I. Project Context

Country Context

In 2011, Yemen experienced mass protests, violent clashes, and armed conflict that resulted in the election of a new President and the formation of a transitional government. The conflict situation caused significant disruptions in the supply and production chains and this resulted in contraction of the economy and higher unemployment. Poverty, which was already increasing prior to the crisis, is estimated to have risen further from 42 percent of the population in 2009 to 54.5 percent in 2012. Yemen remains one of the ten most food insecure countries in the world and the most food insecure country in the Middle East North Africa (MENA) Region.
Following the crisis in 2011, Yemen has embarked on a political transition, based on an agreement brokered by the Gulf Cooperation Council. The transitional government – known as the Government of National Reconciliation – was formed early in 2012 and the National Dialogue Conference (NDC) was launched to support development of a new constitution under which new legislative and presidential elections would be held in 2014. Donor funding was pledged (Riyadh Donor Conference in September 2012) to support the government’s ambitious Transitional Program for Stabilization and Development but the program faces severe constraints in absorptive capacity. The NDC ended in February 2014 with the signature of a series of agreements by the participating parties, resulting in proposals for the decentralization of government in a federal structure. So far, the process has been implemented broadly as originally planned, albeit with a delay of about four months. Nevertheless, the gains are fragile and important challenges remain in addressing the underlying causes of instability and social strife. The transition faces high risks unless reforms and economic opportunities materialize quickly and substantive changes are felt by the population.

**Sectoral and institutional Context**

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.

The SFD is uniquely placed to deliver safety net and development programs during this politically uncertain and challenging period. Its ability to respond flexibly and produce innovative multi-sectoral solutions is based on its operational autonomy, decentralized structure with strong Branch Offices, its focus on strong local-level partnerships, and transparent procedures with emphasis on monitoring and evaluation and good information systems. SFD has expanded and diversified its operations over the last 16 years, maintaining high standards in implementation and earning a strong reputation with communities and other stakeholders.

The Second Additional Financing (AF2) would support the ongoing Yemen SFD IV (P117949, US $60 million) and the First Additional Financing (P133699, US$25.0 million). The First Additional Financing, which became effective on June 19, 2013, is scaling up the project’s Labor Intensive
Works program with the aim of providing income opportunities and work experience to young people and women in the provision of health and education services. The purpose of the AF2 is to help fill a financing gap for activities under the Community and Local Development Program, the largest component of the original project. SFD IV became effective on October 7, 2010 and is expected to close on December 31, 2016. The proposed AF 2 would have the same closing date and the project objectives would be unchanged.

II. Proposed Development Objectives
A. Current Project Development Objectives – Parent
The Project Development Objectives are to: (i) improve access to basic services; (ii) enhance economic opportunities; and (iii) reduce the vulnerability of the poor.

B. Proposed Project Development Objectives – Additional Financing (AF)

III. Project Description
Component Name
Community and Local Development Program
Comments (optional)
Additional commitment of US$50 million.
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.

Component Name
Small and Micro Enterprises Development Program
Comments (optional)
No change.
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.

Component Name
Capacity-Building Program
Comments (optional)
No change.
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.

Component Name
Labor-Intensive Works Program
Comments (optional)
No change.
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.

IV. Financing (in USD Million)

<table>
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<tr>
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<th>Amount</th>
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<tr>
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V. Implementation

The SFD IV Project’s institutional and implementation arrangements and safeguard and fiduciary procedures will apply for the proposed Second Additional Financing which will fill the financing gap of the Community and Local Development Program activities. The proposed project will have the same project closing date.

VI. Safeguard Policies (including public consultation)

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<td>Projects in Disputed Areas OP/BP 7.60</td>
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Comments (optional)

VII. Contact point

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