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RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING  
OF

SECOND PORT CITIES DEVELOPMENT PROJECT  
GRANT NO. H567-RY

BOARD APPROVAL DATE: April 22, 2010

TO THE

REPUBLIC OF YEMEN

February 13, 2013

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US\$1 = SDR 0.65

FISCAL YEAR  
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#### ABBREVIATIONS AND ACRONYMS

CBY	Central Bank of Yemen
DA	Designated Account
EIA	Environmental Impact Assessment
FM	Financial Management
IDA	International Development Association
IUDP	Integrated Urban Development Project
LEDD	Local Economic Development Department
PCDP	Port Cities Development Project
PCDP-2	Second Port Cities Development Project
PCU	Project Coordination Unit
PMU	Project Management Unit

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**YEMEN, REPUBLIC OF**  
**SECOND PORT CITIES DEVELOPMENT PROJECT**

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## SECOND PORT CITIES DEVELOPMENT PROJECT

### RESTRUCTURING PAPER

#### A. SUMMARY

1. This Restructuring Paper proposes a level-two restructuring of the Republic of Yemen – Second Port Cities Development Project (Grant H567-RY, P088435). As requested by the Borrower in their letter dated October 24, 2012, the proposed restructuring consists of the following:

- (i) Reduction of the Grant amount through cancellation of SDR 3.86 (US\$5.86 million equivalent) out of a total Grant amount of SDR 23.1 million (US\$35 million equivalent);
- (ii) Scaling down the second component of the Project, and canceling the activities related to “*the development and implementation of asset management activities in Aden, Hodeidah, and Mukallah*” under Part B of the project. No disbursements out of the Grant amount have been made to date against these activities.
- (iii) The consolidation of project management arrangements for three ongoing urban projects, namely PCDP-II, Integrated Urban Development Project (P107050) and the Flood Protection and Emergency Reconstruction Project (P070092).

2. This restructuring which is in response to the Government of Yemen’s request, is within the broader context of the Bank’s renewed engagement in Yemen and follows a sustained period of civil unrest, a deteriorating political and security situation, and the resulting suspension of disbursements across the Yemen portfolio from July 28, 2011, to January 20, 2012. It is the first restructuring of the Second Port Cities Development Project (PCDP-2). The proposed restructuring including scaling down of the second component of the project, (specifically the cancellation of asset management activities) will not have an impact on the definition of the Project Development Objectives or the likelihood of reaching these DOs by the current closing date of July 25, 2015.

#### B. PROJECT STATUS

3. A grant of US\$35.0 million was approved by IDA on May 25, 2010, and declared effective on August 3, 2010. The project’s current closing date is July 25, 2015. The project consists of three parts: Part A – Infrastructure Development, focusing on: (i) improvements to infrastructure at the fishing port in Hodeidah and service delivery at Al Beida and Al Shimalaiya settlements; (ii) infrastructure improvements in and around four district markets in Aden; and (iii) expansion of the Mukalla Airport passenger terminal building, improvements to the airport’s lighting system and improvement at the road intersections in Mukalla; Part B – Technical Assistance and Training for: (i) the development and implementation of asset management activities in Aden, Hodeidah and Mukallah; and (ii) the development and implementation of accounting and budgeting systems for district markets in Aden; and Part C – Project Management.

4. Although the project had started well, implementation subsequently slowed down as a result of the political unrest which started in February 2011 and the suspension of disbursements of the IDA portfolio in July 2011. Following the lifting of suspension on disbursements by the Bank, implementation continued to be hampered as bidders for two civil works contracts for which bids had been awarded (the Marine Works in the Hodeida Fishing Port and the Mukalla roads intersections) declined to sign these contracts due to steep price increases. Implementation

started to progress again since the May-June 2012 supervision mission. Invitations to rebid were issued in July 2012, with bid openings scheduled in September 2012. Presently, a total of US\$15.50 million in works and consultancy contracts are expected to be concluded by June 2013. These contracts represent 53.12% of the revised Grant amount of US\$29.14 million after the cancellation of US\$5.86 million – and will thus contribute to significantly improving project disbursements and proactivity. For all other contracts, an updated procurement plan has been agreed with the Project Management Unit (PMU) and is included herewith as an Attachment.

5. In recent months, the Governor of Aden has endorsed the concept of outsourcing management of the Tawahi district markets, financed under PCDP-I to the private sector. Thus the Local Economic Development Department (LEDD) would manage this market on behalf of Tawahi district. Toward that end, a draft management contract between the Tawahi district and LEDD, effectively authorizing LEDD to manage the market on behalf of the Tawahi district, is under preparation. Also under preparation is a draft contract to be signed between LEDD and the private sector for management of the Tawahi market. Management arrangements for the Tawahi market would then serve as the blueprint for the four district markets to be financed under the project.

6. Project disbursements currently stand at XDR 681,173 (US\$1,046,637 equivalent)<sup>1</sup> or 2.9% of the total Grant amount. The ratings for both the Achievement of Project Development Objective and Overall Implementation Progress (IP) are Moderately Unsatisfactory (MU). In the absence of implementation progress, social and environmental safeguards are also rated MU. Procurement is rated MU and financial management is rated Moderately Satisfactory (MS). With the approval of this restructuring, and the partial cancellation of US\$5.86 million (which represents 17.14% of the total Grant Amount), project implementation is expected to pick up.

### C. PROPOSED CHANGES

7. The Government of Yemen has requested reduction of the total grant amount and a partial cancellation of Grant proceeds. The rationale for the proposed changes is to streamline and strengthen project implementation and to free up IDA resources under the project for urgent alternative uses in Yemen. This implies changes to the Results Indicators, Implementation Arrangements, Project Costs and Grant Allocations, as specified below. The specific changes related to the scaling down of Component 2 were discussed, and agreed with the Yemeni Government, and documented in the World Bank mission Aide Memoire of August 25-29, 2012.

8. **Institutional Arrangements.** Project implementation has been affected by the weak capacity of PMU. The existing project management arrangements for PCDP 2 will be updated: the Aden-based PMU for PCDP 2 will report to a central Sana'a-based Project Coordination Unit (PCU) headed by a Project Director. This PCU will be responsible for the management and oversight of the Integrated Urban Development Project (IUDP), the Flood Protection and Emergency Reconstruction Project Additional Financing 2, and PCDP 2. The PCU will continue to work closely with the field-based PMU in Aden for PCDP 2. This is in line with the government plan to move project implementation to the relevant sector, thus transferring responsibility from the Ministry of Planning and International Cooperation to the Ministry of Public Works and Highways. The basic PMU staffing for PCDP 2 would remain unaltered, although the PMU Director would now be replaced with a PMU Manager, who would report to the Sana'a-based Project Director of the shared PCU.

9. **Project Components.** In light of limited government ownership, it is proposed to scale down the second component of the Project, and to cancel the activities related to “*the*

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<sup>1</sup> Figures as of January 15, 2013.

development and implementation of asset management activities in Aden, Hodeidah, and Mukallah” under Part B of the project. The Technical Assistance and Training Activities will now only focus on “the development and implementation of accounting and budgeting systems for district markets in Aden”. No disbursements out of the Grant amount have been made to date against these activities.

10. **Results Indicators.** The results framework was updated to ensure that the selected indicators are attributable to project interventions and to align them, where appropriate, with the exact definitions of IDA core indicators. The updated Results Framework is provided in Annex 1.

11. **Project Costs.** The updated project costs reflecting revised cost estimates and scaled down project activities under Part B of the project are provided below. In light of the revised cost estimates, there will be a partial cancellation of US\$5.86 million under the IDA grant.

<b>Project Components</b>	<b>Total costs<sup>1/</sup> (US\$ m)</b>	<b>Revised total costs<sup>1/</sup> (US\$ m)</b>
<b>Component I: Infrastructure Development</b>		
<b>Hodeidah</b>		
Hodeidah Al-Haly Fishing Port		
Fish Port Marine Works + Land Works	8.30	6.70
Supervision Consultant for Hodeidah Fishing Port	0.80	0.80
Provision of basic infrastructure to Al Beida Al Shimaliya	2.00	2.00
Supervision of Informal Settlement (ESIA included)	0.13	0.13
<i>Sub-total Hodeidah</i>	11.23	9.63
<b>Mukalla</b>		
Mukalla International Airport	6.00	6.00
Mukalla International Airport Supervision Consultant	0.45	0.45
Urban road intersections	1.52	1.30
Urban road intersections-Supervision Consultant	0.17	0.20
<i>Sub-Total Mukalla</i>	8.14	7.95
<b>District Markets in Aden</b>		
Crater Market	1.75	1.75
Sheikh Othman	1.40	1.40
Mansoura	1.70	1.70
Maala	0.65	0.65
Design Supervision for all markets (ESIAs included)	0.34	0.34

Social Outreach Activities:		
(i) Goods	0.03	0.03
(ii) Consultancy Services	0.12	0.12
<i>Sub-Total Aden</i>	5.99	5.99
<b><i>Total Component I</i></b>	<b>25.36</b>	<b>23.57</b>
<b>Component II: Technical Assistance and Training</b>		
Asset Management Mukalla and Hodeidah	0.40	0.00
Asset Management Support for Aden	0.40	0.00
Aden Markets Financial Management:		
(i) Goods	0.008	0.01
(ii) Consultancy Services	0.058	0.06
(iii) Training	0.006	0.01
Workshop, Training & Equipment	0.40	0.20
<b><i>Total Component II</i></b>	<b>1.27</b>	<b>0.28</b>
<b>Component III: Project Management</b>		
Project Administration	1.38	1.38

Procurement Consultant	0.12	0.12
<b>Total Component III</b>	<b>1.50</b>	<b>1.50</b>
<b>Total</b>	<b>28.13</b>	<b>25.34</b>
Physical and Price Contingencies	6.85	3.80
<b>Total Project Cost</b>	<b>35.00</b>	<b>29.14</b>
<b>Amount to be cancelled</b>		<b>5.86</b>

<sup>1/</sup>The costs do not add due to rounding.

12. **Reallocation.** Reallocation of expenditures among categories is proposed in order to reflect revised cost estimates.

Category of Expenditure		Allocation SDR		% of Financing	
Current	Revised	Current	Revised	Current	Revised
(1) Goods and consultant services under Part A of the project	-	1,350,000	1,350,000	100%	100%
(2) Works under Part A of the project	-	19,750,000	16,710,000	100%	100%
(3) Goods, training and consultant services under Part B of the project	-	1,000,000	180,000	100%	100%
(4) Goods, consultant services, training and incremental operating costs under Part C of the project	-	1,000,000	1,000,000	100%	100%
Total		23,100,000	19,240,000		
Cancelled amount	-	0	3,860,000		

13. **Cancellation.** In light of revised cost estimates, the Recipient informed the Bank by letter dated October 24, 2012, of a partial cancellation of US\$5.56 million or SDR 3.86 million of the IDA grant.

14. **Procurement.** The procurement arrangements will remain the responsibility of the Aden-based PMU which is staffed as per the PMU definition in the Project Financing Agreement. A major procurement milestone was reached by September 1, 2012, when bids for the two first works contracts, with a total estimated contract value of US\$10 million, were opened. These contracts are expected to be signed by January, 2013, which would constitute progress under project implementation. The procurement plan has been updated by clearly identifying procurement milestones. In addition, all contracts in the procurement plan overseen by the Project Director will now be subject to prior review by the Bank.

15. **Financial Management (FM) and Disbursement.** The FM and disbursement arrangements will remain the responsibility of the Aden-based PMU which is staffed as per the PMU definition in the Project Financing Agreement. The PMU will maintain adequate financial management arrangements through: (i) ensuring adequate staffing arrangements; (ii) maintaining satisfactory internal control procedures based on an acceptable Financial Management Manual; (iii) maintaining an automated accounting system to record and report all project transactions; and (iv) contracting an external auditor based on terms of reference acceptable to IDA. Based on the recent assessment of June 2012, the Project's FM arrangements were found to be Moderately Satisfactory. Agreed actions to further improve fiduciary compliance include preparation and transmission of monthly commitment tracking sheets and submission of quarterly Interim Financial Reports on a timely basis. Based on the Project's 2011 audit report, steps have been taken to recover US\$30,220 of ineligible expenditures related to operating costs. An amount of US\$5,045 is deemed eligible, and the remaining amount of US\$25,257 has been reimbursed.

16. There are no proposed changes to the Project's Disbursement Arrangements. The project's Designated Account (DA) ceiling will remain at US\$3.5 million, maintained at the Central Bank of Yemen (CBY), with authorization to transfer up to US\$300,000 from the project's DA to the PMU's account in US\$ at the Aden branch of the CBY. This transferred amount will be used by the PMU to make direct payments to beneficiaries for eligible expenditures not to exceed US\$300,000.

17. There are no overdue audit reports.

18. **Mid-Term Review.** In light of the modified implementation schedule, the Mid-Term Review date has been changed to take place 36 months after effectiveness, instead of 30 months as planned at appraisal. This restructuring will not require an extension of the project's closing date, and it is envisioned that all the activities under the project will be completed by the original project closing date.

#### **D. APPRAISAL SUMMARY**

19. **Economic, Financial and Technical Analyses.** None of the proposed changes would have a major effect on the original economic, financial and technical analyses of the project as appraised.

20. **Social and Environmental.** While the security situation in Yemen still does not allow for project site visits by Bank safeguards specialists, the proposed restructuring is not expected to result in any changes to the appraised social and environmental aspects of the project. A project resettlement policy framework (RPF) was finalized in February 2010 which indicated that initial screening under the PCDP II showed that only disturbances to livelihoods are expected. The RPF outlines specific steps to be undertaken for resettlement action plan (RAP) preparation once OP 4.12 related specific impacts, if any, are identified. An Integrated Environmental and Social Impact Assessment (IESIA) was carried out for all contracts except in the case of four Aden markets and the rehabilitation of Al Beidha and Al Shemaliah informal settlements in Hodeidah. The Integrated Environmental and Social Impact Assessment (IESIA) for Al Beidha and Al Shemaliah settlements is currently under preparation and the Environmental Impact Assessment (EIAs) for the four municipal markets in Aden is pending: (1) outsourcing the management of the Tawahi market and Sirra fish market financed under PCDP-1; (2) as soon as these two assets are outsourced to private sectors, clearance will be issued to proceed with the detailed engineering designs and preparation of bidding documents.

21. **Exceptions to Bank Policy and Risks.** The proposed restructuring does not trigger new risks or exceptions to Bank policy.

<b>ANNEX 1: Results Framework and Monitoring</b>									
	<b>Target Values</b>						<b>Data Collection and Reporting</b>		
<b>PDO Indicators</b>	<b>Baseline</b>	<b>YR1 (2013)</b>	<b>YR2 (2014)</b>	<b>YR3 (2015)</b>			<b>Reporting Frequency</b>	<b>Data Collection Instruments</b>	<b>Responsibility for Data Collection</b>
Aden – District markets in place with management outsourced to the private sector (number).	0	0	2	4			Annual	Progress Report	Project Coordination Unit
Hodeidah – Port Capacity (number of boats that can be unloaded at the same time).	12	18	24	24					
Hodeidah -People in urban areas provided with access to “Improved Sanitation” under the project (number).	0	7,100	7,600	8,300					
Hodeidah - People in urban areas provided with access to “Improved Water Sources” under the project (number).	0	7,100	7,600	8,300					
Hodeidah - People in urban areas provided with access to all-season roads within a 500 meter range under the project (number).	0	12,800	14,500	18,500					
Mukalla - Airport capacity (number of passengers that can be handled per day).	0	400	1,500	2,500					
All cities— direct project beneficiaries (number), of which female (percentage)	0	20,000 (35%)	42,000 (35%)	53,000 (35%)					

<b>Intermediate Results Indicators</b>									
<b><i>Component 1: Investments</i></b>									
Aden - Size of markets upgraded (square miles).	0	8,000	18,000	22,300			Annual	Progress Report	Project Coordination Unit
Hodeidah – Size of port rehabilitated with core infrastructure in place (square miles).	0	30,000	60,000	100,000					
Hodeidah – Size of urban area upgrade completed (square miles).	0	120,000	240,000	345,000					
Mukalla – Size of airport expanded (square miles).	0	240	760	1,200					
Mukalla – Rehabilitated traffic intersections (number).	0	5	15	15					
<b><i>Component 2 – Institutional Strengthening and Training</i></b>									
Establishment of accounting and budgeting system for four district markets in Aden.	No			Yes					