1. Country and Sector Background

Country Issues

1. Yemen is experiencing a transition in urban areas. The population of Yemen is 22.4 million, of which 6.7 million are living in urban areas. The urban growth rate (4.8 percent per year) is above the national growth rate (3 percent per year)\(^1\). The largest city in Yemen is its capital Sana’a, comprising 1.8 million inhabitants and four other cities with populations between 500,000 to 800,000 inhabitants\(^2\).

2. The economic base of cities is limited and is restricted to small and medium size enterprises. Despite the performance in the non-oil GDP at 5.5 percent (compared to 4.7 percent in 2007)\(^3\), Yemen’s severe poverty and immense unemployment\(^4\), combined with its declining oil and water supply, create an urgent need to develop new sources of economic growth and employment for a rapidly growing population. Some of the key macro-economic indicators at the national level are deteriorating such as the fiscal deficit which rose to 8.9 percent of GDP in

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\(^3\) The stronger performance in the non-oil GDP at 5.5% offset the sharp contraction in the oil output estimated at more than 12%. Yemen Economic Monitoring Report, WB, April, 2008.
\(^4\) Unemployment in Yemen increased from 13.7 percent in 1999 to 16.3 percent in 2004, even though there was a significant decline in poverty (from 40 percent to 35 percent approximately). Poverty Assessment Report, WB, 2007.
FY08, and is likely to rise further to 10 to 11.5 percent of GDP next year as a result of fluctuations in oil prices.

3. **Despite Government efforts, urban poverty remains to be significant.** Despite a reduction in urban poverty in Yemen over the past decade, 21 percent of urban households still fall below the poverty line. Close to 75 percent of all urban poor are concentrated in the cities of Sana’a and Aden (1,800,000 and 600,000 inhabitants respectively) and the Governorates of Hodeidah, Taiz and Hadramout, where they are primarily concentrated in Hodeidah, Taiz and Mukalla cities (with 450,000, 540,000 and 200,000 inhabitants respectively). Taiz, Mukalla and Hodeidah cities suffer from extreme urban poverty, reflected by high urban poverty gap index levels. Nearly 42 percent of the population in Taiz lives below the poverty line.

**Sector Issues**

4. With increasing urban poverty and a growing population, Yemen faces serious challenges in urban areas.

5. **Surge in informal settlement growth over the past twenty years.** The cities that are most affected by the rapid growth of slum populations in terms of severity include Taiz, Hodeidah, Sana’a and Aden. Close to 70 percent of total residential built-up area of Taiz is informal and the vast majority of residential development since the 1980s has taken place informally. Most of the informal settlements have expanded onto mountain slopes, exposing the households to landslides and flooding.

6. **Vast majority of the poor in urban areas live in informal settlements.** In Yemen, informal settlements in urban areas are characterized by poor access to basic infrastructure and services like water supply and sewerage, garbage collection and street lighting; environmental degradation; lack of economic and educational opportunities; poor health care and; lack of security of land tenure. There are four key reasons why poor areas are underserviced in Taiz. First, the inability of the city to anticipate urban growth has resulted in unplanned development in peri-urban areas that are mostly inhabited by the poor and are unserviced. Second, in developed areas closer to the city center, poor people tend to live in marginal lands, especially in flood paths and on steep slopes, where it is often logistically difficult to provide basic services. Third, interventions in low-income neighborhoods in urban areas have largely been sectoral without any coordination between line-ministries and public programs like Social Fund for Development or Public Works Program. Fourth, service delivery is top-down in approach and very few Government entities adopt a participatory approach to service delivery. Some of the consequences of lack of basic services include deterioration in health conditions and quality of life for the population, negative economic impacts due to loss of productivity, higher costs of healthcare and poorly trained workforce and a perpetuation of vicious cycle of poverty.

7. **Constraints related to service delivery especially in water supply and sanitation.** Service delivery in key infrastructure sectors like water supply and sewerage is not keeping pace with

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5 Ibid
rapid urban growth. In urban areas, only 56 percent of the population has access to network water supply and only 31 percent to sewerage. Upland regions like Sana’a and Taiz suffer of water scarcity as result of rapid depletion of groundwater aquifers. In Taiz, the fresh water supply is under substantial stress and water is rationed to one day every two to three weeks. For any investments in the water and sanitation sector, there is an inherent risk that capital investment may be underutilized and that the associated economic rate of return may be lower. However, poor households benefit from connecting to the public water network system. In Taiz, a household of 6.5 persons consumes on an average 1430 liters per month. If the household were to purchase water from a private vendor it will cost them YR 3575 and from a public network, it would cost them YR 439. A recent study indicates that there is a willingness to pay among the poor of nearly US$2 per capita per month to connect to the public water supply network, and that network access is more important to the poor than price. The World Bank’s strategy in the Urban Water and Supply sector in Yemen focuses on improving operational performance of the utilities to reduce losses and increase supply through expansion of water and sanitation coverage, including new sources of water and waste-water treatment plants.

8. In Yemen, there is recognition that informal settlements require a differentiated approach. To date, GOY has paid limited attention to the issues of informal settlements. In Yemen, there is an estimated need of 80,000 new housing units per year and close to 66 percent of urban population lives in informal settlements. Based on recent experience, average costs for resettlement in Yemen cost up to US$13,000 per household compared to upgrading which costs less than $1,000. Given the scale of people living in informal settlements. Thus, it is neither practical, nor affordable for the government to rapidly provide decent shelter including new housing for people living in informal settlements - providing basic municipal services (public goods) is the best that Government can accomplish. Given the added complexity of land issues, the best alternative to moving people or replacing their homes is in-situ upgrading. It is important to highlight that upgrading may not address the broader issue of housing supply and overcrowding, but it does create visible impacts in terms of improving the living and environmental conditions of the poor. Upgrading also tends to retain the social fabric of the communities and allows for greater densification of neighborhoods. Having said that, the lack of

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9 Per capita water consumption has been reduced to about 30 liters per day on average.
10 Source: IUDP feasibility studies
12 Ibid. The WSSP acknowledges that new models for sourcing and supply water including rural-urban transfer and non-conventional water like desalination plants needs to be developed.
14 UN (2001) http://ww2.unhabitat.org/programmes/guo/documents/Table1.pdf
15 In 2004-2005 the NGO DIA was involved in the construction of resettlement housing in Taiz. The project was funded by the European Commission, with on site infrastructure provided by the Yemeni Government. It provided 68 housing units of 38 m2 per unit, for a total project cost US$316,200. Costs per unit were 4,650 USD. Similarly, the resettlement village, comprising of 240 housing units financed as part of the TMDFP Project (including infrastructure provision) cost US$ 600,000 or US$ 150,000 per hectare. The infrastructure comprised of: septic tanks, electricity supply, a two storey community hall of 384 m2 floor area, a two storey clinic of 192 m2 floor area, an administration building of 72 m2, green areas and pavement of streets. Source: Spruit, Sonja. 2008. “Republic of Yemen Urban Housing Sector Review” Taiz Municipal Development and Flood Protection Project.
effective land registration and unclear records of ownership does pose a risk to urban upgrading in informal settlements in the event of future land disputes. However, the reality in Yemen is that informal settlements continue to expand rapidly in urban areas and therefore upgrading in these areas remains the most viable solution to improving access to basic infrastructure.

9. **The experience of urban upgrading of informal settlements is limited in Yemen.** In Yemen, urban upgrading is in its infancy. There have been no integrated attempts at in-situ upgrading of deprived urban areas, and most of the interventions in terms of basic service delivery in informal settlements in urban areas have been sectoral and ad-hoc. In addition, there is no policy at the national level that addresses the issues related to informal settlements. That said, in order to develop any national policy, it is critical to demonstrate an integrated approach to urban upgrading at the local level. Given the current environment in Yemen, among all the cities in Yemen, the urban area of Taiz provides strong conditions for piloting an approach for an integrated urban upgrading due to the following reasons: a) nearly a quarter of the population lives below the poverty line; b) sixty percent of the residential built-up area is in informal areas (highest among any city in Yemen); c) Taiz has been a relatively stable city not affected by conflict; d) there is strong support and commitment from the local council and the governor which is crucial in Yemen; e) strong dialogue with beneficiary communities through a year long engagement\(^{16}\); and f) private sector presence who is committed to social issues.

2. **Objectives**

10. The Project’s development objectives (PDO) are: (i) to improve access to basic services in select informal settlements in urban areas in Taiz; and (ii) to strengthen dialogue on a national framework for urban upgrading.

3. **Rationale for Bank Involvement**

11. The World Bank’s lending for urban development over the last twenty years, focused largely on flood protection works in Taiz\(^ {17}\), has been very successful. Taiz has also benefited from urban water supply projects. The success of several Public Works Projects to mitigate the adverse effects of structural adjustment through the support for labor intensive infrastructure to create employment in both rural and urban areas, has attracted significant donor funding for Yemen. While a significant amount of analytical work has been undertaken in Yemen on a broad range of urban topics, there has been no demonstration of how an integrated package of multi-sectoral infrastructure and services can be delivered in poor urban settlements to promote broad welfare benefits. The Bank has a comparative advantage in supporting a well targeted, and poverty-focused, integrated urban upgrading intervention in Yemen, given its substantial experience with upgrading in cities all over the world for over thirty years. The proposed Integrated Urban Development Project (IUDP) builds on the successful experiences of previous Bank projects with a specific focus on deepening the engagement at the local Government level to improve the living conditions of the urban poor.

\(^{16}\) The communities have been extensively engaged through the Taiz Urban Upgrading Strategy. Source: Republic of Yemen (2008) Taiz Integrated Upgrading Strategy.

\(^{17}\) Taiz Flood Disaster Prevention and Municipal Development Project (CR 2160-YAR)
12. Unique contributions of the Bank’s support to this project include the following: (i) Bank support will help strengthen the decentralization reforms that are underway and will help improve urban management of the cities through an effective approach to basic service delivery for the urban poor in Yemen; (ii) the proposed project will also build the platform for future donor intervention in urban upgrading of informal settlements in key cities in Yemen; (iii) IUDP is designed to complement efforts of other IDA-funded projects like the Urban Water and Sanitation Project, the Social Fund for Development (SFD) and Public Works Project to maximize leverage and impact.

13. The proposed project contributes to the strategic objectives of the recently approved World Bank Urban and Local Government Strategy. The strategy emphasizes scaling up slum upgrading from a local to a national scale and improving living conditions in the slums through extending affordable services to slum dwellers.

4. Description

Component 1: Infrastructure in Taiz (US$18 million)

14. This component will finance provision of goods, works, and consultants’ services for the upgrading of public infrastructure in selected settlements in Taiz, including road and pedestrian ways, water, drainage and sewage systems, and street lighting. The initially selected settlements include: (i) Al-Maftash, (ii) Madinet Al-Nour and (iii) Al-Haraziya and Al-Arous. In each area, a multi-sectoral package of basic infrastructure and service improvements will include a combination of upgrading of roads and pedestrian footpaths; extension and improvements to water supply and sewerage networks including provision of household connections within public right-of-way for unconnected households who represent 20 percent of the population; connections to existing sewerage systems and provision of septic tanks for unconnected households comprising about 60 percent of households; street lighting; storm water drainage and; solid waste collection containers. The investments in water and sewerage are expected to be close to 31 percent of the total component cost.

Component 2: Institutional Strengthening and Capacity Building (US$2.7 million)

15. Provision of goods, training and consultants’ services for: (i) strengthening the dialogue on a national framework for urban upgrading including through the identification of an appropriate line ministry for urban upgrading, strengthening the knowledge base on informal settlements, the establishment of guidelines for identifying areas in need of upgrading, and the development of a short and medium-term plan for investment planning, implementation of an awareness-raising campaign and capacity building; and (ii) building government capacity in Taiz for carrying out urban upgrading, including establishment of and support for a core geographic information system unit in the governor’s office, the development of a public land inventory and information technology systems and provision of goods to Taiz governorate to operate the Accounting-based Financial Management Information System (AFMIS).

Component 3: Project Management (US$1.3 million)
16. This component will finance provision of goods, training, consultants’ services, and Incremental Operating Costs of the PMU to support Project coordination, implementation, monitoring and evaluation and management.

5. Financing
Source: ($m.)

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<th>RECIPIENT</th>
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<td><strong>Total</strong></td>
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6. Implementation

17. **Implementation Arrangements:** The project will be implemented by the Ministry of Public Works and Highways (MOPWH). Day to day project management activities will be carried out through a Project Management Unit (PMU) to be based in Taiz. The PMU will liaise with and get support from the local Government under the leadership of the Governor of Taiz to deliver its mandate. The core staff will consist of a Project Director, Social Monitoring and Evaluation Officer, Environmental and Quality Control Specialist, Procurement and Contract Management Specialist, Senior Implementation Engineer and Assistant Project Manager, Implementation Engineer, Financial Manager (based in Sana’a), an Accountant and an Office Administrator. The PMU was established in 1991 and the core staff was selected from the ongoing Taiz Municipal Development and Flood Protection Project (TMDFPP), who have over fifteen years experience and a proven track record in implementing IDA-financed projects, with a current implementation rating of Highly Satisfactory. The TMDFPP staff has acquired substantial experience in project management and this will reduce significantly the risk of delayed project start up. The PMU will be responsible for: (i) overall project management and coordination; (ii) procurement and financial management; (iii) preparation and submission of annual work programs and procurement plans for GOY and IDA review and; (iv) preparation of progress reports and monitoring and evaluation reports.

18. With respect to Component 2, strengthening the dialogue on a national framework for urban upgrading, an advisory committee headed by MoPWH shall be set up on an ad-hoc basis during policy implementation to provide policy guidance for the dialogue on national framework for urban upgrading. The committee will consist of key officials from the MoPIC, MoLA, General Authority for Land Survey and Urban Planning (GALSUP), Ministry of Water and Environment (MoWE), Ministry of Finance (MoF) and representatives from SFD and other individuals may participate in advisory committee.

7. Sustainability

18 Taiz Flood Disaster Prevention & Municipal Development Project established under presidential decree No.51 dated April 23, 1991
2. **Recipient Commitment:** The Recipient has full ownership and commitment to the Project. The Project is demand driven, with the Bank adding additional value in the areas of institutional development and technical principles to be adopted. The local Government in Taiz and the concerned public sector authorities have expressed interest in, and commitment to the proposed project as evidenced by their cooperation in the design and commitment to participate in implementation, which is fundamental for sustainability of such services. The Taiz Governorate and local council have expressed commitment to the operations and maintenance of the public assets provided through the project.

3. **Stakeholder Participation:** The Project has been discussed thoroughly with local authorities in Taiz, as well as with the relevant ministries and the branch offices at the governorate. Taiz local Government has participated in the identification and selection of priority informal settlements and the scope of the public services to be considered in project design. Social surveys which included identification of focus groups were conducted in the priority informal settlements in Taiz to identify needs in an order of priority, and such beneficiary communities are participating in the conceptual design and arrangements for operation and maintenance. Each community has set up a community upgrading committee, which will participate during project implementation to ensure their commitment and ownership particularly in regard to their cooperation with the sector agencies responsible for the public utilities.

4. **Operation and Maintenance (O&M).** Regarding water and sewerage services, a Memorandum of Understanding (MOU) between the PMU, Taiz Water and Sanitation Local Corporation (TWSLC) and the Taiz Local Council was signed in January 2010 on TWSLC’s participation in a) review of the design and bidding documents during project preparation; b) during supervision of construction with own staff; and c) assuming responsibility for maintaining and operating such systems upon commissioning to them. Also, to facilitate the maintenance of the septic tanks, the project will finance cleaning equipment for transfer to TWSLC. Other services such as maintenance of roads and street lighting will be taken over by the branch office of the Ministry of the Public Works and Highways and maintenance of footpaths will be the responsibility of the Local Council.

8. **Lessons Learned from Past Operations in the Country/Sector**

5. The project’s design builds on lessons learned from operations in urban development in Yemen and worldwide. The key principles used in project design are as follows:

   (i) Building on past experience and scaling up urban upgrading intervention the following lessons have been considered in the design of IUDP: (a) community consultation, participation, and empowerment is central to the design of the upgrading interventions; substantial socio-economic studies have been carried out and such findings and recommendations have been used in the planning and design of priority needs; (b) developing partnerships and coordination mechanisms among levels of Government,

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19 The project’s design also takes into account lessons from: (i) the World Bank’s Operations Evaluation Department’s sector study “Improving the Lives of the Poor through Investments in Cities: An update on the Performance of the Urban Portfolio” (2003); (ii) the World Bank’s Transportation, Water, and Urban Development Department’s general operational review “World Bank Experience with the Provision of Infrastructure Services for the Urban Poor: Preliminary Identification and Review of Best Practices” (1997); and (iii) policy notes and knowledge products distilled by the Bank’s Urban Poverty/Upgrading Thematic Group.
sectoral agencies, private sector and civil society are pre-requisites for effective implementation. In Taiz, the local council and governorate branches of line ministries and local public utility corporations agreed to jointly participate with local communities through the life of the project; (c) ensuring high-level leadership and political commitment from both levels of Government is important to develop an overall city-wide/national upgrading program. The Ministry of Planning and International Cooperation (MOPIC), The Ministry of Land Administration (MOLA), and the Ministry of Public Works and Highways (MOPWH) and the governor and local council of Taiz expressed their commitment to the project and are consulted in project design and engaged in implementation.

(ii) Ensuring sustainability of upgraded interventions through (a) developing low cost options for upgrading infrastructure with a view to achieving “more for less” and; (b) establishing appropriate institutional arrangements to cover the required operation and maintenance (O&M) cost for the upgraded infrastructure. The project design takes into account the local conditions in terms of physical as well as the human elements of design. The design is based on use of local materials and traditional construction suitable for labor-intensive and generate temporary employment for skilled and unskilled local laborers.

(iii) Monitoring and Evaluation: It is important to put in place mechanisms for monitoring progress and measuring impact by establishing a robust simple baseline. This baseline to be updated on regular basis would provide a sound foundation to inform on measurable and tangible results. The proposed project will also undertake process evaluation at strategic intervals of two years during the project’s life cycle which will help measure project outcomes and will also inform the project design of any mid-course corrections.

9. Safeguard Policies (including public consultation)

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10. List of Factual Technical Documents

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

2. Country Assistance Strategy (CAS) for the Period 2010-2013.


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