



Project Name : **PROPOSAL FOR PREPARATION AND IMPLEMENTATION SUPPORT PROJECT FOR THE SPECIAL INDUSTRIAL ZONE (SIZ) PROJECT IN AL-HODEIDA**

Country : Republic of Yemen
Entity : Islamic Development Bank
Islamic Corporation for the Development of the Private Sector

The subject report is a succinct version of the Application Report for the DPTF (Deauville Partnership MENA Transition Fund).

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LIST OF ACRONYMS/ABBREVIATIONS

CTY	Country Programs Department
DFID	Department for International Development
DPTF	Deauville Partnership MENA Transition Fund
EU	European Union
GDP	Gross Domestic Product
GIA	General Investment Authority
GIZ	German Society for International Cooperation, Ltd.
GoY	Government of Yemen
GRA	Government of National Reconciliation
ICD	Islamic Corporation for the Development of the Private Sector
IMF	International Monetary Fund
INF	Infrastructure Department
ISA	Implementation Support Agency
IsDB	Islamic Development Bank
JSEA	Joint Social and Economic Assessment for Yemen
LGL	Legal Department
MCM	Management Committee Meeting
MENA	Middle East and North Africa
MoF	Ministry of Finance
MoI	Memorandum of Intent
MoIT	Ministry of Industry and Trade
MoLA	Minister of Legal Affairs
MoPIC	Ministry of Planning and International Cooperation
OCM	Operations Committee Meeting
PCDP	Port Cities Development Project
PDO	Project Development Objective
PIP	Public Investment Program
PPP	Public Private Partnership
PTF	Project Task Force
RTA	Resident Technical Advisor
SIZ	Special Industrial Zone
SME	Small and Medium Enterprises
SPV	Special Purpose Vehicle
TC	Transition Countries
TEPAV	The Economic Policy Research Foundation of Turkey
TFP	Total Factor Productivity
TOBB	Turkish Union of Chambers of Commerce and Commodity Exchanges
TPSD	Transitional Program for Stabilization and Development
UNDP	United Nations Development Program
URB	Urban Development and Services Division
USD	United States Dollars
WB	World Bank

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BED No.290 Date: 18/05/2013-

IsDB PROJECT INFORMATION SHEET
PREPARATION AND IMPLEMENTATION SUPPORT ACTIVITIES FOR THE
SPECIAL INDUSTRIAL ZONE (SIZ) PROJECT IN AL-HODEIDA

Beneficiary (Country/Organization):	Government of Yemen			
Executing/Implementing Agency:	Ministry of Industry and Trade (MoIT), Government of Yemen			
Project Title:	FOR PREPARATION AND IMPLEMENTATION SUPPORT PROJECT FOR THE SPECIAL INDUSTRIAL ZONE (SIZ) PROJECT IN AL-HODEIDA			
Sector/Sub-Sector:				
Total Project Cost:	USD 3,239,000			
IsDB's Contribution:	NA			
Co-financiers Contribution:	USD 3,239,000 (DPTF)			
Government Contribution:	USD 284,500 (estimated in kind contribution)			
Proposed IsDB Financing:				
Modes(s)	Amount (USD)	Repayment Period (Years)	Grace/Gestation Period (Years)	Service Fee/ Mark-up
[]	[]	[]	[]	[]
[]	[]	[]	[]	[]
[]	[]	[]	[]	[]
[]	[]	[]	[]	[]
Implementation Period (Years) from the Date of First Disbursement:			3.5 Years	
Key Milestones:				
Approval			Date: 15/05/2013	
Signature			Date: 30/06/2013	
Effectiveness			Date: 30/06/2013	
Planned First Date of Disbursement			Date: 31/07/2013	
Planned Last Date of Disbursement			Date: 31/07/2016	

EXECUTIVE SUMMARY
FOR PREPARATION AND IMPLEMENTATION SUPPORT PROJECT FOR THE
SPECIAL INDUSTRIAL ZONE (SIZ) PROJECT IN THE CITY OF AL-
HODEIDA, REPUBLIC OF YEMEN

1. Rationale for Country and Sector Support: The project is aligned with Pillar 2 of the TPSD (Transition Plan for Stability and Development) ‘Medium-term Economic Recovery Program’; Priority No. 2 ‘Improve Infrastructure’ and; Priority No. 5 ‘Enhance the Role of Private Sector and Improve Business Climate’, which lay out the need for expanding electricity production, improve roads and seaports, implement PPP laws, and create favorable business conditions for Small and Medium Enterprises (SMEs). Within the ‘Main Sectoral Strategies and Priorities’ of the TPSD, the following ‘Policies and Work Programs’ relevant for the Al-Hodeida SIZ have been identified: (i) rehabilitation of industrial zones; (ii) expanding gas storage tanks at Al-Hodeida seaport; and (iii) installation of 400 MW coal-based power generation for the Al-Hodeida Governorate. These priorities and programs clearly reflect the Government of Yemen (GoY) commitment to develop Al-Hodeida and its contiguous governorates as a competitive hub for SMEs and trade integration with regional countries. The Al-Hodeida SIZ project is included in the PIP-TPSD (Public Investment Program of the Transition Plan for Stability and Development, 2012). The design of the project is based on the recommendations and lessons learned from “The Port Cities Development Project (*PCDP*) in Yemen” under a World Bank (WB) funded project, which was completed in 2010.

2. Project Objectives and Key Results: the Project aims to achieve the following objectives: (i) Delivery to the GoY of comprehensive & implementable PPP-based package for Al-Hodeida-SIZ; (ii) Establishment of a legal entity ‘SIZ Administration Agency’; and (iii) Delivery of integrated institutional support and capacity building package to the ‘SIZ Administration Agency’. Ultimately, the Project Outcome will be the establishment of the first PPP-based Special Industrial Zone (SIZ) in Yemen in the port city of Al-Hodeida. The SIZ will provide more jobs creation, SME development and investment climate improvement with the medium-term goal of reviving and expanding the non-oil manufacturing sector in Yemen.

3. Project Description: The Project aims to undertake preparation and implementation support activities for the Special Industrial Zone (SIZ) project in the city of Al-Hodeida, Yemen. This includes several components pertaining to project preparation activities, legal and regulatory advisory services, institutional support and capacity building.

4. Project Cost Estimates and Financing Plan:

Component	Cost (USD)
Component 1: Project Preparation Activities	1,050,000
Component 2: Legal and Regulatory Advisory	350,000
Component 3: Institutional Support and Capacity Building (incl. Cost of RTA)	1,030,000
Component 4: Consultative Meetings, Workshops and Dissemination	250,000
Contingency (10%)	270,000
Total Direct Project Cost	2,950,000
Total ISA/IsDB Indirect Cost (reimbursable)	289,000
Total Project Cost	3,239,000

5. Implementation Arrangements:

The Project is funded by the Deauville Partnership MENA Transition Fund (DPTF), with IsDB playing the role of the Implementation Support Agency (ISA). The Islamic Corporation for the Development of the Private Sector (ICD) - an IsDB affiliate - has assigned the technical & implementation unit within the IsDB Group. Such arrangement will be reflected in the terms of reference of the administrative instruction to be issued internally after the project's approval. Given that IsDB (as an ISA) entered into a Financial Procedures Agreement ("FPA") with the Trustee of the DPTF, a special account in United States Dollars will be opened by IsDB Treasury for the project's allocated funds. As an ISA, IsDB will ensure that procurement of all services under the various components of the Project, which will follow its Procurement Guidelines. The use of specific procurement mode will be based on the requirements of the Project and the recommendations of the Project Taskforce (PTF).

6. Project Justification:

The Project outcome will be the establishment of the first PPP-based Special Industrial Zone (SIZ) in Yemen in the port city of Al-Hodeida. The SIZ will support job creation, SME development and investment climate improvement with the medium-term goal of reviving and expanding the non-oil manufacturing sector in Yemen. The project is aligned with the DPTF objectives of supporting the four pillars of: (i) investment in sustainable growth; (ii) inclusive development and job creation; (iii) enhanced economic governance and competitiveness; and (v) regional integration.

Furthermore, Al-Hodeida SIZ project partnership structure involves strong Reverse Linkage between IsDB member countries, e.g. Gulf Cooperation Council (GCC), Malaysia, and Turkey.

7. Recommendations:

The project was discussed by the Departmental Weekly Meeting, Regional Network, and was finally cleared by the Operations Committee Meeting (OCM) on 26 March 2013, for submission to the DPTF for its consideration. It is therefore recommended to approve the appointment of IsDB as the ISA for the Preparation and Implementation Support Project for the Special Industrial Zone (SIZ) Project in Al-Hodeida, Yemen.

**REPORT AND RECOMMENDATION OF THE PRESIDENT, IsDB ON THE
APPOINTMENT OF IsDB AS THE IMPLEMENTATION SUPPORT AGENCY (ISA)
FOR PREPARATION AND IMPLEMENTATION SUPPORT PROJECT FOR THE
SPECIAL INDUSTRIAL ZONE (SIZ) PROJECT IN AL-HODEIDA, YEMEN**

I. BACKGROUND

1. Guided by the MoU signed between IsDB and the *Turkiye Odalar ve Borsalar Birligi (TOBB i.e. Turkish Union of Chambers of Commerce and Commodity Exchanges)* in 2009 calling for cooperation in areas including transferring Turkish experience in Industrial Zones, The IsDB Special Economic Zones (SEZ) Program (managed by ICD) partnered with The Economic Policy Research Foundation of Turkey (TEPAV), an affiliate think tank entity of Turkish Union of Chambers of Commerce and Commodity Exchanges (TOBB), for concept development. The concept development process was based on active involvement from the leading private sector of Yemen and included extensive field visits to Sana'a, Lahj, Aden and Al-Hodeida to meet local authorities, Governors and Chambers' representatives. As a result, the city of Al-Hodeida was selected for this project.
2. A Memorandum of Intents (MoI) related to the project was signed between the Ministry of Industry and Trade (MoIT) of Yemen, ICD, and TOBB on 11 January 2011 under the patronage of H.E. President of Turkey and Prime Minister of Yemen.
3. On 12 March 2011, IsDB Group hosted a roundtable Workshop in Jeddah for public and private partners from Yemen and Turkey in addition to IsDB Group and regional development institutions. The Workshop concluded with a set of recommendations on the project structure, program management and implementation roadmap.
4. After the political turmoil of 2011, the newly appointed transition Government of Yemen included the Al-Hodeida SIZ project in the PIP-TPSD (Public Investment Program of the Transition Plan for Stability and Development, 2012).
5. In order to secure the required TA grant to finance Al-Hodeida SIZ project preparation and implementation activities, MoPIC requested IsDB to be an ISA for Al-Hodeida SIZ and to assist in the preparation of the project proposal. The scope of the required grant was discussed with MoPIC delegation during their visit to IsDB on 28 January 2013 and subsequent consultative workshop held in Sana'a on 14 April 2013 concerning the project.
6. Based on the preparatory works of ICD (2010-2011), and the Joint Economic and Social Assessment Report (JSEA) conducted by IsDB, WB, EU and UNDP; a joint IsDB/ICD Team prepared the Project as per the DPTF operation manual.

MENA DPTF Context:

7. The DPTF provides funding for proposals that support investment in sustainable growth, inclusive development and job creation, enhanced economic governance and competitiveness and regional integration in some Transition Countries (Egypt, Jordan, Libya, Morocco, Tunisia, and Yemen).
8. In order to submit a proposal to the DPTF, countries have to partner with eligible Implementation Support Agencies (ISAs) that include the African Development Bank, Arab

Fund for Economic and Social Development, Arab Monetary Fund, European Bank for Reconstruction and Development, European Investment Bank, International Finance Corporation, International Monetary Fund, Islamic Development Bank, OECD, OPEC Fund for International Development, and the World Bank.

9. DPTF proposals must meet the following criteria:
 - Be consistent with the scope of the DPTF of the Operations Manual;
 - Be consistent with the eligible activities funded by the DPTF outlined in the Operations Manual;
 - Demonstrate clear results that describe how specific Project outputs directly link to Project outcomes that fall under the DPTF's objectives and how progress towards achieving those results will be assessed against robust indicators;
 - Demonstrate country-ownership in areas of reforms (both multi-year and short-term) and capacity building; and
 - Support actual reform implementation (both multi-year and short-term).

10. Proposals submitted for consideration of the DPTF should be in English; and fully compatible with the ISA's policies and procedures, and follow the ISA's internal quality assurance processes, and should, therefore, have been prepared in close consultation with the ISA. Projects should, wherever feasible, foster partnerships external to the grant recipient and the ISA.

II. THE COUNTRY ECONOMY

11. In 2011, Yemen's population stood at 24.8 million and, according to the World Bank, its per capita income estimated at US\$1,070. According to the recent IMF estimates, GDP growth of Yemen was sharply reduced from 7.7% in 2010 to -10.5% in 2011 and -2% in 2012. Political conflict in Yemen resulted in the overall investment rate to drop from an average rate of about 19% of GDP during the 2000-05 period to 11.6% in 2010 and 5.4% in 2011. The share of non-oil private manufacturing sector, which represents an alternative source for job creation to the declining agriculture sector, remained steady at about 4% throughout the period 2002-10.

12. The most recent assessment of the adverse impact of the 2011 political turmoil and the sharp economic contraction on the poverty rate, livelihood and employment prospects is presented in the 'Joint Social and Economic Assessment for Yemen (JSEA, October 2012; joint study conducted by the World Bank, UNDP, the EU and the IsDB). According to the JSEA (p. xxv), by the end of 2011, national poverty rate in Yemen had increased to 54.5% from the already high level of 42% by end-2009. According to the Fourth Development Plan for Poverty Reduction for 2011-2015 (MoPIC, Dec. 2010), unemployment rate rose from 16% in 2005 to 18.2% in 2010; while the most recent data indicate that the unemployment among youth was estimated at 53% in 2006. There are no reliable unemployment statistics for 2012; anecdotally, unemployment is most likely to have increased significantly during 2012.

13. Looking ahead, under the 'business-as-usual scenario', the IMF is projecting an economic growth of about 4% during 2013 and 2014. However, if Yemen is able to achieve peace and security as well as seriously implement wide-ranging economic reforms, then the JSEA concluded that only under 'Accelerated Transition Scenario' (which combines annual

TFP growth, over 2013-20, in agriculture, non-oil industry, and services sectors at 1%, 4% and 4%, respectively) the average GDP growth is projected at 6.7% during 2013-16 and 8% during 2017-20. The JSEA also demonstrated that realization of this Scenario will have the maximum impact on poverty reduction and jobs creation.

14. Addressing key structural challenges during the transition phase is urgently required to lay foundations for sustainable economic growth and jobs creation. In this context, it is important to note that there are two structural constraints which make jobs creation challenging. First, due to scarcity of water resources, the share of agriculture in total employment dropped from 43.9% in 1999 to 31% in 2004. Secondly, due to its relative capital-intensity, the oil & gas sector, which accounts for 90% of total exports, cannot be a major source of jobs creation. Furthermore, crude oil reserves are expected to be exhausted in the next 10 to 12 years.

III. THE SECTOR

15. The manufacturing sector, which could be considered as an alternative source to the agriculture sector for jobs creation, has the potential to improve its growth performance. During 2006 – 2009, this sector grew by an average of about 6%. In 2010, manufacturing growth decelerated to 4.3% and further to 3% during the 2011 political turmoil. In 2010, manufacturing growth also decelerated to 4.3% and further to 3% during the 2011 political turmoil. Although less than 4% of manufacturing firms are engaged in export activities, SMEs constitute 92% of the firms operating in the sector.

16. Given the rapidly dwindling oil & gas reserves, a major GoY's developmental goal is to raise investments in the non-oil manufacturing sector through promotion of SMEs. The JSEA also supported this approach as the most feasible route to achieve medium-term economic recovery and growth, which will also contribute towards economic diversification, poverty reduction and job creation goals. Implementing reforms which builds confidence and helps in recovery of private sector-led investment will be a key driver of sustainable growth.

17. Steps to support economic recovery and foster jobs creation in Yemen can only take place in an environment of relative peace and stability. The Al-Hodeida governorate is home to 11% of Yemeni population. In addition, the adjoining six governorates together constitute about 55% of the Yemeni population. Pre-crisis urban poverty rate in Al-Al-Hodeida governorate was estimated at 22%. The city of Al-Hodeida is ranked third among the five largest cities in Yemen. JSEA pointed out that, among the five largest cities in Yemen during the 2011 conflict, the city of Al-Hodeida remained peaceful as no public and private properties were damaged.

18. At this stage of political and economic transition, the concept of establishing new 'export processing zones' will not be aligned with the 'Inclusive Development and Job Creation' pillar in Yemen. On the other hand, in order to revive the overall investment rate in the non-oil industrial sector, it is critical to demonstrate the effectiveness of the recently enacted PPP legal framework in the context of SIZs development as well as packaging a special set of incentives which will stimulate establishment of new SMEs.

IV. RATIONALE, OBJECTIVES AND KEY RESULTS |

Rational for Al-Hodeida SIZ Project:

19. Following violence during 2011, the UN Security Council passed a resolution which entrusted GCC-supported peace building efforts, a Government of National Reconciliation (GRA) was formed in November 2011. As part of the mandate, the GNR is entrusted to formulate and implement an initial program of economic stabilization and development. In April 2012, the GNR launched the “Transitional Program for Stabilization and Development, 2012-14 (TPSD)”, which has been supported by the Donors Conference in Riyadh in September 2012. Basically, the TPSD identifies priorities for humanitarian relief activities, peace building programs, constitutional and political roadmap, macroeconomic stabilization, sectoral reforms and programs to lay foundations for medium-term economic recovery and development.

20. Under Pillar 2 of the TPSD ‘Medium-term Economic Recovery Program’, Priority No. 2 ‘Improve Infrastructure’ and Priority No. 5 ‘Enhance the Role of Private Sector and Improve Business Climate’ lay out the need for expanding electricity production, improving roads and seaports, implementing PPP laws, and creating favorable business conditions for SMEs. Within the ‘Main Sectoral Strategies and Priorities’ of the TPSD, the following ‘Policies and Work Programs’ relevant for the Al-Hodeida SIZ have been identified: (i) rehabilitation of industrial zones; (ii) expanding gas storage tanks at Al-Hodeida seaport; and (iii) installation of 400 MW coal-based power generation for the Al-Hodeida governorate. These priorities and programs clearly reflect the GoY commitment to develop Al-Hodeida and its contiguous governorates as a competitive hub for SMEs and trade integration with regional countries. The Al-Hodeida SIZ project is included in the PIP-TPSD (Public Investment Program of the Transition Plan for Stability and Development, 2012).

Alignment with GoY’s Port Cities Development Project:

21. The World Bank approved an IDA Loan of US\$23.4 million in January 2003 to support Port Cities Development Project (PCDP) in Yemen. This PCDP was declared Completed in June 2010. The PCDP objectives were to: (i) remove critical constraints to economic development; and (ii) improve environment for investment, growth and development in three port cities of Aden, Al-Hodeida, and Mukalla. The PCDP sought to transform Yemen’s strategic port cities into regional growth centers by creating conducive environment for private sector activities. Specifically for Al-Hodeida, the PCDP delivered the following major outputs: (i) establishment of Local Economic Development Department in January 2005; (ii) Completion of City Economic Development Strategy in January 2008; (iii) City Master Plan completed in December 2007; (iv) Prioritized Capital Investment Plans prepared in February 2008; and (v) Resettlement Policy Framework prepared and submitted to the World Bank in February 2008. Under the City Economic Development Strategy for Al-Hodeida, which was supported by Cities Alliance Initiative, the establishment of Al-Hodeida-SIZ was identified among the core economic assets and clusters.

22. According to the 2010 Implementation Completion and Results Report of the PCDP, the overall rating was judged as ‘Moderately Satisfactory’. The following key lessons learned of the PCDP implementation offer invaluable guidance in designing the next phase of the Al-Hodeida-SIZ Project include: (i) in low capacity context, it is best to avoid the integration of national-level urban development reforms with local-level reforms in one single project; (ii) within the context of city development strategies, it is critical to “ensure in-depth, and locally

specific analysis that first informs the development of a segmented participation and consultation plan”; (iii) capital investment plans need to be appropriately designed, segmented and inclusive based on analytic rigor along dimensions such as “livability, competitiveness, bankable, and well governed”; and (iv) creation of local-level special purpose agencies, separate from traditional bureaucracy, and genuine consultations with direct or ring-fenced reforms beneficiaries of sub-projects are essential to address sustainability issues.

Special Industrial Zone (SIZ) in Al-Hodeida as a Transformative Initiative:

23. Given the above considerations, establishment of the Al-Hodeida-SIZ will offer the following economic benefits: (i) ease entry barriers for SMEs and ultimately provide a sustainable source of jobs creation and business opportunities for Yemeni entrepreneurs and workers; (ii) demonstrate measurable improvements in business environment through special incentives, streamlined processes, one-stop services and efficient administration of day-to-day interaction between the investor, the zone operator and the competent government agencies such as the Ministry of Industry and Trade, Customs, Investment Authority, and financial institutions; (iii) create backward business linkages with farmers, vendors, university and vocational training institutions; (iv) enhance market expansion and competitiveness of the manufacturing sector through better economic integration with the more advanced economies in the region; and (v) potential replication of SIZs and PPP model elsewhere in Yemen.

V. THE PROJECT

Al-Hodeida SIZ Location:

24. The GoY designated an area of 4 Km Sq as the land site for the Al-Hodeida Industrial Zone, which is located 8 km north of Al-Hodeida Seaport boundary. It is also situated about 400 km north of the Aden Free Zone and about 250 km south of Jizan Economic City in Saudi Arabia. The map of the country and the location is attached as **Annex-2**

25. As the agro-industrial capital of Yemen, the city of Al-Hodeida is known for its dynamic business environment, good physical and social infrastructure including: the 2nd largest port (handling 50% of national dry cargo imports); an international airport; primary road network to Saudi Arabia; new water treatment facility; two private refineries; one university hosting 15,000 students; 6 vocational training centers; and 20 cooperatives and over 15 bank branches.

Project Description:

26. The Project aims to undertake the Preparation and Implementation Support Activities for the Special Industrial Zone (SIZ) Project in the City of Al-Hodeida, Yemen. This includes the financing of several components pertaining to project preparation activities, legal and regulatory advisory services, institutional support and capacity building.

Project Components

Main Components

i) SIZ Preparation Activities (by External Consultants)

27. This component will cover integrated analytical and planning activities to prepare the project for GoY Ministerial-level approval. More specifically it will include:

- a) Economic, Policies and Market Assessment which will cover background research on investment climate and key policy and market constraints for non-oil industrial development in Yemen; an assessment of the competitive and comparative advantages of the Al-Hodeida SIZ; review of the Trade and Investment Policy and benchmarking policy options to make Al-Hodeida SIZ as an attractive investment location vis-a-vis comparable regional zones; taking into account other on-going investment climate related improvement programs supported by donors; identification of high-potential activities and source countries for promotion, so that the promotional “niches” of selected location is clearly set-out; concluding with demand forecasts from identified realistic targets and location requirements.
- b) Site Evaluation, Land Use/Physical Planning, and Development Costing for the Zone which will cover land use and zoning master plan for the SIZ; assessment of off-site and on-site infrastructure and facilities improvements, development plans, projects, and development costing; environmental assessment of proposed measures; high level capacity forecasts for airport, port, and other transportation facilities; preparation of phased investment plans; consolidated list of infrastructure improvements and funding requirements; and a security concept design.
- c) A high level social and environmental assessment will also be developed taking into consideration that the project is located within a formally declared industrial land based on former studies, city master planning and industrial development work.
- d) Financial and Economic Analysis which includes detailed financial and economic analysis to develop the financial model and evaluate commercial viability and bankability of the project as well as to identify any viability gaps. Project risk identification and allocation framework will also be developed to guide the legal and financial structure of the project. The above will also include impact analysis of project development on the Government’s budget.
- e) Development Strategy and Implementation Plan: this includes an integrated development strategy for Al-Hodeida Special Industrial Zone, including a synthesis of the various analysis undertaken to produce a phase-wise implementation plans; detailed PPP plan and investment promotion strategy.

ii) Legal, Regulatory and Institutional Framework Assessment and Legal Advisory:

28. This component includes the following:
- a) Legal assessment including review of the relevant ministries and organizations in administration of the SIZs to identify duplication or overlap of responsibilities; alternative institutional frameworks that can be used to govern Al-Hodeida SIZ, in particular covering issues such as the role of national government bodies in the governance of SIZ, the relationship between the SIZ administration and local government, and the role of the private sector in development and operation; concluding with proposed Legal Structure and Bye-laws or Regulations for the Al-Hodeida SIZ.
 - b) Institutional and Regulatory Models: based on an evaluation of the existing institutional capacity of the Government and private sector bodies in terms of their ability to participate in the administration of the SIZ, and an organizational structure of the SIZ Administration Agency and its management framework will be proposed.
 - c) PPP Concession Agreement: the above work will guide the development and conclusion of a PPP based concession agreement between the Government and SIZ developer. The concession will be aligned to the recently developed national PPP framework, which will serve to demonstrate implementation of the reform agenda. In addition to detailing the rights, roles, responsibilities, performance targets and risks assumed by the Government and the concessionaire (special purpose vehicle, SPV), the concession agreement will also cover legal and policy aspects required for successful operation (designed in the first and second component) and serve as the implementation mechanism for the developed models where appropriate.

iii) Implementation Support Phase to the Al-Hodeida-SIZ Administration Agency

29. This phase will cover extending institutional support and capacity building activities to the Al-Hodeida-SIZ Administration Agency. It will follow the official awarding of the concession of the Al-Hodeida-SIZ Project and thus will run in parallel with financial closure and subsequent physical site development by the Project-SPV. To ensure ownership and capacity development, the newly established Administration Agency will be the Execution agency of this component.

30. Based on the institutional, legal, and regulatory frameworks, the Agency will require implementation support in the following key areas:

- a) Tailored operational systems to be adopted for customs, one-stop shop services, and streamlining back-end arrangements with various government agencies. A critical work will be the development of model forms and contracts that will serve as interface between the Al-Hodeida-SIZ Administration Agency and the SPV, which will be tasked to develop and manage the Zone. In addition, support will be needed to develop a detailed plan covering organizational structure, HR plan, performance system, financial management and accounting systems, standard operating procedures, and development of IT system and website.
- b) Capacity enhancement activities will be executed for the core staff especially during the initial set-up phase of various administration functions. This will

include familiarization trips, training courses and technical exchange programs with leading industrial zone authorities in countries such as Turkey, Saudi Arabia, U.A.E., and Malaysia etc.

- c) Finally, a targeted promotion and marketing plan will be implemented to support the take-off of the Al-Hodeida-SIZ to attract a critical mass of local, regional and international investors.

31. The above components may be delivered by a consortium of consultants or may be delivered by a series of consultants with some time overlap between parallel tracks. It is estimated that 6 month-buffer time added to accommodate for bidding and selection of consultants throughout the Project. This includes 3 months buffer time for each of the two Phases. This calculation is reflected in the total number of 42 months, accounted for from Start to closing dates in Section 8 above.

32. The above sub-components will be integrated and delivered within clear timeframe that matches the expectation of public and private stakeholders. A dedicated coordination function will be formed within the Agency. IsDB will work to transfer the knowledge gained by its field support in the preparation phase to the Agency.

33. The coordination function will be supported by a resident technical advisor (RTA), a person with international experience in similar projects, who will be recruited by IsDB, as per its guidelines, for about 18 months to supervise the team's work and coordinate implementation activities with the public and private stakeholders. This approach will allow gradual capacity development of the Agency while ensuring effective management of the implementation phase.

iv) Consultative Meetings, Workshops, and Dissemination

34. In order to engender genuine dialogue and learning, a participatory approach will be followed throughout the two phases of the Project; i.e. Preparation and Implementation Support. For this purpose, a number of consultative activities are envisaged such as organize official committees meetings, dialogue amongst key stakeholders, technical workshops particularly in relation to the Preparation Phase of the Project. In addition, there will be event management activities such as dissemination, translation, logistics services, cost of travel and allowances of ad-hoc advisors and experts that may be required to participate in such meetings or workshops (excluding the appointed consultants for the studies).

Project Support, Coordination, Administration and Audit by IsDB

35. IsDB expected cost for the support activities throughout the life of the project, will comprise the cost of time, travel, and other expenses of IsDB Staff and experts involved in preparation, coordination, administration, and oversight and facilitation activities.

36. The role of IsDB will be extended into project management support to offset capacity limitation in the GoY; particularly during the Preparation Phase. IsDB will form a Project Task Force (PTF) composed of a dedicated project manager and a team of sector experts. In addition to the Jeddah-based PTF, IsDB will recruit one local field support resource with relevant experience.

37. Audit activities will be handled as per the IsDB guidelines by appointing external audits in IsDB-HQ and field levels. These audit reports will be made available to the DPTF

and the Government of Yemen. During the Implementation Phase, IsDB will appoint an external auditor to audit activities outlined in Component (iii) to be executed by the Al-Hodeida-SIZ Administration Agency.

VI. PROJECT COST ESTIMATE & FINANCING PLAN

38. The total financing cost (including reimbursable cost of IsDB) of the project is estimated at USD 3,371,000, to be financed from the DPTF (corresponding to %) with an in-kind contribution of GoY estimated at USD 284,500. The breakdown of the project component is shown in the Table-1 below and the details are given in **Annex-3**.

Table-1: Project Cost Estimate & Financing Plan

Cost by Component	DPTF (USD)
Component 1: Project Preparation Activities	1,050,000
Component 2: Legal and Regulatory Advisory	350,000
Component 3: Institutional Support and Capacity Building (incl. Cost of RTA)	1,030,000
Component 4: Consultative Meetings, Workshops and Dissemination	250,000
Contingency (10%)	270,000
Total Direct Project Cost	2,950,000
<i>Project Manager Staff Time</i>	138,000
<i>Field Staff Cost</i>	50,000
<i>Staff Travel</i>	53,000
<i>Grant Preparation</i>	48,000
Total ISA/IsDB Indirect Cost (reimbursable)	289,000
Total Project Cost	3,239,000

VII. IMPLEMENTATION ARRANGEMENTS

The Executing Agency

39. The MoIT will be the executing agency for the project. IsDB is the Implementation Support Agency. ICD will be the technical & implementation unit of IsDB in this project. Such arrangement will be reflected in the terms of reference of the administrative instruction to be issued by the IsDB Group for the formation of the Project Task Force (PTF).

Project Organization

40. Given the above considerations, the guiding principles for the organizational framework of the Project would aim to achieve the following: (i) design a participatory process among the key stakeholders i.e. private sector, public sector and international partners; (ii) a phased and integrated execution of various components; and (iii) empowered Ministerial Committee to ensure timely execution and to provide transparent reporting of Results Framework and Monitoring. To ensure synergy among all stakeholders and timely execution of the Project, the organizational set up will be as follows:

SIZ Preparation Phase:

41. Ministerial-level Steering Committee with capacity and authority to provide oversight and senior ownership by relevant entities and to secure the right support and endorsement. The composition will include the following senior officials:

- a. **From GoY:** Minister of Industry and Trade (MoIT), the Minister of Planning and International Cooperation (MoPIC), Minister of Finance (MoF), Minister of Legal Affairs (MoLA), and Director General of the General Investment Authority (GIA).
- b. **From IsDB:** An IsDB Representative (s) to participate as an observer.
- c. **From Private Sector:** Chairman, The Federation of Yemen Chambers of Commerce & Industry as an observer.

42. **A Technical Committee** composed of senior technical representatives from MoIT, MoPIC, MoF, GIA, Head of IsDB Project Task Force, and a representative from the Al-Hodeida Chamber of Commerce and Industry Al-Hodeida Chamber of Commerce and Industry. The Committee will highlight design and implementation issues and formulate recommendations on the Project to the Ministerial Steering Committee.

43. IsDB Project Task Force (PTF) is led by a Project Manager (Advisory Services Department, ICD), and comprise Country and Sector Specialists (Country Programs Department, Infrastructure Department (Urban Development & Services Division), and Legal Department). The PTF will act as the Advisor to the Technical Committee, and will perform additional reporting of the 'Intermediate Results Indicators' within the Results Framework to the IsDB Management and the DPTF. In addition to the PTF, IsDB will recruit one local field support resource reporting to the Project Manager.

Implementation Support Phase to the SIZ Administration Agency:

44. Ministerial-level Steering Committee with the same composition and mandate as in the Preparation Phase mentioned above.

45. Technical Committee with the same composition as in the Preparation Phase mentioned above. In addition, the senior management of the Administration Agency will be inducted

46. Administration Agency: As the execution agency in charge of the Implementation Support Phase, the Agency will report to the Technical Committee.

47. Within the Agency, a Project Coordination Function will be established which will be responsible for the day to day project management (supported by a Resident Technical Advisor). One local field support resource of IsDB is expected to be transferred to the Agency to strengthen the Project Coordination Function.

48. A Resident Technical Advisor (RTA), a person with international experience in similar projects, will be recruited by IsDB, for about 18 months to support and strengthen the

Agency's work and coordinate implementation activities with the public and private stakeholders. He will report to the Project Manager of IsDB PTF.

49. IsDB-PTF: with the same composition as in the Preparation Phase mentioned above. However, the PTF will not be directly involved in the day to day project management, which will be the responsibility of the Agency's Coordination Function with RTA support. The PTF will be providing oversight and monitoring of Implementation progress in addition to high level coordination with international partners under the MoIT / MoPIC lead mechanism.

Role of IsDB as the Project Implementation Support Agency (ISA)

50. As an ISA in the Project, IsDB role will be (as outlined in the DPTF operational manual) as follows:

- a. conducting discussions with Transition Countries (TCs) on technical cooperation areas that can benefit from DPTF funding;
- b. ensuring proper coordination and exchange of information with relevant donor coordination mechanisms, including the IFI Coordination Platform;
- c. assisting TCs prepare proposals for DPTF financing, (including a results framework) for TC-Execution or for ISA-Execution;
- d. endorsing TC-executed proposals of TCs prior to submission to the DPTF;
- e. concluding a legal agreement with the recipient entities (as designated by the TCs) for TC-executed Projects, indicating in particular that the resources have been provided from the DPTF and passing down applicable obligations binding on recipient entities.
- f. providing implementation support to TCs through the life of the activity funded by the DPTF;
- g. ensuring that each grant is administered in accordance with the applicable policies and procedures of the designated ISA;
- h. providing financial and progress reporting through the Trustee and Coordination Unit of the Fund; and
- i. providing inputs to the Annual Reports of the DPTF through the Coordination Unit.

51. The role of IsDB Group will be extended into project management support to offset capacity limitation in the GoY; particularly during the Preparation Phase. IsDB Group will form a Project Task Force (PTF) composed of a dedicated project manager and a team of sector experts. In addition to the Jeddah-based PTF, IsDB will recruit one local field support resource with relevant experience.

52. The direct role of IsDB-PTF in Project management will be gradually drawn down as the local capacity gains strength particularly during the Implementation phase. Therefore, it is envisioned that IsDB Group field support resources may be eventually transferred to the

Administration Agency as part of the Coordination Function in charge of Implementation Phase of the Project.

Implementation Schedule:

53. The project will be delivered over two phases: (i) Preparation Phase; and (ii) Implementation Support Phase.

54. It is estimated that the implementation for each phase will require about 18 months. Moreover, to mitigate any delays in Parliamentary approvals of the legal package and/or the procurement process for consultancy services of the various components, additional 6 months is added to the implementation period (a total of 42 months).

The Process of Project Funding from DPTF to IsDB as the ISA

55. The DPTF is a Financial Intermediary Fund (FIF) with a Trust Fund administered by the International Bank for Reconstruction and Development (IBRD) (the “World Bank”) as Trustee and supported by the World Bank as Coordination Unit.

56. Prior to receiving funds from the Trust Fund, IsDB (as an ISA) will enter into a Financial Procedures Agreement (“FPA”) with the Trustee (completed).

57. The funds shall be administered in accordance with the IsDB’s applicable policies and procedures, as the same may be amended from time to time, including its procurement, financial management, disbursement and safeguard (environmental and social) policies, its framework to prevent and combat fraud and corruption, and its screening procedures to prevent the use of DPTF resources to finance terrorist activity, in line with any ISA obligations to give effect to the relevant decisions of the Security Council taken under Chapter VII of the Charter of the United Nations.

58. To the extent allowed under the relevant IsDB’s applicable policies and procedures, IsDB’s Funds may be used to retroactively pay for expenditures under a Project that were incurred within six months prior to Fund’s Steering Committee approval of such Project, up to a limit of 10% of the project amount, unless otherwise approved by the Steering Committee.

Disbursement Procedures and Plan:

59. A special account in United States Dollars will be opened by IsDB Treasury to facilitate disbursements for the Project activities and components outlined in annex 3. |

Procurement Arrangements:

60. As an ISA, IsDB will ensure that procurement of all services under the various Components of the Project will follow its Procurement Guidelines. The use of specific Procurement mode will be based on the requirements of the Project and the recommendations of IsDB-PTF.

VIII. PROJECT IMPLEMENTATION RISKS

Risk	Rating	Mitigation
Political instability and security	H	Expected in a Country in Transition. Al-Hodeida city is relatively safe compared to other major cities in the country.
Weak inter-agency coordination and buy-in during project design	M	The organization structure for the project is designed to ensure full representation of relevant agencies at the Steering and Technical levels.
Delay in the review and ratification of legal and regulatory arrangements	H	During implementation, parliamentary and legislative, representatives will be updated on the progress to assure their involvement and buy-in.
Delay of concession awarding due to misalignment of public and private interests	M	Coordination and dialogue between public and private stakeholders is already catered for in the organizational setup.
Delay in the establishment, staffing and budget allocation for the SIZ Administration Agency	M	So far, the GoY has demonstrated commitment and it is foreseen that Al-Hodeida Local Council and Chamber will play an active role in stressing the priority of the Project.

IX. PROJECT JUSTIFICATION

61. The Project outcome thus, will be the establishment of the first PPP-based Special Industrial Zone (SIZ) in Yemen in the port city of Al-Hodeida. The SIZ will provide jobs creation, SME development and investment climate improvement with the medium-term goal of reviving and expanding the non-oil manufacturing sector in Yemen.

62. The SIZ Project addresses three of the four IsDB strategic thematic areas: (i) Comprehensive Human Development; (ii) Infrastructure Development; and (iii) Economic Integration. It also addresses the cross cutting thematic areas: Private Sector Development and Capacity Building.

63. The Project is also aligned with the DPTF objectives of supporting the four pillars of: (i) investment in sustainable growth; (ii) inclusive development and job creation; (iii) enhanced economic governance and competitiveness; and (v) regional integration. Furthermore, The Al-Hodeida SIZ Project partnership structure involves strong Reverse Linkage between IsDB member countries, e.g. Gulf Cooperation Council (GCC), Malaysia, and Turkey.

X. RECOMMENDATIONS

64. In light of the above, it is recommended that IsDB endorses the request of the Government of Yemen to act as the Implementation Support Agency (ISA) for the Preparation and Implementation Support Activities for The Special Industrial Zone (SIZ) Project in Al-Hodeida.

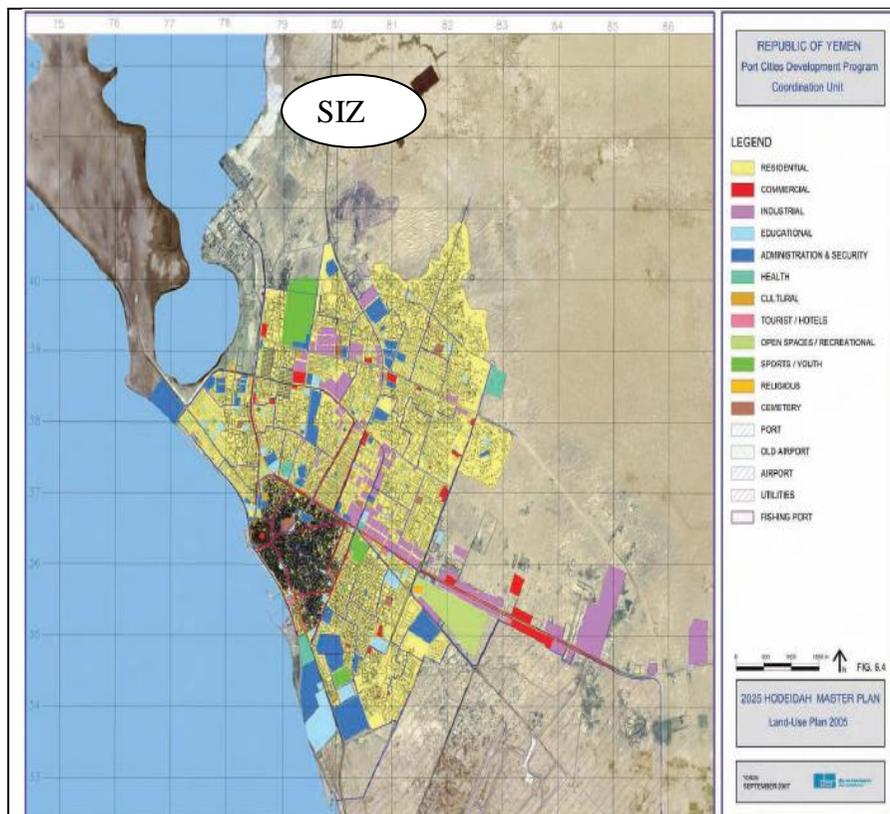
Results-Based Logical Framework

Project Development Objective (PDO):										
PDO Level Results Indicators	Unit of Measure	Baseline	Cumulative Target Values				Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition etc.)
			YR1	YR2	YR3	YR4				
Indicator One: Parliamentary approval of the PPP concession, regulatory & institutional package of ‘SIZ Administration Agency’	Binary	No	n/a	Yes			Yearly	Project Reports	MoPIC /IsDB	
Indicator Two: Establishment of SIZ-SPV and concession awarded	Binary	No	n/a	Yes	Yes		Yearly	MoIT Reports	MoIT/IsDB-PTF	
Indicator Three: Operationalization of the ‘SIZ Administration Agency’	Binary	No	n/a	Yes			Yearly	MoIT Reports	GIA/MoIT	
INTERMEDIATE RESULTS										
Intermediate Result (Component One):										
<i>Intermediate Result Indicator 1.1:</i> Completion of Economic, Policy and Market Assessment	Binary	No	Yes	n/a	n/a	n/a	One time	Project Reports	MoIT/IsDB-PTF	
<i>Intermediate Result Indicator 1.2:</i> Completion of Site Evaluation, Master Planning, Costing, Social / Environmental Assessment	Binary	No	Yes	n/a	n/a	n/a	One time	Project Reports	MoIT/IsDB-PTF	
<i>Intermediate Result Indicator 1.3:</i> Completion of Economic and Financial Analysis / Structuring	Binary	No	n/a	Yes	n/a	n/a	One time	Project Reports	MoIT/IsDB-PTF	

<i>Intermediate Result Indicator 1.4:</i> Finalize Development Strategy and Implementation Plans	Binary	No	n/a	Yes	n/a	n/a		One time	Project Reports	MoIT/IsDB-PTF	
<i>Intermediate Result Indicator 1.5</i> Endorsement of Package by the GoY Ministerial Committee	Binary	No	n/a	Yes	n/a	n/a		One time	Project Reports	MoIT/IsDB-PTF	
Intermediate Result (Component Two):											
<i>Intermediate Result Indicator 2.1:</i> Completion of Legal Assessment	Binary	No	Yes	n/a	n/a	n/a		One time	Project Reports	MoIT/IsDB-PTF	
<i>Intermediate Result Indicator 2.2:</i> Completion of institutional & regulatory model of a legal entity ‘SIZ Administration Agency’	Binary	No	Yes	n/a	n/a	n/a		One time	Project Reports	MoIT/IsDB-PTF	
<i>Intermediate Result Indicator 2.3:</i> Development of SIZ-PPP concession framework	Binary	No	n/a	Yes	n/a	n/a		One time	Project Reports	MoIT/IsDB-PTF	
Intermediate Result (Component Three):											
<i>Intermediate Result Indicator 3.1:</i> Establishment of ‘Project Coordination Function’ under Agency	Binary	No	n/a	n/a	Yes	n/a		One time	Project Reports	Administration Agency / IsDB-PTF	
<i>Intermediate Result Indicator 3.2:</i> Agency to conclude legal agreements amongst various stakeholders to deliver one-stop services	Number	No	n/a	n/a	3	4		Yearly	Project Reports	Administration Agency /IsDB-PTF	
<i>Intermediate Result Indicator 3.3:</i> Agency to complete Organizational and Operational Manuals	Binary	No	n/a	n/a	Yes			One time	Project Reports	Administration Agency /IsDB-PTF	
<i>Intermediate Result Indicator 3.4:</i> Launching Al-Hodeida-SIZ marketing	Feedback	No				Yes		One time	Questionnaire	GIA /IsDB-PTF	

campaign											
<i>Intermediate Result Indicator 3.5:</i> Deliver capacity building to Agency Staff: Number of Staff benefited from courses, workshops, exchange programs, etc	Number	No	n/a	n/a	20	25		One time	Project Reports	Administration Agency /IsDB-PTF	
Intermediate Result (Component Four):											
<i>Intermediate Result Indicator 4.1:</i> Participatory Consultative Meetings and Workshops	Number	No	6	6	4	4		Yearly	Project Reports	MoIT/IsDB-PTF	
<i>Intermediate Result Indicator 4.2:</i> Number of international participants from donor agencies and countries	Number	No	6	6	6	n/a		Yearly	Project Reports	MoPIC/ MoIT/IsDB-PTF	

Map of Country and Project Location



SIZ Site Location in Hodieda City



Al-Hodeida City Location

Detailed Project Costing**1. Project Financing (including ISA Direct Costs¹)**

Cost by Component*	Transition Fund (USD)	Country Co-Financing (USD)**	Other Co-Financing (USD)	Total (USD)
Component 1: Project Preparation Activities (External Consultancy work)	1,050,000	<i>179,300</i>		1,050,000
(a) Sub-component 1.1: <i>Economic, Policy and Market Assessment</i>	<i>200,000</i>			<i>200,000</i>
(b) Sub-component 1.2: <i>Site Evaluation, Master Planning and Costing</i>	<i>400,000</i>			<i>400,000</i>
(c) Sub-component 1.3: <i>Social and Environmental Assessment</i>	<i>50,000</i>			<i>50,000</i>
(d) Sub-component 1.4: <i>Economic and Financial Analysis and Structuring</i>	<i>300,000</i>			<i>300,000</i>
(e) Sub-component 1.5: <i>Development Strategy and Implementation Plans</i>	<i>100,000</i>			<i>100,000</i>
Component 2: Legal and Regulatory Advisory (External Consultancy work)	350,000		-	350,000
(a) Sub-component 2.1: <i>Legal Assessment</i>	<i>125,000</i>			<i>125,000</i>
(b) Sub-component 2.2: <i>Institutional and Regulatory Models</i>	<i>100,000</i>			<i>100,000</i>
(c) Sub-component 2.3: <i>PPP Concession Agreement</i>	<i>125,000</i>			<i>125,000</i>
Component 3: Institutional Support and Capacity Building	1,030,000	<i>50,000</i>		1,030,000
(a) Sub-component 3.1: <i>Operational Systems</i>	<i>330,000</i>			<i>330,000</i>
(b) Sub-component 3.2: <i>Capacity Building</i>	<i>300,000</i>			<i>300,000</i>
(c) Sub-component 3.3: <i>Marketing & Promotion</i>	<i>200,000</i>		-	<i>200,000</i>
(d) Sub-component 3.4: <i>Project Management Support (cost of the RTA and his related admin expenses)</i>	<i>200,000</i>			<i>200,000</i>
Component 4: Consultative Meetings, Workshops, Dissemination	250,000	<i>55,200</i>	-	250,000
Contingency	270,000	-		270,000
Total Project Cost	2,950,000	<i>284,500</i>	-	2,950,000

* Subcomponents are initial estimates within the overall component level budget. They may be combined under one or multiple consulting assignments and may have some variation within overall component cost estimates.

** Estimated in-kind contribution by GoY (not computed in the total amount requested).

¹ ISA direct costs are those costs related to the ISA's direct provision of technical assistance within the project.

2. Budget Breakdown of Indirect Costs Requested (USD)

Description	Amount (USD)
For grant preparation, administration and implementation support:	
PM Staff Time (PM 50% for 18 months + 30% for 9 months + 10% for 9 months)	138,000
Field Staff Cost (1 resource for 18 months for salary and allowances)	50,000
Staff Travel (24000 for PM + 24 000 for PTF members + 5000 for field resources)	53,000
Grant Preparation (2 month cost of a Principal Economist and SEZ Program Manager)	48,000
Total Indirect Costs	289,000
<i>Excluding: in kind contribution of other IsDB HQ staff of PTF members and operational functions</i>	<i>405,000</i>