I. Project Context

Country Context

1. Yemen is the poorest country in the Middle East and North Africa region. Living conditions of most of Yemen's 24 million inhabitants were harsh even before the recent events. About 45 percent of the Yemeni lived below the income poverty line of US$2 per day with higher concentration of poverty in rural areas which harbor 70 percent of the population. The country ranked 133 out of 169 countries in the United Nations Development Program (UNDP) 2010 Human Development Index. Progress in human and other development indicators, while steady in the recent past, has been too slow to assure attainment of the Millennium Development Goals in the coming years.

2. Yemen is a fragile state facing several formidable challenges. These include: (i) rapid population growth (one of the highest in the world with over 3 percent a year); (ii) very low literacy and school attendance rates; (iii) high unemployment; (iv) deficient supply of education and health services; (v) acute gender inequality issues; (vi) fast depleting water reserves and oil resources; (vii) excessive dependence on oil revenues (85 percent of export earnings and 71 percent of government revenues in 2007) and lack of alternatives to this dependency; (viii) weak institutional capacity; and (ix) limited outreach of the state, and sporadic armed conflicts in different parts of the country. Furthermore, food security and climate change are also emerging concerns.

3. From February 2011 until the signing of the Gulf Cooperation Council (GCC) agreement in November 2011, Yemen was battered by intense conflict. The conflict grew out of the “Arab Spring” movement and gave space to voices asking for better governance, equity, employment, and a more open society. In addition to this country-wide conflict, the Yemeni central Government was facing two older regional conflicts: one in the north, in the Sa’ada Governorate with Al-Houthi rebels; and one in the south where a separatist movement (supported by former South Yemen forces, active before the civil war of 1994) continued to foment disturbances. Furthermore, Al-Qaeda cells began to appear in the Arabian Peninsula (AQAP) in 2006, which heightened security concerns in and about Yemen. These cells were concentrated in the southern province of Abyan where direct confrontations with Government forces took place throughout 2011 and continue to today.

4. Following the GCC agreement of November 23rd, 2011, a transitional government was formed as stipulated in the agreement. The new Government of National Reconciliation was formed in early December 2011 with 50 percent of its members come from the General Congress Party (the former ruling party “GPC”), and the other half from the Joint Opposition Block, which also holds the post of the Prime Minister. The GCC agreement stipulated that the new government would be in place for two years and would fully implement the mandates of the agreement (to hold a national dialogue, reform the security institutional set-up, establish constitutional reforms, and hold Presidential and legislative elections). It also pledged to work to stabilize the country’s complex security situation and to resolve its difficult economic situation, as well as to prepare for the next general election in early 2014. In line with the GCC agreement, a new President, Abdo Rabah Hadi, was sworn in on February, 21st, 2012, following a general election.

5. According to most recent estimates, the economy has contracted by 10.5 percent since 2009 and the number of people living below the poverty line increased by 11 percentage points to 54 percent of the Yemeni population. Since late January 2011, economic activities have been severely pinched. Energy supplies (diesel and electricity) have been scarce since early 2011. The scarcity of foreign reserves has curtailed trade finance. Throughout 2011, oil production was affected by the disruption of the pipeline Marib-Hodeidah. Yemen lost about 30 percent of its annual production because of the on-off status of the Marib–Hodeidah pipeline in 2011. The 2011 fiscal deficit reached about 5 percent of Gross Domestic Product (GDP), while the expenditures for public investment remained low (2 percent of GDP). Fiscal policies in 2011 were geared to containing the fiscal deficit while revenues declined because of the decline in oil production due to the largely dysfunctional oil pipeline, and the resistance of many to pay taxes. Raising revenues was politically impossible; other than forced credit from suppliers (= government delays payment of supplier contracts) (=surren and Central Bank financing to cover the deficiet was not available. As a result, investment was cut to negligible levels while current expenditures, especially salary payments, were maintained. Monetary policies are geared to the need to finance the fiscal deficit and to maintain a floor of foreign reserves. The external account improved in 2011 due to depressed imports. Gross foreign reserves declined less in 2011 than anticipated (to US$4.1 billion at end of 2011), equivalent to about 3-4 months of imports of goods under normal economic conditions.
6. Yemen’s economic future depends on the hydrocarbon sector for the short-term and on the identification of new sources of economic growth over the medium-term. Oil production is expected to continue to decline, with the current reserves expected to run out perhaps as early as 2021, in the absence of new oil discoveries and developments. The production and export of liquefied natural gas will offer some cushion, but cannot compensate for the loss of oil revenues. However, even if oil and gas resources are found and developed, this is unlikely to be adequate to address the employment challenge Yemen faces. Regardless of new oil sector development, it is essential to foster private sector growth and to push job creation.

II. Sectoral and Institutional Context

Transport Sector

7. Transport is essential to Yemen’s development, given its particular population distribution pattern, mountainous topography, and fast urbanization. Despite its low level of economic development, Yemen has a relatively extensive transport system which relies on roads since there is no railway, and air transport is still underdeveloped. This system has benefited from considerable assistance from international donors in the past. Given the uneven spatial distribution of population, transport demand varies enormously between different parts of the country. It is highest by far in the northwest, a densely-populated and mountainous area, and generally very small in the east, a vast area practically without settlements. Yemen is a rural country, with more than 70 percent of the population living in 140,000 villages and small settlements spread out all over the territory, many of which still need road access and harbor most of the country’s poor. Transport is also essential for trade, which is key to the future of the country’s economy. This is reinforced by the fact that most of the population lives inland, many on or close to mountain peaks (including more than two millions in the capital Sana’a), in one of the most difficult terrains in the world.

8. The transport sector, in particular the road sub-sector, receives most of public investment. For example, transport was the largest sector of the 2007-2010 public investment program issued by the Government of Yemen in 2006. With projected expenditures of US$2.4 billion, the sector accounted for 29 percent of total new public investment. The road sub-sector took the lion’s share of the transport program with US $2.0 billion, which represented 24 percent of the entire program.

Road sector

9. Yemen’s road sector has gone through a radical transformation in the past three decades and road transport services have been liberalized. The most striking element of this has been the creation of a network of modern paved roads linking most of the main cities and governorates, particularly in the densely populated and mountainous western part of the country. This network has indeed grown from only about 3,500 km in 1980 to about 14,000 km in 2009, a 300 percent increase over almost thirty years, a magnitude of change that few countries have been able to achieve. Major progress has also taken place in the urban areas where most large cities now have an extended paved road network and in rural areas where about 5,500 km of paved roads have been constructed in the past twenty years. These changes have had a major impact on the population and the economy of Yemen, making communications much easier and cheaper between centers of activity, promoting internal and external trade, enabling a growing share of the population to have access to public services and markets, and ensuring that food imports reach remote areas.

10. Moreover, the organization of the road sector and its main institutions has also radically changed in the past decades. The Ministry of Public Works and Highways (MPWH) has gradually taken firm control of the sector and the strategies and expenditure programs necessary for its development. Institutions in the public sector have also developed, adapting in a pragmatic way to changing needs and circumstances. In addition, a diversified set of private road construction and maintenance companies and engineering firms has emerged. Last but not least, a cadre of qualified road specialists has been developed with good understanding of the very special physical and human constraints of Yemen and a sound appreciation of the experience of other countries in the road sector.

11. Status of road network- As of 2009, Yemen has about 58,000 km of non-urban roads, of which 20 percent (14,000 km) were paved. In addition, there were about 11,000 km of roads (many of them earth roads) under construction or upgrading to paved standards. In total, very significant local and donor resources have been allocated to the road sector, in the order of US$325 million per year in the past few years, a relatively high 1.7 percent.

12. Despite significant progress in the past years, the road sector still suffers from institutional weaknesses and inadequate expenditures policies, especially the under-funding of road maintenance. Institutional weaknesses are mainly due to the shortage of well qualified professional staff (engineers and economists) and low civil service salaries. The planning and budgeting processes are undeveloped, and, until recently, the structure for project implementation was inadequate. Road sector expenditures are still dominated by a multitude of small projects started in the past ten years and mostly still unfinished, causing a huge backlog of payment requests from contractors for work carried out, estimated to YR 25.5 billion. MPWH has reduced this practice and started to clear the backlog of past commitments and payment certificates. This balance of road expenditures also needs to be revised with a shift from construction of urban and primary roads towards maintenance and developing rural intermediary roads, essential to bring rural populations into the mainstream of economic activity and facilitate their access to markets, health centers, and schools, as well as to ensure a stable and affordable food supply.

13. To address under-funding and management of road maintenance, a Road Maintenance Fund (RMF) was established in 1995 with dedicated, off-budget funding for maintenance, mobilized and made effective through an increase in the price of gasoline. Income from the fuel levy was much too low to generate adequate funding for maintenance. The road-use levy was therefore subsequently increased by the Parliament to 5 percent of the price of both gasoline and diesel. But this law was never implemented by Ministry of Finance (MOF) as enacted. Instead, MOF supplemented the income from the gasoline fuel levy by budget funds. But maintenance funding was still roughly only a third of the needs in 2010. In its meeting on March 20, 2012, the cabinet has approved the increase in the fuel levy to 5 percent in steps starting with a first step of 3 percent. The decree became effective on April 4, 2012. This will provide more predictable funding for maintenance. The delays in implementing this decree would negatively impact the implementation of the RMF road maintenance management program and the development of the road maintenance sector. It would also impact the road construction industry as well as the local road consulting firms in providing satisfactory services.
14. The paved road network is in relatively good condition because it is new, not because it is well maintained. The present condition of Yemen’s paved road network is rather good. With about 62 percent of all paved roads in good or very good condition, Yemen’s paved road network is in better condition than in many comparator countries for which condition data are available. This positive feature is mainly the result of the young age of many Yemeni roads. In most other countries, the network is older and is suffering more from years of poor maintenance, a fate that unfortunately awaits Yemen’s network if maintenance expenditures remain at the current low level.

15. Road maintenance expenditures should be at least three times higher than their current level. With only US$25 million spent on road maintenance in 2007, Yemen fares badly compared to other countries, especially when maintenance expenditures are expressed as a share of total road expenditures. If the usual standards on maintenance expenditures are applied to Yemen, and prices taken into account from the ongoing pilot Performance-Based Management and Maintenance of Roads (PMMR) contracts, about US$75 million should probably be spent on routine and periodic maintenance to keep Yemen’s paved network in satisfactory condition. This is three times more than what is currently spent. One notable gap concerns periodic maintenance (resurfacing) expenditures, which are particularly low. Numerous roads in Yemen, particularly the strategic Sana’a-Hodeidah road, would not have deteriorated to the point of requiring reconstruction if they had received adequate periodic maintenance, at much lower budget cost overtime than the cost of reconstruction.

16. Road maintenance is hampered by ineffective allocation of responsibilities and sole source contracting to the General Corporation for Roads and Bridges (GCRB), a state-owned construction company. The RMF is presently responsible for implementing some strategic road rehabilitation projects, such as the Marib-Saifir-Al Abr and Sana’ a-Hodeidah roads—some of which are donors’ supported—, and was in charge a few years ago of a major improvement to the Sana’a-Dhamar highway and an urban road in Taiz city. These activities divert valuable attention away from regular road maintenance (routine and periodic), the very reason for the RMF’s establishment. Besides, the status of the GCRB, a large state-owned public works company, remains ambiguous. Although GCRB now operates as an autonomous organization, it is still awarded large maintenance contracts by the RMF on a sole source basis. For example, the RMF late 2009 renewed a multi-year routine maintenance contract with GCRB covering some 8,500 km of the road network for an annual committed amount of US$18 million during the period 2010-2013. The RMF also has several ongoing maintenance-related contracts with GCRB (involving also road strengthening projects, maintenance of cities’ entrance roads and streets, and for maintenance of a few gravel roads), as well as a contract for emergency road maintenance. In 2010, GCRB’s turnover with the RMF was YR2.1 billion for routine maintenance, YR610 million for periodic maintenance, and YR195 million for emergency maintenance.

17. There is also a strong need to develop institutional capacity in the RMF by rationalizing the institutional structure and by consolidating units. As an example, procurement of consulting services and contractors in the RMF is carried out by the Directorate of Studies, Design and Contracting with 25 staff, of which 14 are engineers. The responsibilities of this unit are considerable, as they are expected to carry out or contract out all pavement studies, road rehabilitation and pavement strengthening designs, in addition to the preparation of tender documents, tendering and contracting for all new projects. It is not clear that the unit presently can satisfactorily implement such work load, given in particular the large number of relatively small projects. This set up also adds to the fragmentation of responsibilities in the RMF. Ways of consolidating procurement, supervision and other activities should be considered to make better use of scarce resources. The RMF has started this process and the proposed project will support further steps in improving contract maintenance management. However, under the proposed project all procurement is handled by the implementing unit RMFIU and quality control and follow-up by the maintenance department, both to be adequately strengthened.

18. Poor axle load control accelerates deterioration of roads and increases road maintenance costs as well as vehicle operating costs. The RMF currently controls truck axle loads 24-7 at four permanent locations of the road network (at Harad, Hodeidah, Mocha, and Aden) and is responsible for issuing fines in case of overloading. According to 2007 data, more than two-thirds of the 90,000 controlled trucks were found to carry loads in excess of the legal limits, but only 1,700 of them received a citation. Current policies indeed permit loads on freight trucks five tons higher than the legal limits and fuel trucks do not have to pay any fine for overloading. All trucks are allowed to continue with the excessive load after paying the fine. These practices cause a systemic overloading of trucks which damages road pavements. Combined with high tire pressures these practices result in reduced performance and life expectancy of roads and increased annual maintenance costs.

19. Backlog in road maintenance also endangers traffic safety. Yemen has one of the poorest traffic safety records in the region with almost 3,000 deaths every year on the road network. The traffic police records 13,000 accidents with injuries each year affecting about 17,000 people and their families. The most common causes of road crashes as reported by the police are speeding and careless driving. However, the road network undoubtedly is a challenge even to experienced drivers, and road conditions contribute to many fatal accidents. The backlog of maintenance works due to under-funding of regular maintenance for many years, and the fact that the core road network is suffering from overloading and an aging trucking fleet, not only affects the cost of transportation and need for rehabilitation, but also endangers traffic safety.

III. Project Development Objectives
The Project Development Objective is to improve road conditions in four Governorates (Al-Hodeidah, Ibb, Taiz and Lahij) and to strengthen RMF capacity in road asset management.

IV. Project Description
Component Name
Road Maintenance Works
Institutional Support and Capacity Building
Transport Sector Studies

V. Financing (in USD Million)
For Loans/Credits/Others
BORROWER/RECIPIENT
Amount
0.00
VI. Implementation

20. The Road Maintenance Fund (RMF) will be the implementing agency for all components of the project. The RMF was established in 1995 in Sana’a as the dedicated road maintenance authority of Yemen. It is an independent unit with management autonomy under the direct supervision of the Minister of MPWH. The RMF is responsible for regular maintenance of the national road network, highways as well as rural access roads of Yemen, while also managing some road rehabilitation projects for the MPWH. It employs about 250 staff (including about 120 involved in axle load controls and based in the field) and spent YR7 billion in 2010 in road maintenance and road safety works, including salaries and operating costs.

21. The RMF has a proven record of implementing donor-funded maintenance contracts through the two PMMR contracts carried out by two local contractors. The RMF has also implemented several large road rehabilitation projects in recent years, with funding from the national road budget to provide implementing capacity. It is also administering the maintenance contract with GCRB and road safety works. Therefore, it was concluded that the implementing arrangements were adequate, and that the RMF had the capability and experience to implement the project with necessary capacity building arrangements included in the three components to handle the increased workload.

22. The RMF Chairman, supported by a former manager of a road agency as a high level technical adviser financed by the project, will have the overall responsibility for the project. The RMF established an Implementation Unit (RMFIU) under the Chairman a few years ago to be responsible for most aspects of foreign-funded maintenance projects, in particular the fiduciary and safeguards aspects as well as monitoring and reporting. The RMFIU is locally funded and currently managing the maintenance component of the IDA-supported RAP2 with 11 staff.

23. The day-to-day technical follow-up of works contracts and supervision consultants funded by the local budget is normally undertaken by a recently reorganized Technical Directorate under the Chairman through a Supervision Department staffed with eleven engineers and four technicians. These units are fully funded by the RMF budget, are operational, and have gained considerable implementation experience over the years. The Supervision Department is normally responsible for following up of all civil works on-site and administering the technical side of works and supervision contracts, including approval of monthly reporting, payment certificates, and laboratory testing. The department will be strengthened by two senior road maintenance engineers with regional experience, an environmental specialist and a social development specialist all to be financed by the project. Site supervision will be undertaken by two experienced consulting firms in partnership with local firms to develop local supervision capacity and train RMF site staff. Training will also be provided by the lead consulting firms to develop technical capacity of other Supervision Department staff to improve supervision, monitoring and evaluation capacity as well as safeguards related monitoring and reporting.

24. Procurement, disbursements and financial reporting, and safeguards issues will be the responsibilities of the RMFIU, in particular its financial and procurement departments. The RMFIU will also be responsible for all capacity building support to the MPWH and to the Ministry of Interior’s traffic departments in the four governorates. For additional fiduciary work under this project, the RMFIU will be strengthened with two accountants and one procurement officer to be funded by the RMF budget.

25. It is expected that the technical adviser to the Chairman, the two senior road maintenance engineers, the supervision consultants, as well as the additional RMFIU staff will be operational by project readiness.

26. Preparation work is well advanced through the road condition survey work and tender documents prepared under RAP2AF.

VII. Safeguard Policies (including public consultation)

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