



<b>1. Project Data:</b>		<b>Date Posted :</b> 02/17/2004	
<b>PROJ ID:</b> P041199		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Social Fund Devpt	<b>Project Costs (US\$M)</b>	80	89.4
<b>Country:</b> Yemen	<b>Loan/Credit (US\$M)</b>	30	29.7
<b>Sector(s):</b> Board: SP - General education sector (25%), Health (25%), General water sanitation and flood protection sec (25%), Other social services (19%), Micro- and SME finance (6%)	<b>Cofinancing (US\$M)</b>	45	50.1
<b>L/C Number:</b> C2953; CP998			
	<b>Board Approval (FY)</b>		97
<b>Partners involved :</b> European Union, Government of Netherlands, Arab Fund for Economic and Social Development, OPEC, USA Counter Value Aid Program	<b>Closing Date</b>	06/30/2003	06/30/2003
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
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<b>2. Project Objectives and Components</b>			
<b>a. Objectives</b>			
The project objective was to reduce poverty through establishment of a demand driven mechanism that would a ) provide community development services to poor communities, and b ) support income-generating activities through the development of small and micro-enterprises.			
<b>b. Components</b>			
The project had three components :			
(i) community development {planned total cost US\$ 38.3 million, actual total cost US\$62.9 million };			
(ii) small and micro-enterprise development {planned total cost US\$ 27.4 million, actual total cost US\$2.5 million};			
and			
(iii) capacity building {planned total cost US\$ 14.3 million, actual total cost US\$24.8 million}.			
The small enterprise development sub-component was suspended in late 1998 and subsequently canceled . Based on the 1999 Mid-Term Review and other assessments, social protection and cultural heritage works were added to the menu of activities supported by the Social Fund for Development (SFD). In addition, a pilot effort in four extremely poor and isolated communities aiming at a more comprehensive approach to development, was initiated .			
<b>c. Comments on Project Cost, Financing and Dates</b>			
The total cost of the second component was reduced substantially (section 2 above). The size of the first component changed from approximately 48 percent of total project cost to 70 percent of total cost. US\$0.7 million of the total IDA funding was "lost" due to a change in the SDR/US\$ exchange rate.			
The project was appraised in February 1997 and became effective in September of the same year .The Dutch provided US\$13.6 million, USA provided US\$6.8 million, OPEC US\$6.0 million and the Arab Fund US\$ 19.5 million. The Government provided the equivalent of US\$ 3.1 million. The beneficiary communities funded US\$6.5 million.			
<b>3. Achievement of Relevant Objectives:</b>			
The project was partially successful in achieving its objective . It contributed to improving the living conditions of the poor through construction of sub-projects in education, health, water supply and sanitation, roads etc .. The construction activities contributed to increasing income through creating employment . However the project was less			

successful in supporting income generating activities through the development of small and micro -enterprises. The small enterprise sub-component was eventually canceled. Less than half the micro-entrepreneurs visualized at appraisal were assisted through the micro-enterprise program.

The cost effectiveness analysis carried out at appraisal and completion shows the SFD to be much more efficient in comparison to line agencies in delivering the same infrastructure. However because of the absence of a rate of return calculation, it is difficult to tell whether the benefits from the larger sub-projects actually supported (section 5) are commensurate with the costs of these investments.

#### 4. Significant Outcomes/Impacts:

- A significant proportion of resources from the project benefited the poorest :17 percent went to the poorest decile;
- The education sub-projects are reported to have increased student enrollment from 60 percent to 68 percent between 1999 and 2003: female students enrolled increased from 42 percent in 1999 to 56 percent in 2003 and male student enrollment increased from 76 to 78 percent over the same period;
- The proportion of households with tap water in their dwellings increased by 23 percent. There is also reported to be an increase in the per-capita consumption of water, improvement in the frequency of supply and reduction in time and effort for those who fetched water from outside;
- Feeder roads benefited about 300,000 people and helped reduce travel time and cost on average by 40 percent;
- The project helped to establish the foundation of an emerging micro-finance industry and created awareness among policy makers on issues such as interest rates;

#### 5. Significant Shortcomings (including non-compliance with safeguard policies):

- The small enterprise component had to be eventually canceled because of poor quality at entry. As a result income generation through creation of permanent employment was much lower than visualized;
- There were shortcomings in the micro-credit program. The saving and credit program in Aden failed because of basic design flaws. Even the Hodeidah program, which was a credit only program, was affected by serious fraud in 2001 because of lack of development of an appropriate auditing and MIS system;
- There was a significant shortfall in delivering the expected number of sub-projects. The number of completed sub-projects was 53 percent of the appraisal projection and the disbursed amount was 164 percent of the amount projected. The average sub-project cost was 3 times the appraisal estimate. The justification given for the higher cost was greater priority to larger facilities and better quality infrastructure. However, the 2003 impact evaluation found that there were concerns about the quality of the infrastructure built among some communities though it is not clear from the ICR how widespread these problems were.
- There are concerns about the quality of community participation in implementation as despite their financial contribution the community's role in operation and maintenance (O&M) of education sub-projects was limited. A major reason for encouraging community participation is to ensure adequate O&M of infrastructure constructed through communities on project closure. Yet it appears that most of the maintenance of the education infrastructure was done by the ministries. As noted in the ICR " Completed educational facilities were generally managed well by the Ministry of Education ....." Moreover, the results of the Beneficiary Survey and Stakeholder Workshop (Annex 8 and Annex 9) also show that all community members may not have been consulted adequately and that community participation effort may not have been given adequate time.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome:</b>	Satisfactory	Moderately Satisfactory	OED rates a project as moderately satisfactory [a rating which does not exist under the ICR's 4-point rating scale] when it achieves most of its major relevant objectives but with significant shortcomings. The shortcomings noted under section 5 are significant.
<b>Institutional Dev.:</b>	Substantial	Substantial	
<b>Sustainability:</b>	Likely	Likely	Sustainability appears likely though two issues need attention. (i) there is a need to stimulate greater community participation in O&M of the sub-projects constructed (section 5 above) as this has implications for long run sustainability of these constructions. (ii) greater attention needs to be given to how the SFD can help build local government capacity in the country. Currently it is not clear how the development of an autonomous

			organization like the SFD with access to ample donor resources and which helps build small scale social and economic infrastructure sub-projects with reliance on non-government sources, is actually providing a stimulus to local government development.
<b>Bank Performance :</b>	Highly Satisfactory	Satisfactory	There were some weaknesses which do not justify a highly satisfactory rating . (i) design weaknesses in the micro-enterprise component as flagged by QAG; (ii) design weaknesses in the community development component--the unrealistic cost appraisals for sub-projects (page 7) is an example; (iii) the widespread fraud (which affected over 50 percent of the loan portfolio) that affected the credit only program is Hodeidah points to weaknesses in supervision;
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR :</b>		Satisfactory	

**NOTE:** ICR rating values flagged with '\*' don't comply with OP/BP 13.55, but are listed for completeness.

### 7. Lessons of Broad Applicability:

Based on the ICR, key lessons include :

1. Building adequate cooperation between government agencies needs considerable attention and cannot be taken for granted. There is need to give particular attention to the incentives for cooperation on both sides .
2. Development of an efficient monitoring and evaluation system is crucial in such an operation . This is so not only for assessing outcomes and impacts but for making efficient mid -course corrections, as and when required .
3. The building of adequate community participation requires time, resources and explicit attention to incentives for the stakeholders--factors that need to be explicitly recognized and built into a project . Setting up grass root organizations is just the first step . More time and resources are needed to strengthen and consolidate gains so that their sustainability over the long run is assured .
4. In projects with a clear poverty alleviation objective, performance indicators should also be framed in terms of poverty alleviation. This should be backed up in design by a monitoring and evaluation system capable of measuring poverty impact.
5. In projects where it is difficult to calculate a rate of return ex -ante, at least such a calculation should be attempted ex-post to get an accurate assessment of efficiency .

### 8. Assessment Recommended? Yes No

**Why?** For several reasons: (i) to verify the outcome, sustainability and institutional development impact; (ii) to assess the poverty impact of the operation; (iii) to contribute to an ongoing evaluation in OED of community-driven efforts supported by the Bank; (iv) to provide lessons of experience for other similar interventions in Yemen and other countries.

### 9. Comments on Quality of ICR:

The ICR is satisfactory but for three shortcomings : (i) It does not adequately explain how the Social Fund is effecting development of local government capacity in the country . This is a critical issue for long run sustainability . The appraisal document noted that the project was to improve local government capacity to plan and implement development projects. The ICR also notes that the project had a positive impact on the evolving decentralization efforts. However, it is not clear how this was done since the SFD was established as an autonomous entity outside the regular government structure. (ii) The ICR is weak in data presentation as totals of costs in the text and tables do not always match. For example, page 3 notes that the total cost of the second component was reduced from US\$27.4 million to US\$1.6 million, whereas, Annex 2 shows that the total cost of the second component was reduced to US\$2.5 million. (iii) There is also some inconsistency in the ICR . The ICR rating summary on page 1 clearly notes Borrower Performance to be highly satisfactory whereas the text on page 18 notes overall Borrower Performance to be satisfactory.