim to create large strong MFIs; and (ii) actively promoting entry into the market by creating an enabling environment (MF Law) and by encouraging the establishment of Greenfield institutions managed on a private sector basis by international investors with strong technical partners.

84. SMED (supported by KfW) facilitated not only the passage of Law # 15 on Microfinance Banks, (the second in the MENA region) allowing for deposit-taking microfinance institutions, but also the establishment and prudent growth of Al Amal Bank and the National Microfinance Network. Realizing the importance of non-financial services, the SFD established the Small and

Micro Enterprise Promotion Agency (SMEPS) to provide specialized business development services (BDS) for entrepreneurs. During its short existence, the agency has implemented a number of successful projects, which have contributed greatly to the development of the sector. Finally, acknowledging that the poorest of the poor do not necessarily need credit services, SMED – in cooperation with CGAP and the SWF – is experimenting in an innovative manner with a cash-transfer/(business) skill development program to graduate SWF beneficiaries out of poverty.

85. SMED will continue its two-pronged approach during Phase IV while experimenting with innovative ways to reach thousands more clients. Given the fact that the majority of SMED supported providers of financial and business development services operate according to private-sector oriented procedures and principles, SMED will also address its own sustainability/exit strategy, by undertaking a feasibility study to transform its agency into an independent APEX under the umbrella of the SFD (perhaps using the business model of SMEPS).

86. Despite the successes during Phase III which laid the foundation for sustainable growth of the microfinance sector, SMED faces a Herculean task, with need for realism by all. Hundreds of thousands of Yemeni need access to financial services, and local as well as international stakeholders may hold high and unrealistic expectations of SMED's role in making access to finance available to the majority in the future. Only 2 percent of Yemeni has access to a bank account, and SMED cannot be held responsible for increasing this percentage to for instance 20 or 25 percent. This requires a national effort, which would make use of modern technology (such as mobile phone technology) to jump-start development. SMED can initiate the development of, for instance, an interoperable branchless banking platform (allowing for transactional accounts for all Yemeni linked to the financial system making use of existing retail agents) but cannot lead such an effort due to the lack of bargaining power of the microfinance sector (vis-à-vis mobile phone operators and banks). Such needed initiatives should be led by the Central Bank.

87. The same argument can be made for expectations regarding the role of SFD and SMED in the area of enterprise development. SFD/SMED through the creation of SMEPS has contributed to an innovative business services development agency but this agency by itself cannot change the main obstacles regarding enterprise development: the lack of anti-monopoly legislation/enforcement ensuring a level playing field for all businesses, and the lack of entrepreneurial skills to be systematically addressed through educational curricula.

VI. Executive By-Law for the Law of State Tenders & Auctions

88. The By-Law drafting committee had requested the SFD to review, comment on, and make necessary amendments to the articles concerning the implementation of small works through the community and NGOs, included in the By-Law draft. Accordingly, the TOSU together with some other SFD units, contributed in translating the SFD expertise in the field of community contracting, and provide comments and additions which have been approved in the final By-Law text.

Annex 2: Major Related Projects Financed by the Bank and/or other Agencies

REPUBLIC OF YEMEN

SOCIAL FUND FOR DEVELOPMENT PHASE IV PROJECT

89. **Social Fund for Development III (P082498) (Total project cost: US\$60 million plus additional financing of US\$15 million).** Closed on December 31, 2009. The project aimed to improve the range of services and economic opportunities available to the poorer segments of the population through the carrying out of: Community Development. This component finances subprojects in the areas of education, water and environment, health and social protection, cultural heritage, and rural/feeder roads; Microenterprise Development. This component provides: (i) sub-grants to any eligible intermediaries as defined under the Micro-finance Operational Manual to build up the institutional capacity of such intermediaries to manage and deliver financial services to microenterprises; and (ii) sub-loans to such intermediaries for carrying out micro-finance Subprojects; Capacity Building, and Institutional Support. This component finances activities in two main areas: training, and organizational support focusing on four target groups: (i) formally established NGOs and cooperatives; (ii) informal Community-Based Organizations; (iii) private sector (individual local consultants); and (iv) Local Authorities (elected Local Councils and executive organs).

90. **Emergency Additional Financing Grant to Social Fund for Development III under the IDA Global Food Crisis Response Program (P112345) (Total project cost: US\$10 million).** Closed on December 31, 2009. The Additional Financing was to carry out activities under two new components: 4 and 5 as described below:

- **Component 4. Community-based Labor-intensive Works.** This component is expected to transfer cash for work to 8,000–10,000 households within the most seriously affected communities. It was expected to transfer cash to help mitigate the impact of increased food prices through temporary work opportunities. This Program also provided needed basic infrastructure to these communities in the fields of: irrigation, water harvesting, soil protection, agricultural terraces rehabilitation, maintenance and improvement of village access earth roads, street pavement, forestation and other types of labor intensive works based on the demands and priority needs of each community.
- **Component 5. Capacity Building of the Social Welfare Fund.** This component supported: (i) a national survey to identify the poorest and most vulnerable in the society in order to improve targeting and expand the program; and (ii) complete a revised targeting system increasing the share of cash transfers received by the poorest beneficiaries to improve the ability of the program to reduce poverty immediately. The support to SWF complemented the technical assistance being provided by the European Commission.

91. **EC-Trust Funded Emergency Social Safety Net Enhancement Project (P117038) (Total Project Cost: Euro 17.53 million, parallel financing).** The project has been approved. The objective of the project is to contribute to the reduction of the negative impact of food price volatility on the poor and vulnerable in selected areas, and support the protection and building of

community assets. The project will help respond to the situation by: (i) carrying out a labor intensive workfare program initiated under the Global Food Crisis Response Program (GFRP) by SFD to provide cash to communities most seriously affected by the food crisis to help mitigate the impact of increased food prices through temporary work opportunities while building and protecting community infrastructure assets; and (ii) providing cash transfers to poor households in flood, conflict and child-trafficking affected areas that are not yet enrolled in the Social Welfare Fund (SWF) program. It is estimated that approximately 12,000 households within the communities most seriously affected will benefit from the workfare program and 41,000 households will benefit from the cash transfer, which will help them to cope with the crisis over a 12-month period.

92. This European Commission (EC) Trust Fund-financed operation complements, expands and builds on the early lessons learned from the US\$10 million Additional Financing provided to the ROY through the International Development Association (IDA) Food Crisis Grant in 2008. The IDA Grant funded the establishment of the labor intensive program and provided institutional support to the cash transfer program. The ESSN Project will expand the labor intensive program benefits to additional poor communities, while simplifying and improving program targeting and delivery based on the lessons learned. The SWF will implement the project cash transfer component using the improved targeting and administrative capacity previously supported by the IDA Grant. The World Food Program is also supporting the Government of Yemen (GOY) with an Emergency Food Distribution Project that is benefiting from the improved targeting methodology introduced as a pre-requisite for the SWF direct implementation of this operation.

93. **Third Public Works Project (P082976) (Total Project Cost: US\$45 million plus additional financing of US\$29.84 million).** The project closing date is June 30, 2011. The overall development objectives are to: (a) provide needed infrastructure to improve services and environmental conditions (particularly those affecting women and children); and (b) create short term employment. The Project also seeks to ensure the sustainability of these measures through: (i) community participation in project selection, preparation, and implementation; and (ii) the development of local contracting and consulting firms. The project will be supported through: Component 1: Community Infrastructure. This component will provide basic infrastructure services in sectors such as health, education, water supply, waste water, roads, water harvesting/irrigation and vocational training and will target communities in areas with high poverty densities. Component 2: Technical Assistance/Consultant Services. This component will assist about 50 districts to carry out assessment of their infrastructure needs, their capacity for implementation, preparation of medium-term investment plan, assessment of sources of revenues and establishment of management information systems; and preparation of design and supervision.

94. **Public Finance Modernization Project (P117363) (Total Project Cost: US\$12 million).** The Project is expected to be presented to the Board in July 2010. The proposed project's objective is to improve performance of public finance management under the six critical dimensions of the Performance Measurement Framework (PMF) through improving and modernizing country systems and enhancing the capacity of government staff in the area of: (i) budget credibility; (ii) comprehensiveness and transparency; (iii) policy-based budgeting; (iv) predictability and control in budget execution; (v) accounting, recording and reporting; and (vi)

external scrutiny and audit. An improved PFM performance would contribute towards attainment of PFM objectives of aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery within the country.

95. **Climate Resilient Integrated Coastal Zone Management (P115001) (Total Project Cost: US\$14.5 million).** The project is expected to be submitted to the Board in December 2010. The proposed project objective is to demonstrate at pilot sites improved knowledge of climate change adaptation and diversified economic activities of coastal communities to address climate variability, and improved coastal resources conservation and management through the implementation of climate resilient ICZM. Expected benefits derived from this project could be measured at pilot sites by: (i) climate resilient integrated coastal zone management capacity strengthened (e.g., knowledge and institutional arrangements) and ICZM approach applied (e.g., decision making process, zoning practices); (ii) rural economic activities diversified (e.g. sustainable fishing, tourism, biogas application); and (iii) improved public goods and environment management (e.g., better handling of fish waste, reduced coastal erosion, better conservation of mangroves and other key coastal and marine biodiversity resources).

96. **Strengthening National System for Disaster Risk Reduction (P110551) (Total Project Cost: US\$705,000 – Global Facility for Disaster Reduction and Recovery - GFDRR):** This is a technical assistance program which has the final delivery date of July 2010. The overall objective is to support Yemen in developing a sound Disaster Risk Reduction and Recovery system using the funds made available by GFDRR. In particular, the top priority identified for Yemen was the need to strengthen the national system for Disaster Risk Reduction and Recovery. To achieve the strategic objective of supporting Yemen in developing a sound Disaster Risk Reduction and Recovery system, a three-fold strategy was identified to guide the identification and implementation of key activities to be supported under this proposal. The strategy consists of intervening both at national and local levels, whereas GFDRR Track II would support: (i) a country Disaster Risk Assessment which will form the basis for policy dialogue and prioritization of interventions, (ii) development by the central government of the National DRR System, including necessary legal and strategic frameworks to ensure mainstreaming and inter-ministerial and inter-sectoral coordination, and (iii) a series of innovative pilot activities at the local level.

97. **Rainfed Agriculture and Livestock (P089259) (Total Project Cost: US\$20 million).** The project closing date is June 30, 2012. The three-pronged Project Development Objective contributes to the higher development objectives of reducing poverty in rural areas and improving natural resources management. The project would enable poor rural producers in rainfed areas to: (i) improve their production, processing and marketing systems; and (ii) protect their assets: soil, water, rangeland, seeds and animals. The project has the following components: (i) farmer-based system of seed improvement and management; (ii) livestock husbandry and health services; and (iii) productive rural development. An implementation arrangement has been made for SFD to implement the third component.

98. **Water Sector Support Program (P107037) (Total Project Cost: US\$90 million)** The Project became effective on December 15, 2009. The objective of the project is to support the Government of Yemen's implementation of the National Water Sector Strategy and Investment Program (NWSSIP) to: (i) strengthen institutions for sustainable water resources management;

(ii) improve community-based water resource management; (iii) increase access to water supply and sanitation services; (iv) increase returns to water use in agriculture; and (iv) stabilize and reduce groundwater abstraction for agricultural use in critical water basins. The Project includes five components: (i) Water resources management that will strengthen the institutional and policy development capacity of National Water Resource Authority; (ii) Urban water supply and sanitation that will increase the coverage of affordable access to safe and regulated urban water supply and sanitation; (iii) Rural water supply and sanitation that will increase the coverage of affordable and sustainable access to safe rural water supply and sanitation; (iv) Irrigation that will increase coverage of efficient irrigation methods to conserve water; and (v) Institutional strengthening, capacity development, and project management to strengthen the institutional capacity of Ministry of Water and Environment (MWE) and Ministry of Agriculture and Irrigation (MAI) to regulate, coordinate, and administer water policy, and to support MWE and MAI to strengthen their project implementation capabilities, and assist Executive Secretariat in Project coordination.

99. Social Welfare Fund (SWF) Institutional Support Project (ISP) (Total Project Cost: US\$10 million) The Project is expected to be submitted to the Board in May 2010. The proposed Project Development Objectives are to: (i) increase access of poor households to the cash transfer program in Yemen; and (ii) improve access to effective beneficiary development services offered to poor and vulnerable households in selected districts. The proposed project will be implemented over 6 years through three project components: (i) *Improve management and administrative processes of the Cash Transfer Program*. This component would support SWF to develop and implement program design parameters through the full program cycle. Beneficiary targeting, enrolment and payment systems would be strengthened, a beneficiary and stakeholder communication strategy would be developed, operational processes would be supported by a responsive MIS system, an M&E system would be implemented, and management and staff capacity built. (ii) *Support the design and implementation of BDP delivery mechanisms*. The focus of this component would be on designing and field testing mechanisms, including case management systems, to assist selected beneficiaries in the economic group to exit the cash transfer program. This component will assist SWF to put in place processes and develop networking capacities to link effectively with skills training and micro credit providers, and support beneficiaries' access to those providers. (iii) *Project management support and project impact evaluation*. This component will support SWF internally to implement the project. The component will complete a project impact evaluation to assess system-wide and pilot project results.

100. Basic Education Development Program (P076185) (Total Project Cost: US\$65 million). The project closing date is June 30, 2012. The overall development objective is to assist the Government in expanding the provision of quality basic education for all with particular attention given to gender equality. The project is paying special attention to: (i) increasing the enrolment and retention of girls; and (ii) promoting equity at all levels of the basic education system by ensuring the inclusion of all children in the education system, especially those with special needs. BEDP has three main components: (a) expanding access; (b) improving quality; and (c) building the capacity of the Ministry of Education. Cutting across all of the activities will be the inclusion of relevant gender mainstreaming activities in order to achieve the gender equity objectives.

Annex 3: Results Framework and Monitoring for Overall Program

REPUBLIC OF YEMEN

SOCIAL FUND FOR DEVELOPMENT PHASE IV PROJECT

Project Development Objective (PDO)	Project Outcome Indicators	Use of Project Outcome Indicators
<p>To improve access to basic services, enhance economic opportunities and reduce the vulnerability of the poor</p>	<p>* <i>Participation</i>: 70% of households who agree with the selection of the community demand driven project as a priority of the community</p> <p>* <i>Poverty Targeting</i>: 50 % of CLD resources go to the lowest three income deciles of households</p> <p>* <i>Education usage</i>: net enrolment rate in basic education in rural CLD beneficiary communities 60% for girls and 75% for boys</p> <p>* <i>Water usage</i>: : Percentage of households in rural CLD areas where time to collect water is 30 minutes or less</p> <p>* <i>Rural roads</i>: time taken to reach nearest market / town 90 minutes</p> <p>* <i>Microfinance access</i>: 100,000 active clients accessing microfinance services supported by SFD directly or indirectly (sex disaggregated) (60% women)</p> <p>* <i>Reduced vulnerability</i>: at least 70% of LIW direct beneficiary households are able to meet their basic cereals consumption.</p>	<p>*Ensuring that SFD's activities are responsive to the needs of the poor.</p> <p>*Demonstrating that SFD resources are targeted to poorer households</p> <p>*Measuring improved utilization of education services in SFD's geographically targeted areas.</p> <p>*Measuring improved coverage of water services in geographically targeted areas.</p> <p>*Measuring improved accessibility in geographically targeted areas.</p> <p>*Measuring performance of micro-finance activities.</p> <p>*Measuring effectiveness of the labor-intensive works program as a safety net in targeted areas.</p>

Intermediate Outcome	Intermediate Outcome Indicators	Use of Intermediate Outcome Monitoring
<u>For All Components</u>	<p>*Total number of direct beneficiaries of SFD funded projects (sex disaggregated)</p> <p>*Total number of indirect beneficiaries of SFD funded projects (sex disaggregated)</p> <p>*Total number of person-days employment created</p>	Monitoring actual cumulative total number of project beneficiaries.
<p><u>Component One: Community and Local Development Program</u></p> <p>*Improved access to basic social service (education, health, water and sanitation, environment, and rural roads)</p>	<p>*<i>Education access</i>: Number of classrooms constructed or rehabilitated</p> <p>*<i>Education usage</i>: Number of pupils enrolled in SFD supported basic schools, disaggregated by:</p> <ul style="list-style-type: none"> - Boys - Girls - children with special needs <p>*<i>Education quality</i>: Number of teachers trained (sex disaggregated)</p> <p>*Number of educational professionals trained (sex disaggregated)</p> <p>*<i>Health access</i>: Number of health personnel trained (sex disaggregated)</p> <p>*Number of health facilities constructed/renovated and/or equipped</p> <p>*<i>Water access</i>: Number of households using improved water sources</p> <p>*Volume of improved drinking water stored (m³)</p> <p>*Volume of unimproved drinking water stored (m³)</p> <p>*<i>Sanitation access</i>: Number of households using improved sanitation facilities</p> <p>*Number of Open Defecation Free project communities</p> <p>*<i>Rural roads access</i>: Total length of roads improved / built</p> <p>*<i>Cultural heritage</i>: Number of sites and monuments documented / saved or conserved</p> <p># of Master builders trained \gained skills</p> <p># of professionals trained & gained skills (Architects\ Archaeologist\ Engineers)</p> <p>#of master builders trained and gains skills through conservation</p>	Monitoring improved access to basic social services.

<p><u>Component Two: Small and Micro Enterprises Development Program</u></p> <p>MF providers have better capacity to provide access to sustainable finance</p> <p>BDS subsidiary/intermediaries provide services to MSEs</p>	<p>Outreach:</p> <ul style="list-style-type: none"> * Number of active borrowers <ul style="list-style-type: none"> - Percentage active female borrowers - Percentage active rural borrowers <p>Loan Portfolio Quality:</p> <ul style="list-style-type: none"> * Portfolio at risk PAR > 30 days (of total Loan Portfolio outstanding) <p>Financial sustainability:</p> <ul style="list-style-type: none"> * Percentage of active borrowers served by microfinance providers that are financially sustainable [i.e. number of MFIs that are financially sustainable] <p>Enabling Environment:</p> <ul style="list-style-type: none"> * Number of good practice Greenfield initiatives that have entered the market * Legislation/regulation submitted to the government regarding credit bureau and code of conduct developed regarding consumer protection <p>*Business Development Services: Number of small enterprise sub-sectors that have diversified product/market and enhanced value added</p>	<p>Monitoring increased institutional capacity of micro finance providers, and development of an enabling environment for small and micro enterprises.</p>
<p><u>Component Three: Capacity Building Program</u></p> <p>Building the capacities of SFD partners (local communities, local authority, civil society organizations, etc) whose activities are related to the reduction of poverty and local development.</p>	<ul style="list-style-type: none"> * Number of district authorities which are certified and implementing development projects funded by SFD <p>*% of village councils in pilot areas which are functioning effectively:</p> <ul style="list-style-type: none"> - meeting regularly - participation (sex disaggregated) - initiate self-help initiatives <p>* Number of people trained in M&E, participatory methods, planning or other strategic information management disaggregated by</p> <ul style="list-style-type: none"> - young volunteers (sex disaggregated) - government organizations - NGOs and cooperatives - beneficiary communities - local authorities - private sector / individuals 	<p>Monitoring whether capacity of local entities, including local and central government bodies, NGOs, and communities has improved.</p>
<p><u>Component Four: Labor-Intensive Works Program</u></p> <p>Provision of cash assistance to beneficiaries (households)</p> <p>Provision of improved road and water access</p> <p>Increased available land for cultivation</p> <p>Improved awareness of the beneficiaries (households) of the dangers of malnutrition and the</p>	<ul style="list-style-type: none"> *Number of people/households directly benefiting from workfare assistance *Number of working days employment created under workfare assistance program *Indirect beneficiaries: Number of people benefiting from community livelihood assets *Land: Total area of agricultural rehabilitated land and terraces *% of resources transferred to beneficiary households on a timely basis *Average length of payment delay (Number of days) 	<p>To monitor whether the LIW program is bridging consumption gap and protecting/increasing the productive assets of communities and households</p>

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Arrangements for Results Monitoring

	Baseline	Target	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Outcome Indicators (PDO level)	Different sources; may be updated using IE 2009	2015			
* <i>Participation</i> : 70% of households who agree with the selection of the community demand driven project as a priority of the community	70% (to 80%) across different sectors	70% (to 80%) across different sectors	Every 3-4 years through IE	IE	SFD M&E Unit (All)
* <i>Poverty Targeting</i> : 50% of CLD resources go to the lowest three income deciles of households	40%	50% ¹		IE	
* <i>Education usage</i> : net enrolment rate in basic education in rural CLD beneficiary communities 60% for girls and 75% for boys	45% for girls – for boys 70%	Girls 60% Boys 75%		IE	
* <i>Water usage</i> : Percentage of households in rural CLD areas where time to collect water is 30 minutes or less	15%	58%	IE		
* <i>Rural roads</i> : time taken to reach nearest market / town 90 minutes	120 minutes (two hours) or more	90 minutes	IE		
* <i>Microfinance access</i> : 100,000 active clients accessing microfinance services supported by SFD directly or indirectly (sex disaggregated) (60% women)	32,000	100,000 (60% women)	Every 6 months through progress report	SMED MIS	
* <i>Reduced vulnerability</i> : at least 70% of LIW direct beneficiary households are able to meet their basic cereals consumption	40% ²	70%	Every 3-4 years through IE	IE	

¹This target value reflects a conservative estimate by SFD given changes in methodology used to collect data and measure the achievement of this target.

² Baseline values in LIW areas are not directly available for this indicator. The baseline value provided here is based on SFD's M&E and Programming Units' estimates for communities covered by the Rainfed Agriculture and Livestock Project, adjusted downwards to reflect the focus of the LIW on the poorest communities.

	Baseline	YR1 2011	YR2 2012	YR3 2013	YR4 2014	YR5 2015	Total	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Results Indicators for All Components	SFD III Total (end- 2009 or projected)									
*Total number of direct beneficiaries of SFD funded projects (sex disaggregated)	Male 5.8 m	0.6	1	1.2	1.4	1.8	6m	Every 6 months (ALL)	MIS (ALL)	SFD (ALL)
	Female 7 m	0.7	1.2	1.4	1.7	2	7m			
*Total number of indirect beneficiaries of SFD funded projects (sex disaggregated)	Male 3.5m	0.22	0.3	0.4	0.6	0.7	2.2m			
	Female 4.2m	0.3	0.4	0.6	0.8	1.1	3.2m			
*Total number of person-days employment created	26m person*day	6	6	6	6	6	30m			
Component One: Community and Local Development Program										
* Number of district authorities which are certified and implementing development projects funded by SFD	0	0	0	5	15	20	40	Every 6 months (ALL)	MIS (ALL)	SFD (ALL)
* <i>Education access</i> : Number of classrooms constructed or rehabilitated	13852	200	2,200	2,200	2,200	2,200	9000			
* <i>Education usage</i> : Number of pupils enrolled in SFD supported basic schools, disaggregated by:	Boys:	4,480	49,280	49,280	49,280	49,280	201,600			
- Boys	304,744	3,520	38,720	38,720	38,720	38,720	158,400			
- Girls	Girls:	500	1,125	1,125	1,125	1,125	5,000			
- children with special needs	249,339 SNGs: 5,500									
* <i>Education access</i> : Number of teachers trained (sex disaggregated)	Male:	20	20	20	20	20	100			
	Female:	20	20	20	20	20	100			
*Number of educational professionals trained (sex disaggregated)	Male:	156	156	156	156	158	782			
	Female:	120	120	120	120	120	600			
* <i>Health access</i> : Number of health personnel trained (sex disaggregated)	Male:	200	350	350	350	200	1,450			
	Female:	200	350	350	350	200	1,450			
*Number of health facilities constructed renovated and/or equipped	213	200	200	200	150	50	800			

	Baseline	YR1 2011	YR2 2012	YR3 2013	YR4 2014	YR5 2015	Total	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
* <i>Water access</i> : Number of households provided with improved drinking water sources	12,000	9,600	9,600	9,600	9,600	9,600	60,000			
volume of improved drinking water stored (m ³)	0.0	220,000	220,000	220,000	220,000	220,000	1,100,000			
volume of unimproved water stored (m ³)	0.0	52,000	52,000	52,000	52,000	52,000	260,000			
* <i>Sanitation access</i> : Number of households using improved sanitation facilities	17,000	5,200	5,200	5,200	5,200	5,200	43,000			
*Number of Open Defecation Free project communities	21	0	50	60	60	70	261			
* <i>Rural roads access</i> : Total length of roads improved / built	846	365	365	365	365	365	1,825			
* <i>Cultural Heritage</i> : Master builders trained \gained skills	1063	70	100	100	120	120	510			
Professionals trained & gained skills (Architects\ Archaeologist\ Engineers)	363	30	35	40	40	45	190			
# of sites and monuments documented saved /conserved	78	10	10	10	10	10	50			
Component Two: Small & Microenterprise Development Program										
Outreach:										
Number of active borrowers	42,000	57,000	67,000	78,000	88,000	100,000		Every 6 months (ALL)	MIS (ALL)	SFD (ALL)
- Percentage active female borrowers	77%	60%	60%	60%	60%	60%				
- Percentage active rural borrowers	7%	15%	15%	20%	20%	20%				
Av. Outstanding balance/GDP per capita	20%	< 100%	< 100%	< 125 %	< 125 %	< 150%				
Loan Portfolio Quality:										
*Loan portfolio quality: percentage portfolio at risk (PAR) over 30 days (of total portfolio outstanding)	2%	< 5%	< 5%	< 5%	< 5%	< 5%				
Financial sustainability:										
*Financial sustainability: percentage of active borrowers served by microfinance providers that are financially sustainable	11%(1)	25%	35%	50%	60%	70%				

	Baseline	YR1 2011	YR2 2012	YR3 2013	YR4 2014	YR5 2015	Total	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Enabling Environment:										
*Enabling environment: credit bureau legislation/regulation submitted to the government	No legislation		1 st Draft prepared	Final draft submitted						
*Code of Conduct regarding consumer protection adopted by Yemen Microfinance Network	No code of conduct		1 st Draft prepared	Final draft agreed						
*Number of good practice Greenfield initiatives that have entered the market	One Greenfield (A Amal)		1 additional MFIs established	1 additional MFIs established						
*Business Development Services: Number of subsectors that have diversified and enhanced added value		3	4	5	5	4				
*% SMEPS operating cost covered by SFD	100	90	80	70	60	60				
Component Three: Capacity Building Program										
# of village councils in pilot areas which are functioning effectively: - meeting regularly - participation (sex disaggregated) - initiate self-help initiatives	0	0	500	400	300	300	1500	Every 6 months (ALL)	MIS (ALL)	SFD (ALL)
* Number of people trained in M&E, participatory methods, planning or other strategic information management disaggregated by										
- young volunteers Male	600	500	500	500	500	500	2500			
Female	350	300	300	300	300	300	1500			
- government organizations	20	5	10	10	10	5	40			
- NGOs and cooperatives	120	10	20	20	20	20	90			
- Beneficiaries committees	3000	500	500	500	500	500	2500			
- local authorities	40	18	18	18	18	18	90			
- private sector / individuals	700	200	200	200	200	200	1000			

Component Four: Labor-Intensive Works Program⁴										
*Number of people directly benefiting from multi-year workfare assistance	84,000	100000	200000	300000	300000	300000	300,000	Every 6 months (ALL)	MIS (ALL)	SFD (ALL)
*Number of working days employment created under workfare assistance program	750,000	2,000,000	4,000,000	6,000,000	6,000,000	6,000,000	24,000,000			
*Land: Total area of agricultural rehabilitated land and terraces	17 hectares	415	830	1245	1245	1245	4980			
*% of resources transferred to beneficiary households on a timely bases	70%	70%	75%	75%	80%	80%	80%			
*average length of payment delay (Number of days)	12 days	7-10	5-7	5-3	2-3	2-3	2-3			

⁴ The baseline values for LIW are drawn from the current emergency version of the program and therefore are not directly comparable. In particular, the new SFD-IV LIW will provide multi-annual assistance and an integrated planning approach including community-based watershed management where appropriate.

Annex 4: Detailed Project Description

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SOCIAL FUND FOR DEVELOPMENT PHASE IV PROJECT

101. *The project will be implemented over five years and will support the fourth phase of the Social Fund for Development.* The project has four components, consisting of four operational programs which will be implemented by the SFD: (i) Community and Local Development (CLD) program; (ii) Small and Micro Enterprises Development (SMED) program; (iii) Capacity-Building (CB) program; and (iv) Labor-Intensive Works (LIW) program. While there is substantial continuity in the programs between Phases III and IV, there are also new “orientations” or directions in the new phase, especially under the CLD and LIW programs as described below. SFD will pursue these new emphases vigorously but also with caution, closely monitoring field implementation, starting from a smaller base and then scaling up when appropriate, building on the lessons learned from implementation, and adjusting the targets in the results framework accordingly.

102. **Component 1: Community and Local Development (CLD) Program** (*estimated IDA contribution US\$25 million equivalent*). The objective of this component is to improve access to basic social services. Under this program, SFD will continue to implement community-based subprojects in various sectors, while building the capacity of local authorities and engaging select districts in implementing development projects. Specifically, this component will do this through:

- (i) Provision of Sub-grants for the carrying out, by communities and local authorities, of Subprojects consisting of infrastructure and other services in various sectors including: education, health, special needs groups, water and sanitation, cultural heritage, agriculture, and rural roads; and
- (ii) Carrying out, through the provision of goods, training and consultants’ services, activities to develop SFD’s annual operational plans as well as the capacity of select local authorities and communities in participatory planning and management of development activities.

103. While the basic principles of targeting resources to the poorest communities in Yemen, participatory planning, and community based development will continue to underpin the CLD, some changes are being introduced in the approach for *community development activities*, as well as inclusion of a line of activity which supports the capacity-building of local authorities in the management of *local development activities*.

- *Modified approach to community development.* In addition to the existing demand-driven nature of community investments, whereby SFD responds to project requests from a community, in Phase IV, community investments will also respond to national sector plans and priorities, such as the education sector’s master plan for schools or the water sector’s national planning framework, or the national strategy of the health sector. In this variation, which is being termed the “MDG Gap Approach,” the standards, criteria, and subproject

cycle will remain identical to the existing guidelines except for the initial “application” stage, which will be guided by an analysis of national norms and/or data evidencing severe gaps in services. Elements of this approach have been applied in the Integrated Interventions and Special Programs elements of Phase III. This combination of modalities is intended to enhance SFD’s contribution towards the achievement of the MDGs at the national level.

- *Local development approach.* As part of its commitment to support the decentralization strategy of Yemen, SFD will directly support local development through building capacity of a number of local authorities. Some major features of this new activity are: (i) SFD has signed a MOU with the Ministry of Local Administration regarding the delivery of its Empowerment and Local Development Program (ELD), which is the first stage of its support

Box: SFD IV Approach to Building Capacity of Local Authorities (LAs)

Direct support to local authorities in the coming period will be provided in three “stages” depending on the capability of local authorities. All rural districts are considered eligible for ELD (Stage One) without any necessary categorization, field assessment or prerequisite. Each SFD branch office, in consultation with the respective Governorates, will select 8 districts from the poorest 50 percent of each region during Phase 4. SFD will work with these districts in three stages:

- **Stage One (ELD stage).** During this stage SFD will implement ELD activities in the selected districts. This program will focus on the following: (i) Institutional need assessment study for targeted districts and their governorates. All participating districts will be encouraged to mobilize trainable cadre for future projects management and implementation. (ii) Providing support for local authorities' offices at the district and governorate level building on the institutional need assessment study. This support includes orientation and training on managerial and administrative skills, information management, development concepts, community participation, participatory planning, and basic computer skills; providing them with a set of electronic data related to the district development indicators to be utilized during planning process; and providing districts offices with the necessary equipment/furniture. (iii) Jointly carry out community mobilization, organization, encouraging and motivating self help initiatives. (iv) Participatory planning at the selected district level, (v) forming District Social Auditing Teams.
- By the end of this stage each district will have a three year participatory plan focused on pressing needs of the district. These plans will guide the local development agenda as well as any developmental support by national and international players including SFD. In addition, those districts which manage having even minimal physical office space and mobilize the necessary cadre potentially able to participate in projects management and implementation with technical support from SFD will be eligible to enter Stage Two (learning through joint management and implementation of projects).
- **Stage Two [Learning through joint management and implementation of projects].** During this stage, SFD will implement capacity building programs in public expenditure management that include: (i) budgeting, (ii) procurement, accounting, (iii) physical project implementation, (iv) auditing, and (v) monitoring and evaluation. Such training will be closely coordinated with relevant public sector capacity building in the country. Districts officials will participate with SFD office and field activities in entire subproject life cycles of community projects (learning by doing).
- **Stage Three (Implementation and fund management by LAs).** Districts that participated actively in Stage Two will be eligible to enter Stage Three. During this stage, SFD will sign an agreement with local authorities to provide LAs with financial and technical support to carry out basic services subprojects and allow SFD to supervise and monitor the overall activities. Financial support will be provided in installments based on the progress done in subproject implementation.
- **“Graduation”.** At the beginning of the program, SFD will invite relevant public sector institutions such as MOLA, MOF, MOPIC, COCA and Supreme Authority of Bidding and Auctions to participate with SFD in designing the necessary indicators by which districts performance will be evaluated accordingly. These institutions will also participate in the program’s relevant activities, auditing, and M&E; and consequently by the end of Stage Three certify capability of LAs to manage public resources in a satisfactory manner.

to local authorities. (ii) SFD will upfront formally agree on the 3-stage local development program with relevant national Government partners as a recognized process to certify or accredit local authorities as capable of managing resources for participatory local development. (iii) Since SFD cannot support all 333 local authorities simultaneously, it proposes to focus on approximately 80 districts with its first ELD stage of support. (iv) These ELD districts will be selected through objective, transparent selection criteria that would also consider geographical spread and ownership at the Governorate level. (v) SFD will sign agreements with each Governorate regarding the local development support it will be providing to districts. This will include Governorate commitments to sustained staffing of the selected districts. Further details are provided in the Box above.

104. Component 2: Small and Micro Enterprises Development (SMED) Program (*estimated IDA contribution US\$5 million equivalent*). Over the last decade, SFD through SMED has performed exceptionally well in introducing and expanding the MFI sector in Yemen under very challenging conditions. Under SFD Phase IV, IDA will continue to support SMED's efforts. The objective of this component is to support the overall SMED program of SFD to: strengthen and build capacity of local microfinance providers; and actively promote entry into the market by creating an enabling environment and by encouraging the establishment of new financial service providers managed on a private sector basis by international investors with strong technical partners. This component will be supported through:

- (i) Provision of Sub-grants to Eligible Intermediaries to build up the institutional capacity of such Eligible Intermediaries to deliver financial and business development services; and
- (ii) Carrying out, through the provision of goods, training and consultants' services, a program to further support the institutional capacity of micro finance institutions and to create an enabling environment for small and micro enterprises development including through, the establishment of a credit bureau, the development of consumer protection legislation and associated regulations, and the development of financial literacy training programs.

105. Given competing demands on IDA resources, it was agreed that IDA funds would be limited to technical assistance, capacity-building, and business development services, while non-IDA sources would be used to finance loan funds to MFIs or banks.

106. During Phase IV SMED will continue to support with loan funds (mobilized from financiers other than IDA) and technical assistance the existing micro finance providers through an ongoing process of merger and consolidation. It will support the two microfinance programs in Aden and Abyan to merge in order to become a strong regional player in the South, and it will assist the largest microfinance provider – the NMF, which has a national coverage – to transform into a microfinance bank. Furthermore SMED will actively support at least one international microfinance provider (BRAC) to set up operations in Yemen and one private local financial institution to set up a microfinance bank. With experienced seasoned players entering the microfinance market, it is hoped that the microfinance sector will experience a boost in growth.

107. SMED will continue its work on the enabling environment, focusing on passage of relevant legislation/regulation for the establishment of a credit bureau as well as for consumer protection (including truth in lending). SMED will also continue supporting SMEPS via

provision of sub-grants for operational support and business development services albeit on a decreasing basis and based on SMEPS achieving an agreed upon set of performance targets. Finally, SMED will undertake a feasibility study addressing options regarding its own sustainability and legal status. This study will *inter alia* analyze the option of transforming SMED into an independent apex agency (wholesale lending).

108. **Component 3: Capacity-Building Program** (*estimated IDA contribution US\$5 million equivalent*). A third set of activities will support the other three programs through a focus on capacity-building of local entities, including local and central government bodies, NGOs, and communities. The component will also support the strengthening of SFD's own institutional capacity, to include for example monitoring and evaluation, management, and transparency. This component will be supported through:

- Carrying out, through the provision of Sub-grants, goods, training and consultants' services, Subprojects to develop the capacity of select governmental organizations, local authorities, community-based organizations, non-governmental organizations, private sector groups and individuals in the areas related to SFD activities.
- Carrying out, through the provision of goods, training, consultants' services, and operating costs, a program to strengthen the institutional capacity of SFD, including the project management capacity.

109. The first set of activities listed above will be carried out by the Training and Organizational Support Unit (TOSU) which promotes effective identification, preparation, and implementation of SFD's diversified portfolio through training and enhancing skills of its various partners – communities, CBOs, NGOs, government agencies, private sector agencies (consultants, contracts) and local authorities. TOSU will mainstream skills accumulation across institutions involved in the poverty alleviation and good governance agenda of Yemen. TOSU will continue its work on the development and implementation of training programs, development of manuals, qualification of consultants and trainers, and documentation of lessons learned from the field.

110. The second set of activities will be carried out by different departments within SFD itself, including the Monitoring and Evaluation Department, the sector departments, and the branch offices. These activities will include: regular management activities, the M&E program, strengthening of the SFD MIS, and field supervision by branch offices.

111. **Component 4: Labor-Intensive Works (LIW) Program** (*estimated IDA contribution US\$25 million equivalent*). The objective of this component is to provide a cash-for-work safety net to target households to bridge their consumption gap during shocks and stagnation of agricultural seasons, while increasing the productive assets of communities and households. It will also aim to raise awareness among the targeted communities about the dangers of malnutrition and damages of Qat, and build the capacity and enhance the skills of the targeted communities to cope with future shocks. This component will be supported through:

- (i) Provision of Sub-grants to targeted communities for the carrying out of labor-intensive works Subprojects in: irrigation, water harvesting, agricultural terraces rehabilitation, agricultural

land improvement, maintenance and improvement of village access earth roads, the improvement of drinking water sources, watershed management and other fields based on the priority needs of each community; and

- (ii) Carrying out, through the provision of goods, training and consultants' services, activities to develop the SFD's annual operational plans as well as the capacity of select local authorities and communities in participatory planning and management of development activities.

112. SFD has been implementing a labor-intensive cash-for-works program since 2008 that targets households most affected by the recent food crisis. The LIW program is an important component of Yemen's Social Protection Strategy, as discussed in Annex 11. In the fourth phase, SFD will reflect on lessons learned from the first round of implementation of workfare programs to (i) scale-up coverage to roughly 300,000 individuals annually in the 45-50 poorest districts of Yemen; (ii) re-orient the program to have a simplified targeting process and target chronically vulnerable households; (iii) begin supporting interventions in communities for periods of 3-5 years rather than just one year; and (iv) support interventions implemented in each area that complement each other and have a focus on enhancing long-term productivity. The LIW program will also aim to be responsive to various shocks that affect communities. There will be greater consideration of agricultural lands and terraces that can be rehabilitated for the benefit of poorer households, and there will also be a greater emphasis on projects that might maximize female labor force participation.

113. **Objective.** This program aims *to enhance the productivity of poor households* by ensuring that the public works interventions contribute to improving local productive capacities and livelihood opportunities (i.e., community and household asset creation).

114. **Expected results.** (i) achieve direct benefits of target households (cash for work); (ii) bridge the gap of consumption during shocks and stagnation of agricultural seasons; (iii) increase the productive assets of communities as well as households; (iv) raise awareness among the targeted communities about the dangers of malnutrition and damages of Qat; and (v) build the capacity and enhance the skills of the targeted communities to cope with future shocks.

115. **Changes for the fourth phase (2011–15).** SFD will be re-orienting several aspects of the program and scaling-up the program to reach a greater number of individuals in additional districts. Each of these aspects is described below.

116. **Expansion of the program activities.** Under SFD IV, LIW core program coverage is expected to increase from about 40 rural districts to approximately 45-50 of the poorest districts in Yemen; concurrently, the number of beneficiaries is projected to increase to approximately 300,000 individuals annually by the third year of SFD IV compared to 70,000 to 90,000 individuals today. This preliminary estimate would have a total annual cost of US\$55 million in years 3-5 of SFD IV, consisting of: (a) wage costs of about US\$30 million, (b) non-wage cost of about US\$20 million (based on SFD's estimate that non-wage costs including capital are roughly 40 percent of total costs), and (c) US\$5 million for contingencies (estimated at 10 percent of the wage and non-wage cost of works). In the first two years of SFD IV the LIW program will have 100,000 and 200,000 beneficiaries, respectively, with annual costs of US\$18 million and US\$38 million.

117. **Core and scalable productive safety net.** In Phase IV SFD's approach will emphasize the implementation of the LIW program in communities for periods of 3-5 years rather than the current practice of short-term involvement. In order to have a lasting impact in building the productive capacity of poor households, beneficiaries in core LIW program areas will be assured of multi-annual assistance, whereby program beneficiaries will receive wage transfers and program areas will receive local investments for a number of years rather than just one. SFD will also be responsive to emerging situations by initiating operations for a shorter duration through labor-intensive works that are technically simpler and have a shorter implementation cycle. In this way, the LIW will operate as a core productive safety net program that can be scaled up (and down) in response to shocks of various kinds (e.g., the food price crisis or localized crop failure).

118. **Role of community-based planning.** To maximize the possibility that productivity and long-term outcomes are improved in LIW communities, SFD will seek to support labor-intensive interventions that complement each other within a locality. In order to achieve this aim, integrated analysis of livelihoods, the broader socio-economic context, local water resources, land use patterns, and watershed management objectives will inform the planning and design of LIW interventions. This integrated local planning approach will be a core element of the new LIW program, with an emphasis on integrated community-based watershed management where appropriate. Without an integrated analysis, there is a risk that different LIW interventions could undermine each other, for instance if paved water harvesting schemes were found to prevent the flow and recharge of downstream water resources.

119. **Specific interventions.** The types of LIW interventions supported by the project will include: rehabilitation of terraces; improvement and protection of agricultural land; construction of irrigation channels; improvement and protection of rural roads; water harvesting projects; improvements of drinking water sources; and watershed management.

120. **Targeting.** SFD IV will improve the targeting mechanism based on a combination of geographic targeting and community-based targeting. In order to reduce the administrative burden associated with LIW targeting of benefits, in Phase IV, targeting will be simplified as follows: (i) as a core program coverage area, LIW will work in the poorest rural districts of Yemen which have been identified through poverty targeting and population density analysis; (ii) notionally identify the maximum number of LIW core program beneficiaries for each district based on the share of the district's population in the total core program coverage of 300,000 beneficiaries; (iii) identify the poorest 50 percent of sub-districts within each district, using the data from the Census; and (iv) consult with local councils to identify the final communities within those sub-districts that should receive the core LIW such that the total beneficiaries do not exceed the ceiling for beneficiary numbers established for each district; (v) within targeted communities, the LIW daily wage rate will be used as a mechanism for self-targeting by individuals; and (vi) should there be need to reconcile the total number of people in the community seeking LIW work to the total amount of resources available, there should be a community-based method (for example, using a recognized community task force and a public meeting) for rationing the resources within the available budget based on local knowledge of households' needs.

121. **Wage rates.** Currently, the LIW uses an average daily wage rate of US\$5, which is set at about 20 percent below the prevailing market wage for unskilled labor. In Phase IV, the LIW wage rate is expected to continue to be at similar levels below the market wage.

122. **Number of days of work per beneficiary.** The LIW will finance an average of 20 days of work per year per individual beneficiary).

123. **Payments.** The LIW program makes wage payments to beneficiaries in cash. The program will aim to make these payments on a monthly basis, upon verification of completion of works carried out.

124. These and other operational procedures are included in the SFD Operational Manual.

Annex 5: Project Costs

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SOCIAL FUND FOR DEVELOPMENT PHASE IV PROJECT

US\$ million			
Project Cost By Component and/or Activity	Local	Foreign	Total
1. Community and Local Development	23	0	23
2. Small and Micro Enterprises Development	4	1	5
3. Capacity Building	3	2	5
4. Labor-Intensive Works	22	0	22
Total Baseline Cost			55
Physical Contingencies	3	0	3
Price Contingencies	2	0	2
Total Project Costs¹			60

¹Country Financing parameters for Yemen have been established, allowing for 100 percent of financing from IDA. Project costs include all taxes.

Annex 6: Implementation Arrangements

REPUBLIC OF YEMEN

SOCIAL FUND FOR DEVELOPMENT PHASE IV PROJECT

125. The project will be implemented by SFD from June 2010 - December 2015. The SFD is an autonomous organization under the Prime Minister's Office. Its Board of Directors has representation from the Government, NGOs, the private sector, and the financial sector. The Board reviews policy issues and approves important documents like annual plans, budgets, and amendments to the Operational Manual. The executive body of the SFD is headed by a Managing Director (MD) who has full authority to manage the day-to-day operations, including all personnel and operational matters. Besides the SFD's office in Sana'a, there are nine branch offices country-wide.

126. Over the last 12 years, through three phases, the capacity of SFD has been built gradually to identify, prepare, and supervise the implementation of development projects. Now, it is providing institutional capacity building support to other governmental institutions as well as non-governmental organizations, and CBOs. The SFD has the capacity to commit subprojects and disburse approximately US\$13 million per month. Main functions have been gradually decentralized, and the branch offices are now making a large number of operational decisions. The SFD has a dynamic group of staff in Sana'a as well as in the branch offices. It has developed its organizational structure and subproject cycles, and has a state-of-the-art MIS system that was designed in-house and that captures all aspects of the subproject cycle from the submission of the request to closure and evaluation of the subproject.

127. Because of the autonomy and operational independence of the SFD, it was able to turn into one of the most efficient institutions in the country with its operational costs remaining within 6 percent of total investment costs. Given the geography of Yemen and the outreach of the SFD to the most remote areas, this percentage is considered very low. The competitive salary scale also enabled the SFD to recruit and retain staff of high professional caliber. The Managing Director of the SFD has full authority and is fully responsible for personnel management, administrative, financial, and operational activities of the SFD. Over the years, SFD has been changing its organizational structure and operational procedures based on the feedback from the field. The SFD has also been able to maintain flexibility over the years. Every year, the management team and staff meet to go over all aspects of the operation, whether organizational or operational, and introduce changes on a pilot basis that are mainstreamed if proven successful. The SFD has also gained significant credibility with both government agencies and line ministries on the one hand, and civil society organizations on the other. Partners realize that SFD is a transparent agency whose work is based on rules and regulations spelled out in the SFD Operational Manual. Political pressures have been reduced because of SFD's reputation for independence.

128. The Operational Manual of the SFD is a dynamic document that has been supplemented by technical annexes which are regularly revised as the implementation process may require. It is now a comprehensive document that includes details on all aspects of the operation. It includes

criteria for what subprojects to finance, what intermediaries to work with, as well as what process the subproject should go through until it is contracted. The manual also includes details on monitoring and evaluation of the subprojects, procurement methods, financial management issues, etc. A technical audit is conducted every two years to ensure that the SFD is working based on the manual. So far, all technical audits have shown that the SFD is using the manual as the main tool to guide its operations.

129. The quick disbursement arrangements also ensure that intermediaries are paid once progress on the subproject is acknowledged. The SFD keeps its accounts, including IDA's Special Account, in commercial banks. It has direct access to the funds. It submits the quarterly PMRs to the Bank directly without going through the intermediaries of the Ministries of Planning and Finance. This arrangement has ensured that the previous two credits have been disbursed well in advance of the original timeline.

130. Project identification and preparation are subject to intensive studies to ensure that the activity chosen represents the need for the majority of the population including women and children and not a small influential group. Technical aspects are also very thoroughly studied by trained consultants who submit reports to the SFD regional offices, who conduct verification visits to ensure the accuracy of the consultants' reports.

131. Similar to the arrangements under the first three phases, the SFD will implement its activities through subprojects. For every subproject there is an agreement that is signed with the party or parties responsible for implementing the activities. The agreement includes details on the activities to be realized, the contribution of each party, the time frame of implementation, the budget of the subproject, the disbursement schedule, and the milestones based on which payment tranches are released to the intermediary. For every subproject a separate bank account is opened in the name of the intermediary. Tranches are paid from the SFD's account directly to this account. Before releasing any tranche, the SFD verifies that milestones in the contract have been achieved. This is done by individual consultants who work for the SFD or SFD branch office staff.

132. **Component 1: Community and Local Development (CLD) Program.** The various sectoral subprojects which include education, health, special needs groups (disabled persons, orphans, women at risk, among others), water and sanitation, cultural heritage, and agriculture and rural roads will continue to be implemented through SFD's nine branch offices and headquarter sector units.

133. In support of Yemen's decentralization strategy, the Local Authorities (LAs) will play a more prominent role under Phase IV in SFD-financed community development activities. At the same time, SFD will directly support LAs to improve their capacity to deliver services through financing and implementing subprojects identified and prioritized through participatory district planning and budgeting exercises, according to the readiness of different district authorities.

- **Stage One (ELD stage).** During this stage SFD will implement the ELD program in the selected districts. Each district will have a three year participatory plan focused on pressing needs of the district. Those districts which manage having even minimal physical office space and which mobilize the necessary cadre potentially able to participate in projects

management and implementation with technical support from SFD will be eligible to enter Stage Two (learning through joint management and implementation of projects).

- **Stage Two (Learning through joint management and implementation of projects).** During this stage SFD will implement capacity building programs in public expenditure management. District officials will participate with SFD office and field activities in entire subproject life cycles of community projects (learning by doing).
- **Stage Three (Implementation and fund management by LAs).** Districts that participated actively in Stage Two will be eligible to enter Stage Three. During this stage, SFD will sign an agreement with local authorities to provide LAs with financial and technical support to implement basic services subprojects and allow SFD to supervise and monitor the overall activities.
- **“Graduation”.** At the beginning of the program, SFD will invite relevant public sector institutions such as MOLA, MOF, MOPIC, COCA and Supreme Authority of Bidding and Auctions to participate with SFD in designing the necessary indicators by which districts performance will be evaluated accordingly. These institutions will also participate in the program’s relevant activities, auditing, and M&E; and consequently by the end of Stage Three certify the capability of the LAs to manage public resources in a satisfactory manner.

134. Some subprojects under this component will be directly implemented by SFD -- direct implementation using on-site management. This implementation approach is used when the execution of a subproject or an important part of it is not expected to be carried out successfully by contractors, especially in the conservation and restoration of historic buildings and archaeological sites, or when traditional master builders, craftsmen, technicians or archaeologists who deliver their services in a time-based manner are needed. This method is called direct implementation or on-site management. In this method, a well-analyzed and approved budget is put under the management of a committee composed of three members: the project officer (representing SFD), a project coordinator (usually named by the sponsoring agency), and an accountant. On the site, a management office is established to allow close monitoring of workers’ performance, documenting work progress, and keeping full records for purchased and used tools and materials.

135. **Component 2: Small and Micro Enterprises Development (SMED) Program.** This component will be implemented by SFD’s Small and Micro Enterprise Development (SMED).

136. **Component 3: Capacity-Building Program.** This program will support the other three programs through a focus on capacity-building, and will be carried out by the Training and Organizational Support Unit (TOSU) which promotes effective identification, preparation, and implementation of SFD’s diversified portfolio through training and enhancing skills of its various partners – communities, CBOs, NGOs, government agencies, private sector agencies (consultants, contracts) and local authorities.

137. **Component 4: Labor-Intensive Works (LIW) Program.** This component will be implemented by Branch Offices under the supervision of the Headquarters LIW Program. Additional Project Officers have been recruited to support the expanded program.

Annex 7: Financial Management and Disbursement Arrangements

REPUBLIC OF YEMEN

SOCIAL FUND FOR DEVELOPMENT PHASE IV PROJECT

I. Country Financial Management Risks

138. As reported and outlined in the 2009 Country Assistance Strategy (CAS), poor governance remains a critical issue faced in Yemen. Bank and other Donor-financed projects continue to be implemented as off budgetary activities. Efforts to move forward in reforming budget comprehensiveness, implementation, cash management, accounting and reporting have been pinned on the design and implementation of the Accounting & Financial Management Information System (AFMIS) project, which is experiencing significant delays. These factors, as well as the poor quality of education and training in accounting, have contributed to the generally observed weaknesses of the financial reporting and auditing. Such country risks result in higher potential exposure to corruption. With the Bank and other Donor funding implemented as off budget expenditures, the risks are mitigated through the project's design which follows the ring-fencing approach based on the existing structure of the Social Fund for Development (SFD). An independent external auditor acceptable to the World Bank will be engaged by the SFD to perform quarterly reviews on the Project's Interim Financial Reports (IFRs) and annual audits of the Project's Financial Statements (PFS) and the Entity's overall Financial Statements.

Inherent Risk

Issue / Risk	Risk Before MM	Mitigating Measures (MM)	Risk After MM
Based on the findings of the various Country assessments conducted recently, serious weaknesses were identified in the accounting and auditing professions in Yemen.	High	Country systems need to be enhanced. In the meantime, the project design follows the ring fencing method based on the SFD's structure. An independent qualified audit firm will perform quarterly reviews on the Project's IFRs and annual audits on the PFS and the Entity's Financial Statements.	Substantial

II. Project Financial Management Arrangements

139. The Project components will be implemented by the SFD and the Project's proceeds will be channeled through the SFD and deposited into a segregated USD Designated Account (DA) to be managed by the SFD. Advances based disbursement will be the main disbursement method, along with Reimbursement, Direct Payment and Special Commitments. Requests for payments from the Grant funds will be initiated through the use of Withdrawal Applications (WAs) supported by unaudited Interim Financial Reports (IFRs) and Form of Payments Against Contracts Subject to the World Bank's Prior Review, for two quarters as provided in the IFRs.

140. The SFD will be implementing four operational programs under SFD IV: (a) community and local development (CLD) program; (b) small and micro enterprises development (SMED)

program; (c) capacity building (CB) program; and (c) labor-intensive works (LIW) program. A Financial Management (FM) assessment was conducted at SFD. The objective of the assessment was to determine whether: (i) the SFD has adequate FM arrangements to ensure Project funds will be used for the purposes intended in an efficient and economical way; (ii) the controls and processes at the SFD can be relied upon; and (iii) the FM system in place is able to generate reliable and accurate project reports on a timely basis.

141. The SFD has been implementing a number of World Bank-financed projects, including SFD I, II and III which had components similar to three of the four operational programs proposed under SFD IV (CLD, CB and SMED). Additionally, in 2006 SFD began to implement workfare programs (e.g., LIW), and has implemented the Emergency Additional Financing Grant of US\$10 million under the GFSRP which was approved on June 11, 2008 and which has disbursed 100 percent of its funds. Recently, the SFD has been approved to implement a similar LIW program for Euro 10.197 million as part of the EU's contribution of Euro 17.5 million funded through the EU Food Price Crisis Rapid Response Facility under the GFCRP, administered by the Bank.

142. **The FM assessment confirmed that SFD has adequate FM capacity to implement the Project.** The SFD departments, units and staff including the financial staff will be used to implement SFD IV. The SFD FM Department based in Sana'a is adequately staffed with a qualified financial manager assisted by a deputy financial manager and six accountants. Besides the SFD's office in Sana'a, there are nine branch offices country-wide. The branch offices are adequately staffed with operational staff and accountants. The SFD's internal controls are deemed adequate, the internal audit department is adequately staffed, and current staffing is sufficient to cover this project. The flow-of-funds procedures including the controls over cash balances and transfers to the field offices, are acceptable and will be used under the project. The SFD has developed an Operational Manual setting out the structure of the several programs, including fiduciary arrangements and the relation with the branch offices which are deemed to be adequate and will be used for the project. The SFD will be issuing, on a quarterly basis, Interim Unaudited Financial Reports (IFRs) reviewed by an external auditor acceptable to the Bank, and on an annual basis, Project Financial Statements (PFS) and overall Entity's Financial Statements, audited by an external auditor acceptable to the Bank.

143. The current FM arrangements, which are working satisfactorily, are appropriate for the proposed Project and will be kept, with the caveat that the SFD will maintain separate accounting records and banking arrangements for the proposed project. Accounting books and records are properly maintained using an Oracle based accounting and reporting system, required quarterly unaudited Interim Financial Reports (IFRs) and annual audited financial statements are produced on time and are reviewed/audited by an independent external auditor, and management acts promptly on any internal control issues raised in the auditor's management letter. Unqualified annual audit reports have been received in a timely manner. The audit report for the year ending 2008 has been received with no major issues raised. The audit report submission requirement remains the same, with the audit report being due within six months from the end of the fiscal year of December 31.

Project Financial Management Risks

Issue / Risk	Risk before MM	Comments / Mitigating Measures (MM)	Risk after MM
Implementing Entity Prior experience with World Bank projects.	Moderate	The project implementation will be ring fenced through the use of the SFD's structure. The SFD has significant experience in implementation World Bank-financed projects. The SFD departments, units and staff including the financial staff will be used to implement SFD IV. The project's accounts will be reviewed quarterly and audited annually by an independent private external auditor acceptable to the World Bank.	Low
Staffing Capacity and adequacy of the FM department.	Moderate	The SFD FM Department based in Sana'a is adequately staffed with a qualified financial manager assisted by a deputy financial manager and six accountants. Besides the SFD's office in Sana'a, there are nine branch offices country-wide. The branch offices are adequately staffed with operational staff and accountants.	Low
Accounting System & Internal Controls The capacity and adequacy of the accounting system and the Operational Manual (OM).	Moderate	The SFD has an automated accounting system which is deemed adequate for this project. The SFD has OMs approved by the World Bank and adequate for the project.	Low
Flow of Funds and Disbursement Prior experience in the Bank's Disbursement Guidelines.	Moderate	The SFD has significant experience in Bank's disbursement guidelines. The Project funds will be channeled through the SFD and deposited into a separate segregated USD Designated Account (DA) in a bank acceptable to the World Bank, to be opened and maintained by the SFD and under conditions acceptable to the World Bank. All payments to the beneficiaries will be done either centrally by the SFD's Head Office in Sana'a or by SFD's nine branch offices through transfers from SFD's DA to sub-accounts in SFD's branch offices. Disbursement to the beneficiaries from the grant funds will follow the SFD's Operational Manuals and the World Bank Guidelines	Low
Flow of funds through sub-accounts for decentralized locations The SFD will be transferring funds from its project's DA to its sub-accounts for payments at its nine branch offices.	High	Similar to the arrangements under SFD's prior phases, the SFD will open separate bank accounts at its nine branch offices (one account for each subproject). SFD's Head Office in Sana'a will transfer funds from the project's DA to the sub-accounts based on contracts signed between the SFD and the implementing parties (e.g., community represented by a leader). The contract amount will be transferred in installments to the sub-accounts upon the branch's submission of requests for payments based on agreed upon supporting documents (e.g., certified schedule of completed activities). Such	Substantial

Issue / Risk	Risk before MM	Comments / Mitigating Measures (MM)	Risk after MM
		requests for payments are approved by the branch manager, project manager at the branch, and project accountant at the branch. Then the request is reviewed by the SFD's program manager and FM department in Sana'a. The branch will issue checks (signed by the Branch's project manager and accountant) from the sub-accounts to the beneficiaries. Overall, the SFD's current internal control procedures as documented in their manuals are satisfactory and ensure proper segregation of duties and proper validation of the accuracy of payments to beneficiaries and proper completion of the activities.	
<p>Implementation of the subprojects under the CLD program This component will finance implementing subprojects in various sectors through SFD's nine branch offices.</p>	High	The SFD has successfully established strong program units for implementing such activities both at the level of the main office in Sana'a as well as the nine branch offices. Detailed implementation arrangements including internal controls and procedures for flow of funds are properly documented in SFD's Operational Manual. There are clear segregation of duties as well as significant involvement of the beneficiaries throughout the subprojects' implementation, which reduces the risk of misuse of funds. The SFD's departments (including internal audit, program unit, project teams, etc.) are responsible for supervising and reviewing subprojects and ensuring appropriate compliance with the SFD's Manuals. Flow of funds for this program is done based on the transfers from the project's DA to the sub-accounts at the branch offices as explained previously.	Substantial
<p>Implementation of SMED program This component will finance technical assistance and capacity building activities to the microfinance providers and market.</p>	High	The component will not finance financial support, but rather technical assistance to the micro-finance institutions. There is associated control procedures required if the SFD would like to provide financial support in the form of loans. Such decision and related procedures will require mutual agreement with the SFD.	Substantial
<p>Implementation of LIW program This component will finance cash for work labor intensive activities.</p>	High	The SFD has an acceptable Operational Manual describing the implementation and control procedures including flow of funds for this component. The manual includes procedures for targeting communities and the selection criteria for the people eligible to participate in this program. It also includes the activities eligible to be implemented as per the project's design, control procedures over approval of requests for payments, and clear terms of reference for the parties involved in implementation. Payments to the beneficiaries are made based on the agreed upon	Substantial

Issue / Risk	Risk before MM	Comments / Mitigating Measures (MM)	Risk after MM
		labor rates which are below market reference to ensure that individuals participating in this program are truly in need and are unemployed. Prior to payments to the beneficiaries, the SFD validates the work completed as per the submitted reports through field visits and comparison of activities submitted as completed and agreed upon work plan.	
Internal Audit Insufficient capacity internal audit profession in Yemen.	Moderate	The SFD has an Internal Audit Department (IAD) headed by a qualified Manager who is supported by 4 staff with adequate experience and qualifications that are relevant for the proposed project. The IAD is responsible for conducting regular audits on the SFD's Programs as required by the Program Management but at least on a quarterly basis, including performing audits for the SFD's Branch Offices, preparing all required documents for annual external audits, and reviewing and investigating in case of any irregularities found. If there are findings that require action, the internal auditor gets responses from the related branches, departments or units. The internal auditor follows-up on any actions agreed upon with the concerned branches, departments or units. The IAD submits its audit reports to the SFD's Managing Director.	Low
Financial Reporting & Budgeting Experience with Bank reporting guidelines and budgeting.	Moderate	The SFD has significant experience with Bank reporting guidelines and budgeting. The SFD's automated accounting system is deemed adequate for this project. The SFD submits timely and comprehensive quarterly IFRs and the content and format of the IFRs will continue to be the same as currently used by the SFD. The IFRs will be quarterly reviewed by the project's external auditor. The SFD provides regular quarterly budget reports, which are included in the IFRs provided to the Bank. The SFD Finance Department has a planning system with an accountant in charge of receiving the related information (contracts, Procurement Plan, etc.) from the SFD Procurement Specialist. Based on these, the related budget reports are prepared on a quarterly basis and included in the quarterly reports sent to the Bank	Low
External Audit Insufficient capacity in audit profession in Yemen.	Substantial	An independent qualified private external auditor acceptable to the World Bank will be engaged to respectively, review and audit the project's accounts, quarterly and annually and according to TORs acceptable to the World Bank. The TORs will include a special provision for the Auditor to conduct field visits to a sample of the selected beneficiaries/sites to validate the beneficiaries' eligibility and report on the adequacy of the three operational programs.	Moderate

Issue / Risk	Risk before MM	Comments / Mitigating Measures (MM)	Risk after MM
Overall Project FM Risk Before MM	<i>Substantial</i>	Overall Project FM Risk After MM	<i>Moderate</i>

Overall FM Risk Assessment

144. As detailed above, the financial management risk assessment identified under the project is **Substantial**. The successful implementation of the mitigation measures, which have been agreed upon with the SFD, will eventually reduce the project FM risk to **Moderate**.

III. Organization and Staffing

145. SFD was established in 1997 as an autonomous State organization under the Council of Ministers. The Prime Minister is the Chairman of its Board of Directors. Since its establishment, SFD has become one of Yemen's main development actors, with support from the government and the donor community. The main executive agency is the SFD Head Office in Sana'a and it has nine Branch Offices. The SFD Head Office is headed by its Managing Director who is also a member and secretary of the SFD's Board. The Head Office has 14 units dealing with all SFD's affairs on the national level.

146. The Finance Department is in the Head Office and is managed by a Financial Manager who reports directly to the Managing Director. The Financial Manager is supported by a deputy and six accountants with no material staff turnover in the department. This department is responsible for managing all the FM and Disbursement activities of the SFD with significant support from accountants at the SFD's nine branch offices.

147. Additionally, the SFD has an Internal Audit Department (IAD) headed by a qualified Manager who is supported by 4 staff with adequate experience and qualifications that are relevant for the proposed project. The IAD is responsible for conducting regular audits on the SFD's Programs as required by the Program Management but at least on a quarterly basis, including performing audits for the SFD's Branch Offices, preparing all required documents for annual external audits, and reviewing and investigating in case of any irregularities found. If there are findings that require action, the internal auditor gets responses from the related branches, departments or units. The internal auditor follows-up on any actions agreed upon with the concerned branches, departments or units. The IAD submits its audit reports to the SFD's Managing Director.

IV. Accounting System & Internal Controls

148. The SFD has an internally developed automated accounting system which has been in operation for year and is deemed adequate for this project. The accounting system is capable of recording project financial transactions, including allocation of expenditures in accordance with respective components, activities, disbursement categories and sources of funds. The system has controls over the preparation and approval of transactions ensuring all transactions are correctly

made and adequately explained. The system is sufficiently flexible to design separate chart of accounts adequate to properly account for and report on project activities and disbursement categories. The system is capable of proper record keeping and has a backup system in the SFD's server.

149. The SFD has an Operational Manual setting out the structure of the several programs implemented by the SFD, including procedures for proper segregation of duties in terms of authorizing and recording transactions, and custody of assets, descriptions of the roles of the SFD's staff including the internal audit department, the project's accounting policies and procedures and internal controls.

150. The SFD prepares monthly bank reconciliations, prepared by the accountants and reviewed and approved by the Financial Manager or his deputy. The SFD prepares quarterly IFRs showing the source and use of funds by component, expenditure category, activities and the reconciliation of the DA. Additionally, the SFD prepares semi-annual progress reports detailing the physical progress made for each project.

151. The SFD maintains a fixed assets register for the assets financed by IDA, GOY and other donors. The internal auditors conduct a yearly physical count of the equipment (computers, printer, vehicle, etc.) financed from the Project.

V. Flow of Funds and Disbursement Arrangements

152. The Project funds will be channeled through the SFD and deposited into a separate segregated USD Designated Account (DA) in a commercial bank acceptable to the World Bank, to be opened and maintained by the SFD and under conditions acceptable to the World Bank. Advances based disbursement will be the main disbursement method, along with Reimbursement, direct payment and special commitments. Requests for payments from the Grant funds will be initiated through the use of the Bank's Withdrawal Applications (WAs) supported by Interim Unaudited Financial Reports (IFRs) and Form of Payments Against Contracts Subject to the World Bank's Prior Review, for two quarters as provided in the IFRs. Disbursement to the beneficiaries from the SFD's segregated DA will follow the SFD's Operational Manual and the World Bank Guidelines.

153. In addition to the SFD's segregated USD DA, the SFD will maintain a number of sub-accounts in YR or USD. The subaccounts will be used to receive funds from the project's DA and make payments at the decentralized levels/locations. Similar to the arrangements under SFD's prior phases, the SFD will open separate bank accounts (one account for each subproject). SFD's Head Office in Sana'a will transfer funds from the project's DA to the sub-accounts based on contracts signed between the SFD and the implementing parties (e.g., community represented by a leader). The contract amount will be transferred in installments to the sub-accounts upon the branch's submission of requests for payments based on agreed upon supporting documents (e.g., certified schedule of completed activities). Such requests for payments are approved by the branch manager, project manager at the branch, and project accountant at the branch. Then the request is reviewed by the SFD's program manager and FM department in Sana'a. The branch will issue checks (signed by the Branch manager and project officer) from the sub-accounts to the beneficiaries. Overall, the SFD's current internal control procedures as documented in their

manuals are satisfactory and ensure proper segregation of duties and proper validation of the accuracy of payments to beneficiaries and proper completion of the activities.

154. The charts below describe the flow of funds and process for requests for payments.

Chart (A) SFD Flow of funds chart

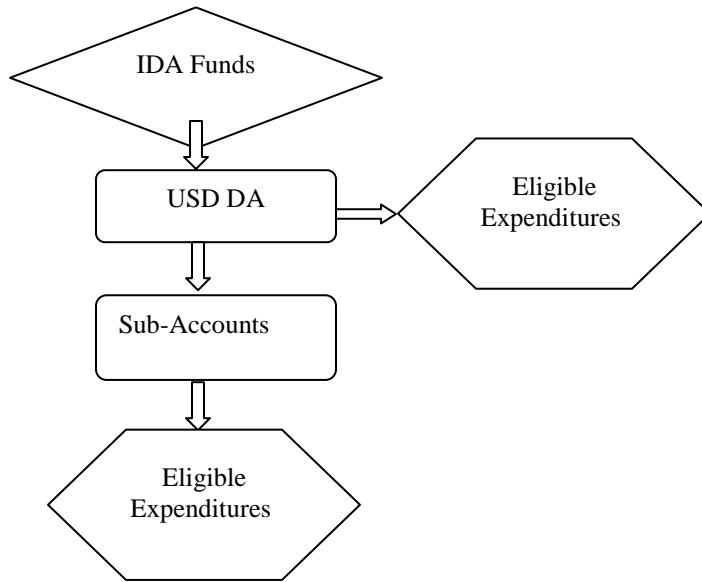
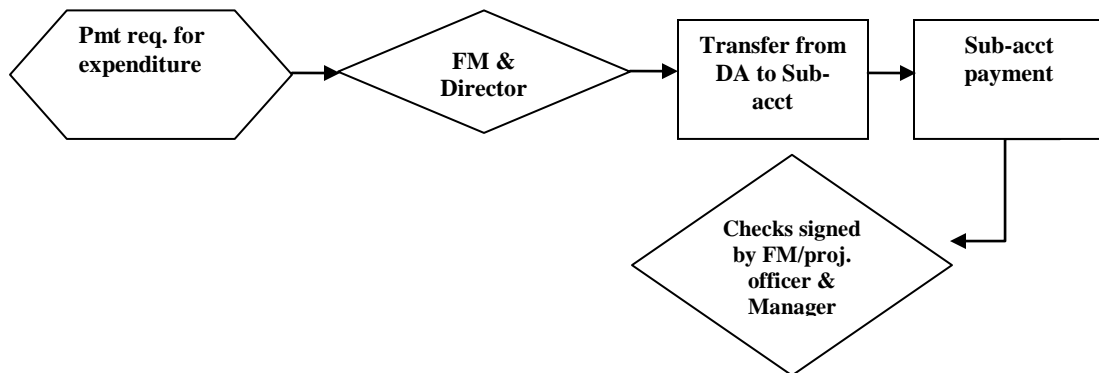


Chart (B): Illustrating process for requests of payments from the SFD's DA



Chart (C): Illustrating process for requests of payments from the SFD's sub-accounts



Withdrawal of the Proceeds of the IDA Financing

Category	Amount of the Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
Goods, consultants' services, Sub-Grants, Training and Incremental Operating Costs for the Project	38,700,000	100%
TOTAL AMOUNT	38,700,000	

Implementation of the subprojects under the CLD program

155. The SFD has successfully established strong program units for implementing such activities both at the level of the main office in Sana'a as at well as the nine branch offices. Detailed implementation arrangements, including internal controls and procedures for flow of funds, are properly documented in SFD's Operational Manual. There is clear segregation of duties as well as significant involvement of the beneficiaries throughout the subprojects' implementation, which reduces the risk of misuse of funds. The SFD departments (including internal audit, program unit, project teams, etc.) are responsible for supervising and reviewing subprojects and ensuring appropriate compliance with the SFD manuals. Flow of funds for this program is carried out based on the transfers from the project's DA to the sub-accounts at the branch offices as explained previously.

Implementation of SMED program

156. The component will not finance financial support (using IDA funds), but rather technical assistance to the micro-finance institutions.

Implementation of LIW program

157. The SFD has an acceptable Operations Manual describing the implementation and control procedures, including flow of funds for this component. The manual includes procedures for targeting communities and the selection criteria for the people eligible to participate in this program. It also includes the activities eligible to be implemented as per the project's design, control procedures over approval of requests for payments, and clear terms of reference for the parties involved in implementation. Payments to the beneficiaries are made based on the agreed upon labor rates which are below market reference to ensure that individuals participating in this program are truly in need and are unemployed. Prior to payments to the beneficiaries, the SFD

validates the work completed as per the submitted reports through field visits and comparison of activities submitted as completed and agreed upon work plan.

VI. Project Financial Reporting & Budgeting

158. The SFD provides regular quarterly budget reports, which are included in the IFRs provided to the Bank. The SFD Finance Department has a planning system with an accountant in charge of receiving the related information (contracts, Procurement Plan, etc.) from the SFD Procurement Specialist. Based on these, the related budget reports are prepared on a quarterly basis and included in the quarterly reports sent to the Bank. The SFD submits the IFRs generated from their accounting system on a quarterly basis. These reports are submitted to the World Bank timely with the external auditor's review report.

159. **Interim Financial Reports (IFRs) arrangement:** IFRs will be prepared by the SFD and submitted to the World Bank *quarterly*. IFRs will be submitted to the Bank no later than 45 days after the end of the quarter. The IFRs will be reviewed by an independent external auditor acceptable to the World Bank and the reports will consist of: (a) source and uses of funds by Component and Expenditure Category, (b) a reconciliation of the DA and advances to the sub-accounts, and (c) Cash forecast for two quarters.

VII. External Audit

160. Entity: Annual Audited Financial Statements of SFD are required to be sent to the World Bank as the SFD is a Continuing Entity. Such reports should be submitted to the World Bank within six months of the end of the Recipient's fiscal year (December 31).

161. Project: Annual Audited Financial Statements of the IDA project are required to be sent to the World Bank within six months from the end of the Recipient's fiscal year (December 31).

- The annual financial statements will be audited by an independent external auditor acceptable to the World Bank and based on TORs acceptable to the Bank. Each report will cover the period of each fiscal year-end and is due to the Bank within six months from the end of each fiscal year.
- The external auditor's TORs will include a special provision for the Auditor to conduct field visits to a sample of the selected beneficiaries/sites to validate the beneficiaries' eligibility and report on the adequacy of the three operational programs.
- The external auditor report (in English) shall encompass all Project's components and activities and shall be in accordance with internationally accepted auditing standards e.g., International Standards on Auditing (ISA). The audit report and opinion will cover the Project's financial statements, reconciliation and use of the Designated Account (DA) and sub-accounts, use of direct payments, and withdrawals based on Interim Financial Reports.

- The auditor is required to prepare a “management letter” identifying any observations, comments and deficiencies, in the system and controls, that the auditor considers pertinent, and shall provide recommendations for their improvement.
- The cost for the external auditors will be funded from the proceeds of the Project.

VIII. Corruption

162. Fraud and corruption may affect the project resources. The above fiduciary arrangements, including the capacity of the SFD, reporting and audit arrangements will reasonably reduce the risk of corruption from a technical perspective through the fiduciary arrangements but may not be effective in case of collusion.

IX. Supervision Plan

163. The project's FM arrangements will be supervised by the Bank’s Financial Management Specialist in conjunction with the Bank’s overall supervision of the project, which will be performed at least on a semi-annual basis, including field visits to selected governorates to assess the implementation of the campaigns. The supervision will be carried out to ensure adequate FM arrangements continue to be in place and the capacity of the FM unit is adequate.

Annex 8: Procurement Arrangements

REPUBLIC OF YEMEN

SOCIAL FUND FOR DEVELOPMENT PHASE IV PROJECT

A. General

164. The Country Procurement Assessment Report (CPAR) for Yemen carried out in 2000 concluded that the procurement legislation, Law No. 3 of 1997 concerning Government Tenders, Auctions and Stores, and corresponding Regulations introduced by Decree No. 234 of 1997, was a significant improvement over previous legislation for public procurement but nonetheless not yet up to acceptable international standards.

165. The CPAR recommended a set of comprehensive National Procurement Manual (NPM) to support capacity building of the GOY's public procurement management responsibilities at all levels, together with a national Standard Bid Documents (SBDs) for goods, works and services. The NPM and SBDs for works, goods and consultancy services were endorsed by the Cabinet in April 2006, and preparation and capacity building efforts led by the Technical Committee of the High Tender Board have focused on broad dissemination of these country procurement documents since 2007. In addition, as part of the National Reform Agenda adopted in early 2006, a new reform-oriented public procurement law (Procurement Law No. 23) reflecting international best practice was prepared with Bank and USAID support and was subsequently ratified by Parliament on July 24, 2007. Furthermore, the revised Executive Regulations (the implementing arrangements for Law No. 23) were issued by Cabinet decree in February 2009.

166. The procurement for the proposed Project would be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004, revised October 1, 2006; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 revised October 2006, and the provisions stipulated in the Legal Agreement. The various items under different expenditure categories are described in general below. For each package to be financed by the Grant, the different procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame are agreed between the Recipient and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

B. Procurement Arrangements

167. **Procurement of Works:** The total cost of works under the first 18 months for IDA financing is estimated at US\$14 million. Civil works would comprise small rural and urban infrastructure (e.g., construction of rural feeder roads, construction and rehabilitation of class rooms, construction or rehabilitation of primary health care facilities, rural water supply including supply and installation of pumps, pipe, small-scale irrigation projects, water harvesting schemes, and sewage/garbage disposal, and cultural heritage).

168. Civil works under the proposed grant are generally small and geographically dispersed in local communities (with contract values not of interest to foreign bidders with perhaps a few exceptions) would be carried out under National Competitive Bidding (NCB) procedures. NCB contracts would be open to eligible foreign bidders if they wish to participate.

169. **Goods:** The total cost of goods to be procured under the first 18 months through IDA financing is estimated at US\$3 million. Goods and equipment would primarily include materials and equipment for school and health facilities, vehicles, social services (e.g., tools, education materials, etc.). Goods with an estimated contract value as stated in the Procurement Plan would be procured through International Competitive Bidding (ICB). The procurement of goods with estimated contract values as stated on the Procurement Plan (less than US\$500,000) would be procured through NCB.

170. The procedures to be followed for National Competitive Bidding both for Works and Goods shall be those set forth in the Recipient's Law No. 23 for 2007, concerning Government Tenders, Auctions and Stores, and its Regulations, subject to the following additional procedures:

(A) A Recipient-owned enterprise in the Republic of Yemen shall be eligible to bid only if it can establish that it is legally and financially autonomous, operates under commercial law, and is not a dependent agency of the Recipient;

(B) Bidding (or pre-qualification, if required) shall not be restricted to any particular class of contractors or suppliers, and non-registered contractors and suppliers shall also be eligible to participate;

(C) Tenders shall be advertised for at least two (2) consecutive days in two (2) local newspapers of wide circulation;

(D) Prospective bidders shall be allowed a minimum of thirty (30) days for the preparation and submission of bids, such thirty (30) days to begin with the availability of the bidding documents or the advertisement, whichever is later;

(E) Until national standard bidding documents acceptable to the Association are available, bidding documents approved by the Association shall be used, and may be prepared in Arabic;

(F) Registration shall not be used to assess bidders' qualifications; qualification criteria (in case pre-qualification was not carried out) and the method of evaluating the qualification of each bidder shall be stated in the bidding documents, and before contract award, the bidder having submitted the lowest evaluated responsive bid shall be subject to post-qualification;

(G) A foreign bidder shall not be required to register or to appoint an agent as a condition for submitting its bid and, if determined to be the lowest evaluated responsive bidder, shall be given reasonable opportunity to register, without let or hindrance; the registration process shall not be applicable to sub-contractors;

(H) All bids shall be submitted in sealed envelopes and may be submitted, at the bidder's option, in person or by courier service;

(I) All bids shall be opened at the same time in a public bid opening which bidders shall be allowed to attend and which shall follow immediately after the deadline for submission of bids;

(J) Evaluation of bids shall be carried out in strict adherence to the criteria declared in the bidding documents and contracts shall be awarded to the lowest evaluated responsive bidder, without resorting to the rejection of bids above or below a certain percentage of the pre-bid estimate (bid price bracketing);

(K) No bidder shall be requested or permitted to modify its bid after the bid closing date shall have elapsed and bids submitted after the deadline for submission of bids shall be returned to the bidder unopened;

(L) Post-bidding negotiations with the lowest or any other bidder shall not be permitted;

(M) Under exceptional circumstances, the procuring entity may, before the expiration of bid validity, request all bidders in writing to extend the validity of their bids, in which case bidders shall not be requested nor permitted to amend the price or any other condition of their bids; a bidder shall have the right to refuse to grant such an extension without forfeiting its bid security, but any bidder granting such extension shall be required to provide a corresponding extension of its bid security;

(N) Price adjustment provisions may be included in contracts for works with duration of more than eighteen months;

(O) Rejection of all bids is justified when there is lack of effective competition, or bids are not substantially responsive; however, lack of competition shall not be determined solely on the basis of the number of bidders; and

(P) Each contract financed from the proceeds of the Grant shall provide that the contractor or supplier shall permit the Association, at its request, to inspect their accounts and records relating to the performance of the contract and to have such accounts and records audited by auditors appointed by the Association.

171. **Shopping:** Goods with estimated contract value less than US\$75,000 would be procured through Shopping procedures by soliciting at least three competitive quotations. Small works with estimated contract values of less than US\$75,000 can also employ Shopping procedures by soliciting at least three competitive quotations. The SFD will utilize an updated Standard Document for Quotations for goods and works separately as well as an Arabic version of the Shopping Guidelines acceptable to the Association.

172. **Direct contracting:** Direct contracting would be used under the project as per the procurement guidelines clause 3.6 through 3.7. The prior review threshold of direct contracting applies to contracts above US\$10,000.

173. **Community Contracting:** Community Participation procedures as described below: SFD shall provide funds directly to communities responsible for managing the implementation of Subprojects under Components 1, 3 and 4 of the Project. Such procurement will be carried out by eligible communities according to the policies and simplified procedures set out in the SFD Manual for “Direct Financing of communities”, which is part of the Operational Manual.

174. **Procurement from UNICEF and UNOPS:** May be used under the project as per the procurement guidelines clause 3.9. This method may be used for selected cases such as health equipments, ambulances, special needs equipments, and text books.

175. **Selection of Consultants:** The total cost of consultant services under the first 18 months for IDA financing is estimated at US\$1.01 million. The scope of services envisaged include program implementation support in terms of screening and preparation of subprojects, design and construction supervision, environmental studies, and capacity building for SFD program partners, including institutional development for community subproject management. Such technical assistance and training will cover services to help small entrepreneurs, support for community social services, feasibility studies for subprojects, and capacity building activities.

176. Consultants financed by IDA would be appointed in accordance with the Bank’s Guidelines for the Selection and Employment of Consultants (May 2004 and revised in October 2006). For firms all contracts would be procured using Quality-and Cost-Based Selection (QCBS) as well as Fixed Budget Selection (FBS) procedures will be used except for small contracts of standard or routine nature estimated to cost less than US\$100,000 equivalent which may be procured using selection based on Consultant’s Qualification (CQ) and Least-Cost Selection (LCS) methods. Single-Source Selection (SSS) for hiring services that meet the requirements of paragraph 3.10 of the Consultant’s Guidelines may be used on an exceptional basis, with prior agreement of IDA. Shortlist of consultants for services estimated to cost less than US\$200,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. All individual consulting assignments would be carried out in accordance with Section V of the Guidelines for selection of consultancies. Consultant services under the SFD-IV to be provided by firms and individuals

177. **Operating Costs:** related to the project implementation activities which will be financed by the project and procured using the implementing agency’s administrative procedures, and reviewed and found acceptable to IDA, will include: office rental, local contractual staff salaries, utility charges, transportation, maintenance of vehicles, insurance of vehicles, fuel, office supplies, banking charges, communication services, and travel costs and per diem, excluding salaries of officials of the Recipient’s civil service.

178. The procurement procedures and SBDs to be used for each procurement method, as well as model contracts for works and goods procured, are presented in the new national procurement Law for all NCB.

C. Assessment of the Agency's Capacity to Implement Procurement

179. The procurement activities will be carried out by Social Fund for Development. The agency is staffed by [SFD structure attached], and the procurement function is being handled by 11 procurement specialists and 6 assistants at branch level. At headquarter level, the procurement unit is staffed by 8 procurement specialists, a procurement expert and the unit head.

180. An assessment of the procurement capacity of the Implementing Agency (SFD) was carried out by the Bank in January 2010. The assessment reviewed the organizational structure for implementing the project and found satisfactory procurement arrangements in place for project implementation.

181. The Procurement Unit role is clearly defined. It is responsible for procurement of Goods, Works and Consultancy Services. The Procurement Unit is adequately staffed with qualified staff who have procurement management experience with the IDA financed projects.

182. The following arrangements and action were agreed with SFD Procurement Unit:

- A. The existing Project Management Unit (PMU) in anticipation of the start up of the proposed SFDP IV will use the existing staffing structure and infrastructure facilities established under SFDP III to enable an early start-up for the SFD IV.
- B. The PMU will have a full complement if IDA Implementation and procurement manuals which will be taken over from the existing SFD III.
- C. Build on the existing PMU of the SFD III, to build upon it The PMU with emphasis on effective procurement capabilities
- D. IDA will assist in training the procurement staff at the PMU and the branches on procurement guidelines, preparation of bidding document, bid evaluation and contract management.
- E. IDA guidelines should be followed for all types of procurement.
- F. Where possible consultants should be engaged to assist with design and supervision of the larger civil works contracts in addition to procurement training on yearly basis.
- G. The local consulting firms should be strengthened by encouraging them to participate with international consulting firms in submitting proposals for the consulting assignments of the project. Short lists composed entirely of national consultants: Short lists of consultants for services estimated to cost less than US\$200,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

183. The overall project risk for procurement is MODERATE.

Prior Review Thresholds

The contracts subject to Bank Prior Review are mentioned in the Procurement Plan and generally based on the following thresholds.

Works	Equal to or greater than US\$3,000,000
Goods	Equal to or greater than US\$500,000
Consultant firms	Equal to or greater than US\$200,000 for firms, TORs, EOI, short-list, and all single source selection.
Individual Consultant	Equal to or greater than US\$100,000

Post Review

184. Monitoring and evaluation of procurement performance at all levels (national and community) will be carried out for procurement under the prior review thresholds during IDA supervision missions and through annual ex-post procurement audits. At a minimum, 1 out of 15 contracts without exceeding 10 contracts by type of contracts managed by the SFD will be subject to post review. Annual post-procurement reviews will be complemented by a mid-term independent technical audit. The annual post-procurement reviews will cover some of the following elements, while the mid-term technical audit will cover them all: (a) verify that the procurement and contracting procedures and processes followed for subprojects were in accordance with the Financing Agreement; (b) verify technical compliance, physical completion and price competitiveness of each contract in the selected representative sample; (c) review and comment on contract administration (archiving) and management issues as dealt with the Procurement Unit at the center and Branch Offices; (d) review capacity of sponsoring agencies utilizing the grant proceeds in handling procurement efficiently; and (e) identify improvements in the procurement process in the light of any identified deficiencies.

185. Prior review thresholds and procurement methods thresholds will be updated regularly by using format acceptable to IDA.

Procurement Plan

186. The Recipient, at appraisal, developed a procurement plan for project implementation which provides the basis for the procurement methods. This plan has been agreed between the Recipient and the Project Team on February 16, 2010 and is attached. It will also be available in the project's database and in the Bank's external website. The Procurement Plan will be updated in agreement with the Project Team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

Frequency of Procurement Supervision

187. In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the Implementing Agency has recommended annually supervision missions to visit the field to carry out post review of procurement actions.

D. Details of the Procurement Arrangements Involving International Competition

1. Goods, Works, and Non Consulting Services

188. List of contract packages to be procured following ICB, NCB, Shopping and direct contracting:

ID #	Location/ Description	Cost Estimate US\$mil	Est. Number of Contracts	P. Method	Bank Review	Plan / Actual	Bid Opening		Contract
							Invitation Date	Bid Opening Date	Starting Date
WORKS									
Works-1/Package No. 1	Construction social infrastructure (education facilities, water supply facilities, environment, roads, Health, Special needs, Agriculture, rural development, and others) –Average Contract Costs~200000\$ (Different Sectors)	2	10	NCB	Post	Plan	Jul-Sep/10	Aug-Oct/10	Oct-Dec/10
						Actual			
Works-2/Package No. 2	Construction social infrastructure (education facilities, water supply facilities, environment, roads, Health, Special needs, Agriculture, rural development, and others) – Average Contract Costs~200000\$ (Different Sectors)	2	10	NCB	Post	Plan	Oct-Dec/10	Nov.10-Jan11	Jan-Mar/11
						Actual			
Works-3/Package No. 3	Construction social infrastructure (education facilities, water supply facilities, environment, roads, Health, Special needs, Agriculture, rural development, and others) –Average Contract Costs~200000\$ (Different Sectors)	2	10	NCB	Post	Plan	Jan-Mar/11	Feb-Apr/11	Apr-Jun/11
						Actual			
Works-4/Package No. 4	Construction social infrastructure (education facilities, water supply facilities, environment, roads, Health, Special needs, Agriculture, rural development, and others) –Average Contract Costs~200000\$ (Different Sectors)	2	10	NCB	Post	Plan	Apr-Jun/11	May-Jul/11	Jul-Sep/11
						Actual			
Works-5/Package No. 5	Construction social infrastructure (education facilities, water supply facilities, environment, roads, Health, Special needs, Agriculture, rural development, and others) –	2	25 ¹	Community Contracting	Post	Plan	NA	NA	Jul/10-Dec/11
						Actual			
Works-6/Package No. 6	Construction social infrastructure (education facilities, water supply facilities, environment, roads, Health, Special needs, Agriculture, rural development, and others) – Comment: split in different types (Roads, Constructions, Water supply etc. It will be more than one contract (more than one line)	4		ICB	Prior	Plan	Oct/01	Dec/01	Jan/11
						Actual			
TOTAL WORKS		14							

¹This refers to the number of subprojects rather than the number of contracts which will use the community contracting method because the first can be estimated with greater accuracy than the latter.

ID #	Location/Description	Cost Estim. US\$	Est No. of Contracts	P. Method	Bank Review	Plan / Actual	Bid Opening		Contract
							Invitation Date	Bid Opening Date	Starting Date
GOODS									
Goods-1 Package No. 1	Furniture & Equipment for School -	0.500m	1	ICB	Prior	Plan	Mar-11	Apr-11	Aug-11
						Actual			
Goods-2 Package No. 2	Furniture & Equipment for Different Sectors	0.300m	2	NCB	Post	Plan	Jul-10	Aug-10	Oct-10
						Actual			
Goods-3 Package No. 3	Furniture & Equipment for Different Sectors	0.300m	2	NCB	Post	Plan	Sep-10	15-May-12	15-Aug-12
						Actual			
Goods-4 Package No. 4	Furniture & Equipment for Different Sectors	0.300m	2	NCB	Post	Plan	Jan-11	15-Jul-11	15-Aug-11
						Actual			
Goods-5 Package No. 5	Furniture & Equipment for Different Sectors	0.300m	2	NCB	Post	Plan	Mar-11	Apr-11	Jun-11
						Actual			
Goods-6 Package No. 6	Furniture & Equipment for Different Sectors	0.300m	2	NCB	Post	Plan	Jun-11	Jul-11	Sep-11
						Actual			
Goods-7 Package No. 7	Furniture & Equipment for Different Sectors	0.300m	2	NCB	Post	Plan	Sep-11	Oct-11	Jan-12
						Actual			
Goods-8 Package No. 8	Furniture & Equipment for Different Sectors	0.100m	7	Shopping	Post	Plan	Jul-10	Aug-10	Aug-10
						Actual			
Goods-9 Package No. 9	Furniture & Equipment for Different Sectors	0.100m	7	Shopping	Post	Plan	Sep-10	Oct-10	Oct-10
						Actual			
Goods-10 Package No. 10	Furniture & Equipment for Different Sectors	0.300m	7	Shopping	Post	Plan	Jan-11	Feb-11	Feb-11
						Actual			
Goods-11 Package No. 11	Furniture & Equipment for Different Sectors	0.300m	7	Shopping	Post	Plan	Mar-11	Apr-11	Apr-11
						Actual			
Goods-12 Package No. 12	Furniture & Equipment for Different Sectors	0.300m	7	Shopping	Post	Plan	Jun-11	Jul-11	Jul-11
						Actual			
Goods-13 Package No. 13	Furniture & Equipment for Different Sectors	0.100m	7	Shopping	Post	Plan	Sep-11	Oct-11	Oct-11
						Actual			
Goods-14 Package No. 14	Furniture & Equipment for Different Sectors	0.100m	5	Direct contracting	Prior	Plan	Jun-11	Jul-11	Jul-11
						Actual			
TOTAL GOODS		3.0 m	60						

2. Consulting Services

189. List of consulting assignments with short-list of international firms.

Consultancy									
Bid #	Description	Selection Method	Est. Number of Contracts	Cost Estimate (US\$ mil)	Bank Review	Plan Actual	EOI Advert.		
					Actual		Issue	Submission	Signing
CS-1 / Package No. 1	Construction Supervision - average contract amounts US\$ 10,000-	CQ/IC	600	0.6	Post	Plan	July 2010 - December 2011	Aug 2010 – December 2011	Oct 2010 – December 2011
					Actual	Actual			
CS-2/ Package No. 2	Short term consultants (Screening, Pre-visibility studies, Design and specifications, Quality Control, Evaluation of Proposals/Offer, Handing over of Projects,...etc) Contract amounts not more than US\$100,000	CQ/IC	400	0.2	Post	Plan	July 2010 - December 2011	Aug 2010 – December 2011	Oct 2010 – December 2011
					Actual	Actual			
CS-3/ Package No. 3	Training and strengthen support - average contract amounts US\$5000	CQ/IC	400	0.2	Post	Plan	July 2010 - December 2011	Aug 2010 – December 2011	Oct 2010 – December 2011
					Actual	Actual			
CS-4/ Auditor	Auditor	LCS	1	0.01	Prior	Plan	July 2010 -	Aug 2010 -	Oct 2010 -
					Actual	Actual			
Total Consultancy services				1.01					

Annex 9: Economic and Financial Analysis

REPUBLIC OF YEMEN

SOCIAL FUND FOR DEVELOPMENT PHASE IV PROJECT

I. Introduction and approach

190. The economic benefits of SFD can be represented by: (i) improvements in household well-being as a result of consumption smoothing, asset protection and the avoidance of negative coping behaviors; (ii) enhanced livelihoods through asset accumulation and increased productivity; and (iii) increased use of social services and better human development outcomes as a result of the infrastructure created through the community public works. Therefore, SFD is likely to provide both protective and productive benefits at the household and the community levels.

191. The SFD consists of multi-sectoral, demand-driven interventions identified by communities. This characteristic prevents us from determining the portfolio of investments ex-ante and consequently an internal rate of return of the proposed project cannot be calculated. However, other studies show that the rate of return of projects typically financed through social funds, such as health and education projects, can be high. International experiences have shown that social funds programs can constitute a cost-effective mechanism to channel public resources towards the provision of social services (Rawlings and Van Domelen, 2001), since a given community's demand is likely to be greatest for the most productive investment activity in that community. Although an a priori cost-benefit analysis would require knowing the exact composition of SFD IV investments, guidance from the international experiences and from previous phases of SFD can help illustrate the costs and benefits of the proposed project.

192. This economic analysis addresses three issues: (i) the appropriateness of the current portfolio of projects given beneficiaries' demands; (ii) the effectiveness of targeting mechanisms and the projects' incidence; and (iii) the economic viability and cost-benefit analyses of the projects supported by SFD. The analysis is based on data from the previous phases on the Social Fund and also draws upon experiences with similar interventions in other settings.

193. For the cost-benefit analysis, this annex focuses on two important parts of SFD-IV activities, the first being activities in the education sector and the second being the labor-intensive works (LIW) program that will be scaled-up in Phase IV. These two parts of SFD are among the largest components of Phase IV.

194. Calculating a single economic rate of return for SFD-IV is likely to be inappropriate for several reasons. While costs of SFD may be relatively straightforward to calculate, there are methodological limitations in imputing economic value for all of the SFD's likely benefits. For instance, the short timeframe under consideration cannot capture one of the most important aspects of the Program's impact: a reduction in the long-term transmission of poverty and destitution. In addition, increases in human capital are difficult to quantify in monetary terms

without data on educational attainment, labor market outcomes, and the value of improved health.

195. It is important to note that the economic direct benefits from the various components of SFD would need to be added to arrive at economic benefits of the total program. This annex aims to illustrate in general terms what types of benefits may be expected and how they are likely to compare to the costs of the project.

II. Community Preferences and Priorities

196. SFD investments typically reflect the needs of poor communities. The targeting system used by SFD has a demand-driven approach, which is supported by a poverty index that allows it to verify the poverty characteristics of potential communities of beneficiaries. To complement the “demand driven” approach, the SFD seeks to identify specific service coverage gaps based on a sophisticated Geographical Information System (GIS). The GIS is used to identify particular needs that the SFD can address and also to ensure that the SFD’s investments correspond to the local pattern of needs. Qualitative studies have been used to review the extent and nature of community involvements and the perceptions of those communities with regard to the works undertaken.

197. Moreover, adherence to transparency and accountability systems are central to SFD being able to operate, even in difficult circumstances. Every district in Yemen receives an allocation from SFD based on poverty indicators and population size. As a result, SFD has reached into every district; it makes efforts to penetrate those districts that are remote and where other government bodies cannot reach because of geographical remoteness or political or tribal disputes. SFD has also been responsive in times of crisis; for example, it has increased its investment in Hadramout following the floods and loss of life in 2008. Similarly, it introduced a labor-intensive program to create employment as a response to rising food prices. This system of resource allocation is deemed to help reduce conflict.

198. Education is the largest sector of the social fund portfolio. Table 1 shows the distribution of subprojects, by sector, in the third phase of SFD. Education projects accounted for 60 percent of SFD’s investments. Supporting the education sector has clearly been a major priority for SFD. From 1997 to 2007, it has funded over 3,000 education projects valued at US\$301 million. The SFD’s other major commitments were to water projects, health projects, rural feeder roads projects, and cultural heritage preservation projects. Due to data constraints, the cost analysis will be limited to the education component of the SFD.

Table 1. SFD Subprojects in Phase III¹

Sector	No. Subprojects Approved	Total Committed US\$m
Education	1,075	130.0
Water Supply	292	18.9
Health	155	16.6
Feeder Roads	149	13.0
Cultural Heritage	83	11.3
Special Needs Groups	145	7.4
Training and Organizational Support	NA	5.9
Environment	55	6.0
Integrated Community Development	NA	4.3
Microfinance	NA	3.2
Total		216.6

199. The SFD aligns its education investments with the Ministry of Education's Basic Education Development Strategy. The focus is on improving the quality of education services and closing the gender gap in basic education enrolment and especially promoting the education of rural girls. The main target group under this component is children between 6 and 14 years old. SFD's activities in this sector seeks to contribute to improving the infrastructure of primary and secondary education through (a) establishment of new school buildings to expand the numbers of children accommodated in basic education, (b) restoration of some educational establishments, (c) addition of classrooms and facilities to existing organizations in order to alleviate overcrowding, and (d) furnishing and equipping of school buildings.

200. Community participation in all stages of project construction is an important part of SFD's approach. SFD is acknowledged by informants for the qualitative impact evaluation to focus on the following: highly impoverished areas, education quality, and other niche areas such as children with special needs, gifted and talented children, girls' education, school mapping, and pre-school education. Expansion of infrastructure for basic education, which, as previously noted, is the largest form of SFD support to education, is based on a demand-driven approach; the other activities are primarily implemented through pilot programs in various locations throughout the country.

III. Poverty Targeting Performance

201. The SFD was conceived as a demand-driven social fund but has taken a more active role in targeting marginal groups and the poorest communities. The SFD uses a targeting policy that emphasizes financing needs of poor communities and remote areas. This policy relies on the most recent poverty indicators for the country, from the 2004 Census of Population and Houses, the 2005/06 Household Survey and qualitative tools to further refine broad geographic allocation of resources. The SFD utilizes three key targeting strategies:

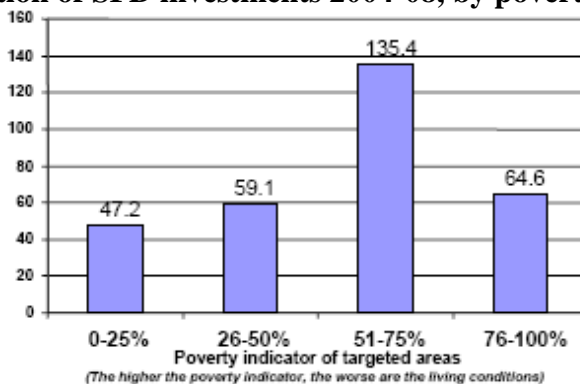
- *Geographic targeting* covers all the districts in the country by distributing the majority of SFD resources based on the estimated number of poor and needy individuals in each governorate, then each district.
- *Qualitative targeting* uses assessment tools and participative approaches to target communities within the broad geographic allocation framework.
- *Programmatic targeting* allocates additional resources to design and implement programs and projects that address problems affecting specific communities and groups.

202. Of about 4,860 projects developed during 2004–08, 2,389 projects totaling more than US\$300 million were geographic-targeting-based. These projects and investments were distributed among four groups based on village poverty indices (Figure 1). Sixty-five percent of geographically targeted investments went to areas with a poverty index above 50 percent, comprising a population of 9.2 million (73 percent of them poor). Only 35 percent benefited better-off areas with a poverty index of 0–50 percent.

203. Qualitative targeting uses assessment tools and community participation approaches to refine broad geographic and demographic indicators to ensure that the neediest areas receive support. The SFD has been continuously improving its tools and deepening its engagement with communities. This approach allows more strategic investments within areas, as there are often diverse circumstances within districts as a result of social and economic factors.

204. Programmatic targeting includes the Integrated Interventions Program (addressing needs in the poorest areas), girls’ education program (allocating additional resources to areas with low enrollments of girls), quality education program (aimed at developing models to address low-quality education) and various training programs (targeting shortage of rural health workers).

Figure 1. Distribution of SFD investments 2004-08, by poverty level of community



III. Cost Analysis of SFD Investments

205. Studies show that when conducted properly the benefits derived from community-based contracting usually exceed those from private contracting. Particularly, studies have shown that in many countries, community-managed resources have lower unit costs. Lower costs per unit

resulted from lower contractor profit margins, greater transparency and accountability, better control of price increase and less expenditure on materials.

206. SFD’s cost per project varies greatly with subproject. Based on the data provided by the SFD’s MIS for completed subprojects, the average cost per subproject has been calculated. Cultural heritage, rural feeder roads, and environment sector subprojects are the most expensive. The results are presented in Table 2 below. The costs per beneficiary are likely to have a different pattern, as health, roads and water subprojects with a larger number of beneficiaries tend obviously to be less expensive on a per capita (unit) basis than the other activities. Education subprojects usually have many more subprojects and fewer beneficiaries than health subprojects; only students currently enrolled in the schools that are being constructed are considered, whereas in health subprojects, the number of beneficiaries is much higher and extends to the entire community.

Table 2: Average cost of SFD completed subprojects

Sector	Average* Cost US\$ (completed)
Education	78,237
Water Supply	60,958
Health	63,733
Feeder Roads	109,936
Cultural Heritage	129,271
Special Needs Groups	60,525
Training and Organizational Support	30,192
Environment	113,288
Integrated Community Development	48,886
Microfinance	80,744

IV. Crowding- in and crowding-out

207. The SFD subprojects have a substantial sectoral impact, particularly in education and health. In 2001, the SFD’s share of the country’s total investment expenditures in education was 19.5 percent and in health 8.4 percent. Typically, this would raise a concern about whether public or private investment is being “crowded out” (i.e., whether it would have occurred in the absence of SFD involvement). However, the risk of crowding out of private financing in the case of Yemen is very low. There is not enough private infrastructure reaching communities being served by the SFD. Furthermore, the SFD targets mostly activities which complement, rather than substitute for government activities.

208. As for crowding-in, the SFD has been instrumental in attracting foreign funding for its projects. The evolution of other donor support money has been very positive: it increased from US\$80 million for SFD Phase I to over US\$300 million for Phase III, and it is expected to be higher in SFD Phase IV

VI. Impact of Education Subprojects

209. The results show that SFD is a major national contributor to expanding access to school and also school enrollment rates. The results of the school construction operations of the SFD subprojects are very positive as many new facilities are built as a result. The 2006 Impact Evaluation, combining representative household surveys with facility surveys and qualitative methodologies, found that enrollment rates are increasing considerably in rural schools affected by SFD, up 91 percent for boys and 122 percent for girls. Due to the methodology used, it is not possible to know to what extent these improvements result from the SFD, but these trends provide evidence consistent with a large impact.

210. While increased student enrollment is clearly one of SFD's development priorities (and related directly to the country's Millennium Development Goals), it has not been matched with a commensurate increase in qualified teachers. Moreover, financial sustainability continues to be a concern for school administrators who are responsible for covering operation and maintenance costs of new/rehab classrooms but have quite limited authority to raise revenue. Although not directly the responsibility of the SFD, these wider education quality and financing policy issues are critical for SFD investments to produce desired development impacts.

211. The SFD has also addressed the low school attendance of girls by constructing new schools and classrooms specifically for girls and therefore allowing for a higher female enrollment rate in the beneficiary communities. Enrollment rates of girls, where the SFD investments were made, have been improving. This is a very positive finding, reconfirming that the SFD is making an important difference to one of the most critical development indicators in Yemen.

212. The Impact Evaluation from 2006 showed a clear problem with school maintenance in SFD school subprojects, especially in the medium-term (plus three years). These results are strongly linked to the challenges of decentralization. Under the decentralization laws, local councils are responsible for schools and should receive all schools fees. However, recently the Ministry of Education decreed that no fees will be charged for grades 1-6. As a result, it is extremely challenging for local councils to finance school maintenance. This issue is very serious for sustainability of SFD-funded schools.

VII. Impact of the Labor-Intensive Works (LIW) Program.

213. Since SFD's LIW program was only begun in 2008, concrete evidence on its impacts has yet to emerge. A rigorous impact evaluation of the LIW program will be conducted in 2010 and will use community-randomization to establish causal effects. However, there is a considerable amount of international experience with workfare programs that can provide us with some guidance on the likely impacts of the LIW program in Phase IV.

214. The impacts of a well-designed and executed workfare program are various and include the following:

- i. The **transfer impact**, i.e., direct transfer benefits (cash or kind) to participating households.

- ii. Possible wider impacts on the local labor market through **impacts on overall wage levels**, which will be felt both by participating households and non-participating households whose incomes are below the post-program general area wage. This positive impact may be offset by negative impacts on labor demand due to higher mean wages in the program area.
- iii. Indirect impacts from the **economic benefits of assets created** under the LIW program. These would typically also be spread among a wider population than participants. SFD Phase IV will be placing a special emphasis on the creation of productive assets: hence these impacts may be particularly large.
- iv. The **consumption smoothing or insurance function** that LIW may perform by acting as an effective wage floor. Whether or not households participate in the program, such insurance benefits may promote less risk-averse behavior by households in production and portfolio choices, as downside income variability is contained.

215. The balance in relative importance of the above impacts is an empirical question, and not easy to answer for several of the potential impacts. However, it is clear both in theory and from available evidence internationally that analyses which focus only on the direct transfer benefits of programs to both poor and non-poor households are likely to significantly underestimate aggregate economic impacts of programs.

216. Labor intensity of public works is another design issue and has implications for how large the benefits may be relative to costs. There is no “right” answer to the appropriate labor intensity, which is dependent on the relative policy emphasis between direct transfer impacts and indirect income and other impacts from quality asset creation. Under crisis conditions (an external macroeconomic or an agro-climatic shock), it is understandable that greater weight is put on the direct transfer benefits, which deliver short-term income gains to the poor. International experience demonstrates significant variation in labor intensity between types of works (e.g., road construction typically uses 40-50 percent labor costs, as against drainage maintenance and reforestation subprojects, which use 70-80 percent on labor).

217. **Evidence on impacts and benefits.** The poverty alleviation impact of LIW needs to be assessed net of foregone income and other participation costs to households. Foregone incomes are estimated to be substantial in the case of some other workfare programs. One estimate found foregone income of around 25 percent (on average) of the program wage rate. Another survey found that foregone income of participating households accounted for just over half of the average program wages received. Overall gains per participant are likely to be around 40-60 percent of the estimated wage, based on the experience from programs in other countries. The estimated range of direct transfer benefits to participating households, assuming a 60 percent wage share in spending and 50-60 percent net income gain, an annual estimate of direct income gains would be 30-40 percent of total spending.

218. Creation of quality assets under workfare schemes clearly has a significant impact on the cost-effectiveness of the intervention. Since LIW will aim to maintain a sustained engagement in a locality over a number of years, the program can invest in the creation of assets that are likely to boost productivity in the future. The aggregate economic impacts of assets created from such

workfare efforts are generally held to be positive. Analysis from Bangladesh confirms significant impacts on output from assets created under the Food-for-Work program. Sizable output gains from irrigation works have been estimated in India. Under the Bolivia SIF, rates of return on projects have been estimated at 22 percent.

219. Evidence on the **insurance impact** of workfare schemes is limited. However, available evidence points to significant reductions in income variability from workfare schemes. In a comparison of four major safety net programs, workfare was much more likely than subsidized food, school scholarships and community block grants to reach households who had suffered large expenditure shocks due to the crisis, in large part due to self-targeting features. Achieving the insurance benefits depends crucially on avoiding rationing; however, the poor must be able to get help when they need it. The ability of the LIW to provide such a ‘guarantee’ for employment remains unclear; hence the value of the insurance benefits of LIW is not very predictable.

VIII. Other Impacts of SFD Projects

220. **Health.** Given previous negative experience with building health care units that were not sufficiently staffed and maintained, in Phase III the SFD has focused on raising the competency and availability of a female health cadre to women in remote rural areas, especially surrounding reproductive and primary health care services. The impact evaluation found improvements in equipping, staffing, and availability of most services in SFD facilities since 2003, but the delivery of daily integrated and preventive services is far from being regular. The SFD is found to have positive results on children’s vaccination, and the beneficiary assessment suggests the SFD midwives program is valued by men and women for making female health professionals available in home for pregnancy and childbirth in remote villages.

221. **Water.** The Impact Evaluation researchers experienced problems with the collection and analysis of data from water subprojects so the findings on water are quite limited. Hence, the SFD will contract an in-depth analysis of all water subprojects during the second half of Phase III.

222. **Rural roads** subprojects were found to have direct impacts on access to education, health and other services by decreasing travel times and increasing frequency of trips. Decreased transportation expenses directly led to cheaper prices for tanker water, fuel and other basic commodities.

223. **Community empowerment.** The surveys also indicate a high-level of ownership and support for SFD-financed subprojects, with the majority of interviewees indicating that they would have chosen the same subproject as a priority for their community. Households contribute money, working days and materials for infrastructure subprojects and elect their neighbors to serve on procurement, subproject and maintenance committees. The majority of subprojects have project maintenance committees. The direct involvement of women in subproject selection and maintenance is low, although the beneficiary assessment found that SFD processes encourage opportunities to discuss female participation.

Annex 10: Safeguard Policy Issues

REPUBLIC OF YEMEN

SOCIAL FUND FOR DEVELOPMENT PHASE IV PROJECT

224. **Introduction:** The Social Fund for Development IV project has components that are similar to those of the previous phases, with the inclusion of a new **Labor-Intensive Works (LIW) program component**. In 2006, SFD began to implement LIW program as part of national efforts to reduce unemployment. Lessons learned from the first round of implementation of workfare programs will be included in this project, including enhancing the project's longer-term environmental rehabilitation impact. For public works programs, there will be greater consideration of agricultural lands and terraces that can be rehabilitated for the benefit of poorer households. The LIW includes the rehabilitation of community assets in the fields of soil protection, agricultural terraces rehabilitation, maintenance and improvement of local feeder roads, streets pavement and other types of labor-intensive work based on the demand and priority needs of each community. Cash will be provided to help mitigate the impact of increased food prices through temporary work opportunities using a well-tested community targeting mechanism, as well as to support rehabilitation of basic community assets. The **Community and Local Development program (CLD) component** will continue to implement subprojects in various sectors, including education, health, special needs groups (disabled persons, orphans, women at risk, among others), water and sanitation, culture heritage, and agriculture and rural roads. With the experience gained from SFD I, II and III, as well as with SFs in other countries, a wide range of potential environmental issues are expected relating to solid waste, water quality, wastewater treatment, air quality, natural resources management, protected areas management, and cultural heritage.

225. The project is classified as an **environmental Category B** according to the World Bank's Operation Policy on Environmental Assessment (OP 4.01), requiring partial assessment. The project is not expected to generate any significant negative impacts, although some subprojects may result in adverse environmental impacts which are expected to be site-specific and temporary in nature. Any potential negative impacts can be avoided or mitigated through the application of the Environmental and Management Plan (EMP). In addition, as SFD is implementing a relatively large number of subprojects, the potential for cumulative impacts will also be considered in the design and implementation of the subprojects. SFD has well established procedures for environmental/social screening and classifying subprojects; monitoring to ensure that mitigation measures as outlined in the EMP, are implemented; and reporting on compliance with safeguard policies. SFD IV is classified as an environmental Category B project and consequently IDA funds will not be used towards the funding of any Category A type subprojects. SFD classifies them as List A, which is comparable to the Bank's EA Category A. Such subprojects (including Category A type subprojects relating to cultural heritage) will be excluded from IDA funding when SFD comes across them during the subproject screening process.

226. The project has also triggered the Operational Policy on Physical Cultural Resources (OP 4.11) as the CLD component will implement subprojects to preserve some cultural heritage sites

in Yemen. For this positive effort to preserve cultural assets, SFD is using qualified national and international expertise to secure quality interventions, trying at the same time to enhance and expand national technical capacity. The French Government has seconded a cultural heritage expert to work with SFD. SFD has secured Yemen's membership in the UNESCO International Center for the Study of the Preservation and Restoration of Cultural Property (ICCROM), in addition to carrying out a number of explicit activities for technical and institutional capacity building for relevant partners. Recently, SFD and the Ministry of Culture have signed a MOU which supports SFD's vision in Phase IV, and both parties will work together to achieve the critical objectives. Some of these include: (i) convincing and providing support to the Ministry of Higher Education to adopt standard conservation as a mandatory subject in the curricula of Architecture and Engineering faculties in Public and Private universities; and (ii) pushing forward the draft of the Preservation of the Historic Cities and Sites law, which represents the necessary legislative basis for the protection of Yemen's Cultural Heritage. Currently, Yemen does not have any guidelines for preservation and restoration of cultural heritage.

227. SFD has been investing in preserving and protecting cultural assets as below:

- Building the capacity of organizations and individuals in documenting, restoring, rehabilitating and protecting Yemen's cultural heritage assets.
- Benefiting from international experts interested in protecting these assets.
- Supporting the creation of an inventory of such assets and prioritizing interventions accordingly.
- Saving the largest possible number of threatened sites and monuments.
- Increasing public awareness about cultural assets.
- Ensuring coordination with relevant central and local agencies.
- Enhancing legislative protection for threatened cultural heritage assets of significant value facing inheritance conflicts or disagreements.

228. SFD even won the Aga Khan Award for Architecture for preserving Shibam (web site: http://www.akdn.org/akaa_award10.asp#yemen).

229. **Implementation and Reporting on Environmental Management Plan (EMP):** The project will be implemented as a community-led effort, where communities will be empowered to enable them in identifying their available resources and priority needs. The subprojects will continue to be implemented through SFD's nine branch offices and supervised by main implementation units. SFD has proven capacity to implement World Bank safeguard policies as it has gained significant experience through implementing the previous three phases.

230. SFD carries out annual independent environmental audits and these reports will be shared with the Bank. Budget for preparation of the annual environmental audits is part of the overall project budget. SFD's ability to successfully implement the EMP was confirmed during a Safeguards Thematic Mission undertaken by the World Bank during May 24-June 3, 2009.

231. **Disclosure of EMP:** As this is Phase IV of the SFD projects, consultation has been an ongoing process with key stakeholders and other beneficiaries. An EMP dated August 2003 was appraised and implemented under SFD Phase III. However, this EMP has now been updated, and will be used during the implementation of the SFD Phase IV. In accordance with the World

Bank Disclosure Policy, the executive summary of the revised EMP has been translated into Arabic and both versions were disclosed in-country, at the Infoshop and on the SFD website on February 2, 2010, before the project appraisal mission.

232. **Environmental Management Plan:** The objective of the EMP is to cater to the environmental and social needs of SFD subprojects in a simple, responsive and cost effective manner that will not unnecessarily overload or slow down the project cycle. When implemented efficiently, the EMP should ensure that:

- Any environmental or related social issues or concerns are addressed in the design phase of the subprojects.
- Mitigation measures minimizing environmental and social impacts are being implemented.
- Monitoring for compliance and sound environmental and social performance is continued.

233. The basic elements of the amended EMP are: (i) environmental classification of subprojects; (ii) a simple environmental screening and registration process using classification lists; (iii) simple environmental assessment for subproject using environmental assessment forms, checklists and guidelines; (iv) environmental self monitoring, reporting and periodic inspection; (v) environmental education, training and awareness; and (vi) periodic auditing and reporting. The EMP also includes simple social indicators related to subproject location and implications.

(i) Environmental Classification of Subprojects

234. The subprojects of the SFD would be classified into three groups. Lists A, B, and C would represent these groups as follows:

List C:

235. These are subprojects which are known to have no adverse environmental impacts, and accordingly will not require any environmental assessment or follow-up. Training, institutional capacity building, awareness, minor rehabilitation and furnishing/equipping of schools and training centers are examples of subprojects falling under this category and represent around 10 percent of the overall number of subprojects.

List B:

236. This category of subprojects represents a relatively large percentage of the overall number of subprojects (about 85 percent). These are subprojects that are likely to have only limited adverse environmental impacts. Subprojects falling under this category would include, but are not limited to:

- Construction of schools, teacher's housing, training centers, etc. Construction of health units, dispensaries, maternity clinics, medical research and control centers, etc.
- Construction of roads, bridges, water passageways, etc.
- Construction of micro-dams, water reservoirs, etc.
- Establishing livestock markets, slaughter houses, vaccination yards, etc.

- Small scale cultural heritage subprojects such as rehabilitation of “Megshamats”

237. These subprojects would require a scoping to be undertaken and preparing an (limited) EIA using a simple “Form B” (attached in annex 1 of the EMP).

List A:

This list is limited only to those subprojects with significant environmental impacts, and for which a full EIA needs to be prepared and reviewed. However, during the screening process if SFD comes across any of such List A (World Bank’s environmental category A) subprojects, they will be excluded from IDA funding. The list of subprojects under this category which will not be funded by IDA would include, but might not be limited to:

- Landfill subprojects
- Large healthcare waste management subprojects (for towns or cities)
- Dams with capacities over 50,000m³
- Wastewater treatment systems (sewerage networks and/or treatment plants) for large villages, towns or cities.

(ii) Environmental Screening and Registering

238. *Environmental screening would take place at an early stage of the SFD **subproject cycle**. During the “Field Appraisal” stage, the project officer (PO), based on the subproject proposal and with the help of the classification lists, would classify the subproject into category A, B or C and register it in the **Management Information System**. The Head of the relevant Unit (UH) reviews the classification of the subprojects and might re-classify the subproject if he/she sees the necessity to do so. Subprojects classified as “C” would be further processed with no environmental assessment or follow-up. Subprojects under class “B” would be subject to environmental assessment and follow-up as described hereafter, and subprojects under class “A” will not be funded by IDA and therefore will be excluded.*

(iii) Environmental Assessment of Subprojects

239. Environmental assessment takes place during the second stage of the subproject life cycle (preparation of project document). Subprojects classified under Category B would be subject to a focused EIA. The subproject consultant would be required to complete a simple “EIA Form B”. The PO will provide the consultant with checklists and guidelines to help him/her identify and include the relevant mitigation measures. Mitigation measures indicated in the “EIA Form B” should be included in the project design and reflected in the project document. The SFD has already developed the “EIA Form B” and a number of checklists including:

- A brief and focused checklist for potential adverse environmental impacts of the following subprojects categories: Roads; Schools; Health Care Units; Water Harvesting; Water Supply and Waste Water Management; Small Dams; Solid Waste Management Projects
- Checklists for indicators/parameters to be included in the self monitoring plans of the above subprojects categories

- A brief and focused checklist for mitigation measures to be considered for the different subprojects categories.

240. Checklists are included in Annex 3 of the EMP.

241. The EIA for the Category B subproject will first be reviewed by the PO in the Branch Office (BO) to check for any missing data, information or unaddressed issues. The subproject document and the EIA, including the environmental self-monitoring plan, are then sent to the Unit Manager (UM). The UM will forward a copy of the subproject document and the EIA to an “External Environmental Reviewer” (EER) (or alternatively to an Environmental Coordinator “EC” within the Water and Environment Unit. The External Environmental Reviewer (EER) (or Environment Coordinator “EC”) will provide the UM with his comments concerning the EIA. In particular, he/she will evaluate and comment on the proposed mitigation measures, as well as the environmental self-monitoring and reporting plan. The subproject document, including the EIA Form as well as the opinion of the EER (or EC), is then put forward to the Project Appraisal Committee (PAC). It is proposed that the environmental consultants on this short list be trained on EIA and environmental auditing. If the subproject site is changed after approval, the EIA would have to be re-conducted for the new site.

(iv) **Environmental Self Monitoring, Reporting and Periodic Inspection**

Construction Phase:

242. During construction, the Sponsoring Agency (SA) is responsible to ensure that mitigation measures are being implemented. During this phase, the subproject consultant would include in his/her periodic reports the status of the environmental concerns and the progress concerning implementation of the mitigation measures as reflected in the EIA and subproject document. The PO reviews the periodic reports and follows-up periodically to ensure that environmental mitigation measures are being implemented.

Operation Phase:

243. Subprojects would be required to prepare and present to the PO periodic self-monitoring reports as stipulated in the self monitoring plan. These self-monitoring activities would be simple and straightforward, and would already have been agreed to in the self-monitoring plan and presented with the EIA. The Environmental Coordinator (EC) within the Water and Environment Unit will review the environmental self-monitoring reports, and will periodically inspect subprojects for environmental compliance and performance.

(v) **Environmental Education, Training and Awareness**

244. To be able to efficiently implement the EMP, it is important to provide focused environmental training and awareness to the SFD staff as well as the SFD consultants. The following environmental educational and training events are required as a minimum:

- A one day event to present to all SFD staff the EMP and explain its objectives and benefits. The process as well as roles and responsibilities will also be presented and discussed. During this event (workshop), guidelines and checklists will be provided and explained.

- A number of 3 day intensive courses for Project Officers and selected consultants on EIA. These EIA courses should not be theoretical in nature and should be tailored to address the requirements of the SFD subprojects. These courses would be held as regional workshops and could include other parties associated with the SFD programs.
- A number of educational 2 day regional workshops on Healthcare Waste Management in healthcare units. The attendees of this workshop would be the POs of the Social Protection and the Water and Environmental Units. The safe handling and disposal of healthcare risk waste should be presented and discussed.

(vi) **Environmental Auditing and Reporting**

245. Annually, an environmental consultant will be recruited to conduct an environmental compliance and performance audit. An audit report will be presented jointly by the consultant and the Environmental Coordinator (EC), and presented to SFD management. Based on the findings of this report, the Managing Director (MD) will forward an “Annual Environmental Report” to the World Bank. The Environmental and Social Management Plan for the SFD together with the relevant institutional roles and responsibilities are depicted in a chart in the EMP.

246. **Social Analysis:** SFD Phase III, originally planned to run from 2004–08, was extended to 2010 to synchronize with the Government’s third Five-Year Plan for Economic and Social Development and Poverty Reduction (2006–10). To outline the SFD role within this extension, SFD developed a Mid-Term Vision (2006–2010) to meet the evolving challenges of alleviating poverty. Four themes were chosen to characterize the SFD’s vision. These are:

- Community empowerment at the local level;
- Increased attention to economic development;
- Institutional strengthening and partnership (outward synergy); and
- Internal synergy and enhanced efficiency and capacity within SFD.

247. The project will contribute to increased benefits to rural and urban populations through the SFD’s social development role with its firm focus on poverty alleviation based increasingly on partnerships with institutions at the local and national levels. An Impact Evaluation conducted in 2006 found that in terms of targeting the poor, the SFD has performed exceptionally well, i.e., 50 percent of its funds go to the poorest income decile, 64 percent to the poorest quintile and 73 percent to the lowest three income deciles. Only 3 percent of resources are received by households in the richest decile. These figures are considerably better than those found in other Social Investment Funds where similar analytical procedures have been applied, and represent an impressive improvement on the situation reported in 2003 when 44 percent of the SFD resources went to the poorest three deciles.

248. **Participation:** The project will support overall participation by a wide range of stakeholders in project preparation and design, including local communities, political leaders, and government offices. By establishing community groups, promoting awareness of the importance of electing representatives that will serve the whole community, the SFD is contributing to reviving the traditional systems of social capital and self-help, which has been in

decline since 1970s. The use of participatory methodologies is creating space for diverse interests to be identified and mediated from an early stage, and hence contributes to the reduction in conflict over resources among communities. The fact that elected representatives of the community oversee the implementation of contracts is evidence that the SFD is treating communities as partners rather than recipients⁵.

249. The project will assist the SFD to strengthen its approach to working with poor women and men to promote women's roles and contributions, including creating awareness of gender concerns at the community level. The project will also support improved SFD coordination efforts with governorates and districts, depending on the capacity of local authorities, as well as strengthening the SFD's NGO/CSO partnerships to most effectively engage in policy dialogue concerning development impact and sustainability.

250. Due to the small-scale nature of the infrastructure work, the community participatory approach and the SFD Operational Manual focus on avoidance of resettlement impacts, the Project is not expected to trigger Involuntary Resettlement (OP 4.12). As a precaution, it is expected that a Resettlement Policy Framework will be prepared to cover any unexpected resettlement impacts.

251. **Social Safeguards:** The SFD Draft Update EMP (December 2009) references social issues and social indicators in Annex (1) *Subproject Self Monitoring and Follow up Indicators*. The social issues and indicators include:

- Immigration - census
- Encouraging Tourism – census on individuals entering the area
- Social Problems - tribes' problems, land ownership, land holding, cultural heritage, archeological sites, historical sites, tombs and graves

252. The EMP also includes Social Aspects in Annex (2) *Potential Negative Environmental Impacts for Subprojects Funded by SFD*. Social/Health Aspects include:

- Selecting a facility location/a road's pathway
- Land Ownership
- Obstructing road users
- Hampering graves
- Increase of traffic accidents
- Contradicting beneficiary interests
- Water rights
- Protection around the barrier
- Using treated water in irrigation
- Bilharzia snails – mosquitoes

253. To mitigate the potential negative social and health aspects, the EMP proposes the following mitigation measures:

⁵ 2006 Impact Evaluation Study. ESA Consultores Internacional. April 2007

- Choosing locations which serve the greatest number of beneficiaries
- Accurately defining the land required for the subproject and letting beneficiaries resolve this issue through friendly methods

254. SFD Environmental Subproject Reports should be monitored to determine the extent of reporting of potential negative social aspects and the success of the mitigation measures employed. Location selection and land ownership should also indicate the status of those providing land for community benefit sites. The social aspects of the EMP can be further strengthened during SFD IV through Project-sponsored EMP education, awareness and training activities.

Annex 11: SFD and Yemen's Social Protection Strategy

REPUBLIC OF YEMEN

SOCIAL FUND FOR DEVELOPMENT PHASE IV PROJECT

I. Sources of Vulnerability in Yemen

255. Risk is a pervasive aspect of living standards in Yemen. Shocks in health, employment, natural disasters, civil unrest and commodity prices often throw households into poverty. Many individuals, households and communities exposed to economic risks that have poor access to formal coping mechanisms (such as credit) rely on informal coping mechanisms that may be inefficient in the long-term. For example the withdrawal of children from school and the use of their labor in order to smooth consumption is a costly coping mechanism that some poorer households must often rely upon when faced with risk. Reducing this type of vulnerability to risk is a primary objective of Yemen's Social Protection (SP) strategy.

256. Agriculture occupies a pivotal position in the Yemeni economy and residents of rural areas are often most vulnerable to various types of shocks. Over 70 percent of Yemen's population lives in rural areas and most derive their livelihood from agriculture. However, only 3 per cent of land in Yemen is arable and only 24 percent of this small portion is irrigated. Chronic water shortages and stagnating agricultural production has therefore led to the persistence of high poverty in rural Yemen. To make a living in poor rural areas, salaried labor, whether in inside or outside agriculture, is a key. Because of lack of local economic opportunities, adult males have to migrate in search for work.

257. In recent years, poor areas of Yemen suffered not only from the global increase in food prices, but also from sluggish economic activities. While food prices have gone down from their high 2008 peak, the financial crisis took over, resulting in a further deceleration of the economy of Yemen as well as the economies of the Gulf countries. Rural people suffer from a decrease in job availability for migrant workers and fewer remittances from urban residents. Other sources of vulnerability have included floods in some parts of the country and armed conflict in the southern and northern regions.

II. Key elements of Yemen's SP Strategy

258. The Government of Yemen has a vision of creating an all inclusive society through the provision of sustainable mechanisms for the protection of people living in situations of extreme poverty, vulnerability and exclusion. The SP Strategy for Yemen seeks to assist the country in achieving its poverty reduction goals as well as supporting avenues out of poverty. The SP Strategy is based on strategic directions and concrete actions to offer an appropriate and effective recourse against an array of risks and shocks that affect the poor and at-risk-of-becoming poor

259. The typical instruments of Social Protection include labor market policies, social security (health insurance, unemployment insurance, pensions for old age and disability) and social

assistance (e.g., direct cash or in-kind benefits to the poor and vulnerable). Yemen faces a big challenge in reducing vulnerability, however, due to a low base of per capita income and poor social indicators, coupled with limited resources and a rapidly growing population. Despite this, Yemen is implementing a series of social protection programs and policies in the areas of social security, social assistance, and labor markets. Yemen is already carrying a series of measures through the Social Welfare Fund (created 1996), Social Fund for Development (created 1997), Public Works Projects (created in 1998) as well as programs for Social and Family Development, the Disabled and the Handicapped, Rural Development, Children and Youth or more broadly the Agriculture and Fisheries Production Promotion Fund (AFPPF).

260. More generally, Yemen has established: (i) social security for civilian and military workers and their protection in old age, or upon illness or injury during work; (ii) cash assistance to people who are unable to earn a living; (iii) programs that aim to increase the provision of basic social services; and (iv) projects to create job opportunities or support productive activities in agriculture, fisheries and livestock grazing, etc. Overall expenditures of the social assistance specialized institutions supported through the Government's own budget are modest (approximately 0.6 percent of GDP).

261. *Yemen's Strategic Vision 2025* aims to use the Social Safety Net (including the Social Fund for Development, the Social Welfare Fund, the Public Works Project, the Productive Family and Community Development Centre, and other Government and non-Government programs and projects) to create productive job opportunities by:

- Creating a broad base for small investments in order to enable all social groups in society to set up their own businesses or to provide job opportunities for such categories
- Direct attention towards community programs, which are based on the participation and contribution of the people in the preparation and implementation of local projects
- Focus on the most deprived groups to ensure that these people benefit and that the benefits are equitable across governorates and districts

262. The various social protection strategies used by the Government can be classified in one of the following three categories:

- *Prevention strategies* (risk reduction) aim to reduce the likelihood of a shock or adverse outcome happening (i.e., education and human capital investment, less risky production, labor standards);
- *Mitigation measures* (risk mitigation) aim to decrease the impact of a potential shock (i.e., pensions, insurance, multiple jobs, portfolio diversification);
- *Coping strategies* (risk coping) aim to relieve the impact once a bad outcome has happened (i.e., safety net programs, cash transfers, public works, in-kind transfers).

III. Role of SFD in SP Strategy

263. The SP Strategy calls for pursuing a series of Strategic Priorities that will enable the Government of Yemen to meet its SP objectives. SFD's role in the SP Strategy is made clear by virtue of being one of the responsible agencies for each of the five Priorities. The four components of the SFD Phase IV include activities that fall within one of the Priorities. The following paragraphs represent ways in which SFD's activities will contribute to the SP strategy's key priorities.

264. One of the Strategic Priorities in the SP Strategy is to pursue policies for universal and relevant workforce development complemented with social assistance measures. Achievement of Strategic Priority 1 would provide a safety net to relieve households from pressing short term survival considerations as well as to encourage them to invest in the education of their children.

265. SFD's LIW program is a key step in achieving this priority. The LIW program was begun in 2006 in order to reduce unemployment and transfer incomes to the poorest households in crisis-affected areas to prevent poor households from spiraling deeper into poverty due to a transitory shock. The agreed LIW objective for Phase IV is now to reduce the vulnerability of chronically poor households through long-term engagement in the poorest areas, protection of household assets or productive behaviors, and enhancing economic opportunities through the creation of productive community assets. Specifically, the program will seek to be a safety net providing cash transfers to the poor in exchange for work (i.e., household asset protection), as well as enhancing the productivity of poor households by ensuring that the public works interventions contribute to improving local productive capacities and livelihood opportunities (i.e., community and household asset creation). In this way, the program is distinct from other social safety nets such as the cash transfer program of the Social Welfare Fund.

266. Another strategic priority the SFD supports is the planning and implementation of social assistance to serve the dual objectives of contributing to human development and providing a safety net in a sustainable way. Various activities financed by SFD are relevant here, such as the improvement of access to education by a coordinated school building program or in combination with a workfare program. As the health and education investments of SFD are likely to enhance future productivity, they not only contribute to better human development outcomes but also help reduce the vulnerability of households in the future.

267. Finally, SFD also helps address short-term emergencies, which is another Priority laid out in the SP Strategy. As part of this Priority, the Government seeks to place response to emergencies within a broader approach based on preparedness rather than an ad hoc reaction to events as they occur. Through its implementation of the LIW program in ways that target not just chronically poor households but also communities facing acute emergencies, SFD is able to contribute to this important Priority of the SP Strategy as well.

268. *Linkage to Yemen's Food Security Strategy.* Yemen has also embarked on the preparation of a strategy designed to address food security at the household and national levels. SFD IV's LIW program is seen as an important vehicle which can contribute to food security objectives by helping to supplement incomes of the most chronically food insecure households, as well as addressing the community-based watershed management and other constraints to improved livelihoods in chronically poor, food insecure areas.

Annex 12: SFD Partnerships and Overall Phase IV Program Financing Framework

REPUBLIC OF YEMEN

SOCIAL FUND FOR DEVELOPMENT PHASE IV PROJECT

I. Trends in Partnership

269. SFD has built a strong partnership framework in the course of the past 12 years of implementation. During this period successive impact evaluations have provided evidence that SFD provides social and economic services to the poorest populations of Yemen in response to community-driven demand, while operating as a transparent and efficient implementing entity. As a result SFD now enjoys support from 15 financiers, including regional donors. It has also been able to scale up its program in each successive phase, reaching more than US\$1.1 billion in Phase III (see Table 1 below).

Table 1. Trends in Donor Financing for SFD Phases I-III

Donor / Phase	Amount (US\$ '000)			Total
	Phase I (1997-99)	Phase II (2000-03)	Phase III (2004-10)	
World Bank	28,079	75,317	96,966	200,362
Yemeni Government	1,165	3,467	175,000	179,632
Arab Fund for Development	19,067	50,181	52,631	121,878
Saudi Government	-	-	120,000	120,000
UK Government	-	2,886	109,600	112,486
Netherlands Government	13,486	25,919	58,979	98,385
Abu Dhabi Fund	-	-	80,000	80,000
EC	13,777	-	45,555	59,332
Kuwaiti Fund	-	-	50,000	50,000
OPEC Fund	5,845	-	29,000	34,845
USA Government	13,676	4,890	8,582	27,147
German Government	-	-	67,584	67,584
IFAD	-	-	16,400	16,400
Islamic Bank	-	6,300	10,000	16,300
Oman Government	-	-	5,000	5,000
Others	-	199	4,163	4,362
Grand Total	95,094	169,159	929,459	1,193,713

Source: SFD

II. Financial Planning for Phase IV

270. Over the past three phases, SFD's capacity to implement a large number of subprojects has grown substantially. It can now commit to the implementation of 1,400 subprojects annually, disbursing on average some US\$14 million per month with operating expenses of

approximately 5 percent. Based on this record, SFD has projected the total cost of fourth phase activities will be approximately US\$1.1 billion (see Table 2).

Table 2. Projected Costs of SFD Phase IV Program (US\$)

Program	2011	2012	2013	2014	2015	Total	%
Community and Local Development	147,262,380	142,638,255	145,255,980	141,713,430	136,531,180	713,401,225	63%
Capacity Building	31,358,020	31,114,645	31,252,420	31,065,970	30,793,220	155,584,275	14%
Small and Micro Enterprises Development	5,225,145	5,864,063	7,508,092	8,457,819	9,513,903	36,569,023	3%
Labor Intensive Program	18,425,000	36,850,000	55,275,000	55,275,000	55,275,000	221,100,000	20%
Total	202,270,545	216,466,963	239,291,492	236,512,219	232,113,303	1,126,654,523	100%

III. Indicative Financial Commitments to Date

271. Phase IV of the overall SFD Program will span 2011-15. As such, SFD is still at an early stage of obtaining firm commitments from its potential and likely financing partners. Nevertheless, Table 3 below provides information on the indicative financing allocations that SFD has discussed thus far. Different partners will provide parallel financing but for a common overall program.

Table 3. Initial Indicative Financing Estimates for SFD Phase IV Program (US\$)

Donor	Phase IV (2011-15)
World Bank	60,000,000
Yemeni Government	100,240,000
Arab Fund for Development	100,000,000
UK Government	160,000,000
Community contribution 5%	21,012,000
Total	441,252,000

Source: SFD

272. Although the size of the notional financing gap may raise a concern that the targets specified in the Results Framework are not achievable, for a number of reasons SFD is confident that future commitments will close the financing gap fully. First, SFD is expecting to have discussions with several interested donors later in 2010 about their contributions to the fourth phase. Second, SFD has based its expectations on the experience in the third phase, during which donor commitments at the beginning of the phase were considerably smaller than the commitments eventually made during the third phase. Specifically, although initial commitments for SFD Phase III were US\$400 million, the total cost of activities implemented under Phase III ended up equaling US\$931 million. Finally, SFD has also established the scale of the fourth phase on the basis of trends in government and partner contributions over the three previous

phases, whereby many partners have increased their contributions substantially. This trend is likely to continue and as a result, SFD's projected costs for the fourth phase are likely to be financed in the years ahead.

Annex 13: Project Preparation and Supervision

REPUBLIC OF YEMEN

SOCIAL FUND FOR DEVELOPMENT PHASE IV PROJECT

	Planned	Actual
PCN review	November 18, 2009	November 18, 2009
Initial PID to PIC	December 9, 2009	December 9, 2009
Initial ISDS to PIC	December 9, 2009	January 4, 2010
Appraisal	February 3, 2010	February 4, 2010
Negotiations	February 14, 2010	February 16-17, 2010
Board approval	March 25, 2010	
Planned date of effectiveness	June 1, 2010	
Planned date of mid-term review	April 15, 2013	
Planned closing date	December 31, 2015	

Key institutions responsible for preparation of the project:

- Yemen Social Fund for Development

Key institutions involved in preparation of the project:

- UK Department for International Development
- EC
- Embassy of the Kingdom of the Netherlands
- KfW

Bank staff and consultants who worked on the project included:

Name	Title	Unit
Trina Haque	Lead Economist, Task Team Leader	MNSHH
Mira Hong	Operations Officer, Co-Task Team Leader	MNSSP
Harsha Thirumurthy	Economist	MNSHD
Danielle Malek	Counsel	LEGEM
Ayman El-Guindy	Procurement Specialist	MNAPR
Moad Alrubaidi	Financial Management Specialist	MNAFM
Mikael Mengesha	Senior Procurement Officer	MNAPR
Banu Setlur	Environmental Specialist	MNSEN
Renee Desclaux	Senior Finance Officer	CTRFC
Marget Davis	Social Development Specialist	Consultant
Judith Brandsma	Micro Finance Specialist	Consultant
Andy Robinson	Water and Sanitation Specialist	Consultant
Afrah Al Ahmadi	Senior Human Development Specialist	MNSSP
Afifa Alia Achsien	Senior Program Assistant	MNSHD
Renata Lukasiewicz	Program Assistant	MNSHD
Mariam William	Team Assistant	MNSHD

Bank funds expended to date on project preparation:

1. Bank resources: US\$120,000
2. Trust funds: N/A
3. Total: US\$120,000

Estimated Approval and Supervision costs:

1. Remaining costs to approval: US\$30,000
2. Estimated annual supervision cost: US\$200,000

Strategy for Supervision and Implementation Support

273. The World Bank's Articles of Agreement require that managers and staff assume responsibility for supervising the Recipient's implementation of projects and programs receiving World Bank financing. The principal aim of supervision is to ensure that financing is used only for the purposes intended, with due regard to economy and efficiency and that the operations supported achieve their development objectives. Given the multi-sector, decentralized implementation, and national coverage of SFD IV, the Bank proposes to institute a program of enhanced supervision and implementation support for the Project. The following principles will guide this effort:

- **Supervision should be flexible and responsive and a mechanism for sustaining a strong partnership.** Hence it needs to be structured as an ongoing process of engagement capable of identifying and responding quickly to implementation challenges that arise in all Project areas. In addition the process should provide a mechanism for close collaboration and dialogue between the Government and stakeholders. Thus in addition to the regular semi-annual formal Reviews.
- **Ensuring technical rigor and a team-based approach** will be critical given the multi-sector engagement and multiple stakeholders of the proposed programs under SFD IV. To respond effectively to the demands of implementation, the supervision teams on both the Government and Bank sides will need to be staffed with professionals with appropriate technical skills and experience. This includes, *inter alia*, technical specialists in the following areas: health, education, water and sanitation, environmental management, impact evaluation, targeting, institutional development, financial management/disbursements; and communications. During implementation, additional skills may be required to address specific emerging requirements.

Annex 14: Documents in the Project File

REPUBLIC OF YEMEN

SOCIAL FUND FOR DEVELOPMENT PHASE IV PROJECT

274. Selected documents available with the World Bank and/or with SFD are the following:

- A Mid-Term Vision for SFD, December 2007
- SFD III Institutional Impact Evaluation, October 2009
- Vision for the Fourth Phase (2011–15), November 2009
- SFD Operational Manual, revision draft dated December 2009

Annex 15: Statement of Credits and Grants

REPUBLIC OF YEMEN

SOCIAL FUND FOR DEVELOPMENT PHASE IV PROJECT

Project ID	FY	Purpose	Original Amount in US\$ Millions				Cancel.	Undisb.	Difference between expected and actual disbursements	
			IBRD	IDA	SF	GEF			Orig.	Frm. Rev'd
P113102	2010	RY-Schistosomiasis Control Project	0.00	25.00	0.00	0.00	0.00	24.67	0.00	0.00
P092211	2009	RY-RURAL ENERGY ACCESS	0.00	25.00	0.00	0.00	0.00	26.35	0.17	0.00
P107037	2009	RY-WATER SECTOR SUPPORT	0.00	90.00	0.00	0.00	0.00	90.82	6.64	0.00
P101453	2008	RY-INSTITUTIONAL REFORM CREDIT (DPL)	0.00	50.93	0.00	0.00	0.00	25.55	-18.51	0.00
P089761	2008	RY Sec. Educ. Dev. and Girls Access	0.00	20.00	0.00	0.00	0.00	19.81	3.02	1.56
P086308	2007	RY-Second Vocational Training Project	0.00	15.00	0.00	0.00	0.00	15.30	4.56	2.43
P089259	2007	RY Rainfed Agriculture and Livestock	0.00	20.00	0.00	0.00	0.00	16.82	7.94	0.00
P086886	2006	RY-Fisheries Res. Mgt & Conservation	0.00	25.00	0.00	0.00	0.00	20.79	8.38	0.00
P086865	2006	RY-POWER SECTOR	0.00	50.00	0.00	0.00	0.00	53.76	46.15	0.00
P085231	2006	RY- SECOND RURAL ACCESS	0.00	80.00	0.00	0.00	0.00	52.47	7.27	0.00
P076185	2005	RY-Basic Education Development Program	0.00	65.00	0.00	0.00	0.00	18.81	14.00	0.00
P082976	2004	RY-THIRD PUBLIC WORKS	0.00	74.84	0.00	0.00	0.00	18.12	-14.02	-3.28
P074413	2004	RY-Groundwater & Soil Conserv Proj	0.00	70.00	0.00	0.00	0.00	29.02	-0.85	-1.20
P057602	2003	RY URBAN WTR SUPPLY & SANITATION APL	0.00	130.00	0.00	0.00	4.74	43.39	27.47	15.29
P065111	2003	RY-PORT CITIES DEVELOPMENT PROGRAM	0.00	23.40	0.00	0.00	0.00	3.56	0.16	0.00
P064981	2003	RY-SANA'A BASIN WATER MGMNT	0.00	24.00	0.00	0.00	0.00	3.87	1.01	-2.27
P070092	2002	RY TAIZ MUNICIPAL DEV & FLOOD PROTEC	0.00	100.20	0.00	0.00	0.00	41.98	-21.03	2.75
P005906	2001	RY-RURAL WATER SUPPLY & SANITATION	0.00	40.00	0.00	0.00	0.00	3.99	-18.74	-2.69
P050706	2000	RY-CIVIL SERVICE MODERN	0.00	44.00	0.00	0.00	0.00	19.93	2.29	2.29
Total:			0.00	972.37	0.00	0.00	4.74	529.01	55.91	14.88

REPUBLIC OF YEMEN
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars

FY Approval	Company	Committed				Disbursed			
		IFC				IFC			
		Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
1999	ACSM	6.37	0.00	0.00	0.00	6.37	0.00	0.00	0.00
2002	Ahlia Water	1.36	0.00	0.00	0.00	1.36	0.00	0.00	0.00
2006	NCC Yemen	35.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total portfolio:		42.73	0.00	0.00	0.00	7.73	0.00	0.00	0.00

FY Approval	Company	Approvals Pending Commitment			
		Loan	Equity	Quasi	Partic.
2006	has	0.00	0.00	0.00	0.00
2006	Ras Issa	0.05	0.00	0.00	0.17
Total pending commitment:		0.05	0.00	0.00	0.17

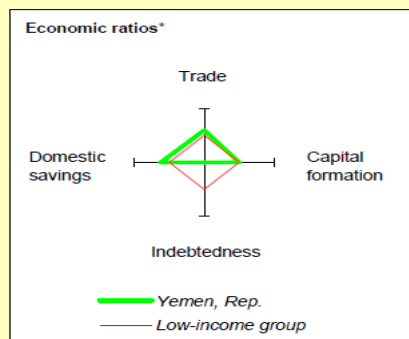
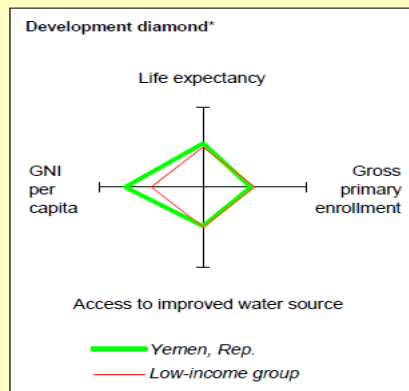
Annex 16: Country at a Glance

REPUBLIC OF YEMEN SOCIAL FUND FOR DEVELOPMENT PHASE IV PROJECT

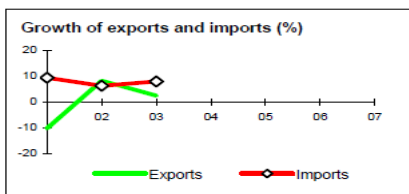
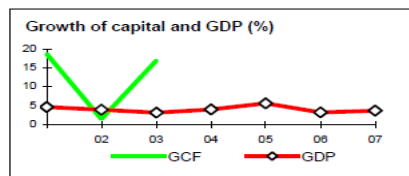
Yemen, Rep. at a glance

9/24/08

POVERTY and SOCIAL	Yemen	M. East & North Africa	Low-income		
2007					
Population, mid-year (millions)	22.4	313	1,296		
GNI per capita (Atlas method, US\$)	870	2,794	578		
GNI (Atlas method, US\$ billions)	19.4	876	749		
Average annual growth, 2001-07					
Population (%)	3.0	1.8	2.2		
Labor force (%)	4.2	3.6	2.7		
Most recent estimate (latest year available, 2001-07)					
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	30	57	32		
Life expectancy at birth (years)	62	70	57		
Infant mortality (per 1,000 live births)	75	34	85		
Child malnutrition (% of children under 5)	41	..	29		
Access to an improved water source (% of population)	66	89	68		
Literacy (% of population age 15+)	54	73	61		
Gross primary enrollment (% of school-age population)	87	105	94		
Male	100	108	100		
Female	74	103	89		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1987	1997	2006	2007	
GDP (US\$ billions)	..	6.9	19.1	22.5	
Gross capital formation/GDP	..	24.7	
Exports of goods and services/GDP	..	35.8	
Gross domestic savings/GDP	..	16.0	
Gross national savings/GDP	..	25.0	
Current account balance/GDP	..	0.3	
Interest payments/GDP	..	0.4	0.3	..	
Total debt/GDP	..	55.8	29.2	..	
Total debt service/exports	..	2.6	
Present value of debt/GDP	19.5	..	
Present value of debt/exports	
	1987-97	1997-07	2006	2007	2007-11
(average annual growth)					
GDP	6.0	4.1	3.2	3.6	..
GDP per capita	1.5	1.0	0.1	0.6	..
Exports of goods and services	27.2	8.6



STRUCTURE of the ECONOMY	1987	1997	2006	2007
(% of GDP)				
Agriculture	..	16.3	..	..
Industry	..	43.2	..	..
Manufacturing	..	10.3	..	..
Services	..	40.5	..	..
Household final consumption expenditure	..	71.0	..	..
General gov't final consumption expenditure	..	13.0	..	..
Imports of goods and services	..	44.5	..	..
	1987-97	1997-07	2006	2007
(average annual growth)				
Agriculture	4.7	3.3	..	..
Industry	8.4	4.5	..	..
Manufacturing	5.0	9.9	..	..
Services	5.4	4.3	..	..
Household final consumption expenditure	3.0	1.5	..	..
General gov't final consumption expenditure	-0.1	8.7	..	..
Gross capital formation	14.6	0.8	..	..
Imports of goods and services	15.9	3.0	..	..



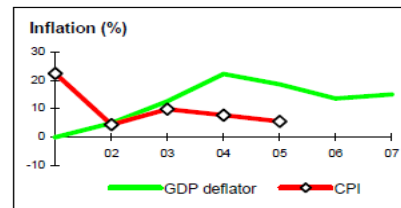
Note: 2007 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

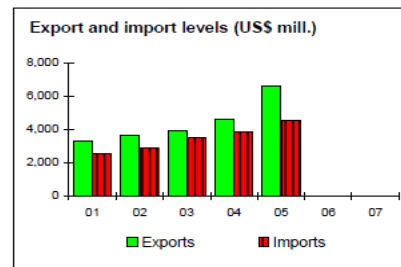
PRICES and GOVERNMENT FINANCE

	1987	1997	2006	2007
Domestic prices				
(% change)				
Consumer prices	..	2.2	..	..
Implicit GDP deflator	..	11.8	13.6	15.0
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	32.0	..	..
Current budget balance	..	4.8	..	..
Overall surplus/deficit	..	-1.5	..	..



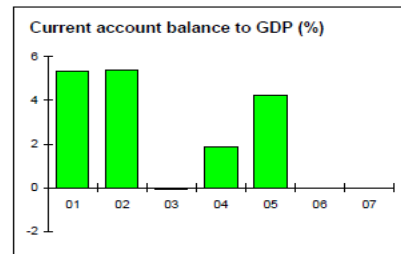
TRADE

	1987	1997	2006	2007
(US\$ millions)				
Total exports (fob)	..	2,274	..	..
Crude oil (government share)	..	1,012	..	..
Crude oil (company share)	..	933	..	..
Manufactures	..	26	..	..
Total imports (cif)	..	2,407	..	..
Food	..	992	..	..
Fuel and energy	..	231	..	..
Capital goods	..	440	..	..
Export price index (2000=100)	..	71	..	..
Import price index (2000=100)	..	107	..	..
Terms of trade (2000=100)	..	67	..	..



BALANCE of PAYMENTS

	1987	1997	2006	2007
(US\$ millions)				
Exports of goods and services	..	2,482	..	..
Imports of goods and services	..	3,084	..	..
Resource balance	..	-602	..	..
Net income	..	-601	..	..
Net current transfers	..	1,226	..	..
Current account balance	..	22	..	..
Financing items (net)	..	-50	..	..
Changes in net reserves	..	28	..	..
Memo:				
Reserves including gold (US\$ millions)	..	1,222	..	..
Conversion rate (DEC, local/US\$)	..	129.3	197.1	199.0



EXTERNAL DEBT and RESOURCE FLOWS

	1987	1997	2006	2007
(US\$ millions)				
Total debt outstanding and disbursed	4,585	3,874	5,563	..
IBRD	0	0	0	0
IDA	473	934	1,894	2,058
Total debt service	268	98	226	..
IBRD	0	0	0	0
IDA	6	16	45	49
Composition of net resource flows				
Official grants	241	133	139	..
Official creditors	94	87	245	..
Private creditors	174	0	7	..
Foreign direct investment (net inflows)	1	-139	1,121	..
Portfolio equity (net inflows)	0	0	0	..
World Bank program				
Commitments	66	149	98	30
Disbursements	41	89	160	122
Principal repayments	1	10	31	34
Net flows	39	79	129	88
Interest payments	4	7	15	15
Net transfers	35	72	115	73

