



Developing Yemen's Port Cities

In a move to strengthen Yemen's investment climate, encourage growth and create jobs in the port cities of Aden, Hodeidah and Mukalla, the World Bank recently approved a US \$23 million credit to the country. The loan is the first in a three-phase initiative to develop Yemen's coastal cities over a period of 12 years at a total cost of US \$96 million.

The first phase of the Port Cities Development Program will focus on Aden, Yemen's commercial hub, whose strategic location at the tip of the Arabian peninsula once made it the second busiest port in the world. The program in Aden will begin with small-scale infrastructure investments, such as improving facilities at a local fish market and road works at an industrial estate, to elevate small business growth and build linkages to Aden's transport facilities. Training and investment planning will begin in parallel in both Hodeidah and Mukalla.

SECTOR BRIEF

URBAN DEVELOPMENT IN MENA

Challenges and Opportunities

Rapid population growth and urbanization against a context of demographic, social, economic and political challenges: With an average growth rate of 2.1% per annum in 1990-2003, MNA has one of the world's most rapidly expanding populations. Urban areas have been the main recipients of population growth; cities' share of total population grew from 48% in 1980 to close to 60% in 2000, and it is expected to exceed 70% by 2015 (against an average of 54% for all developing countries). The region's average annual urban growth rate of 4% in the past two decades is only exceeded by Sub-Saharan Africa, which is far less urbanized. In 1995, major cities accounted for 20% of MNA's total population, second largest after Latin America.

Rapid population growth and urbanization are occurring in a context of **poor economic performance** (average growth per capita was 0.9% in 1985-2000, although growth recovered since 2000 on account of exogenous factors such as the sharp rise in oil prices), **highly non-diversified economy** (non-oil exports account for a mere 6% of total exports) and a sensitive geo-political context (Israeli-Palestinian conflict, Iraq War) characterized by **increasing regional political instability and insecurity**. **High unemployment** (conservatively estimated at 15%) is one of the region's most critical problems, especially among youth. As many as 5 million jobs per year are needed to absorb new entrants to the job market, and this figure would need to be increased to accommodate any growth in female labor force participation (currently the lowest of all regions at 29%). Most of these new jobs will need to be created in cities, where the bulk of economic productivity is already taking place.

MNA countries are overall **lagging behind in implementing needed economic policy and governance reforms**, which are critical to improve the investment climate and address the inefficiencies caused by a large and inefficient public sector and an embryonic and relatively non-dynamic private sector. Progress in decentralization has overall been limited. In Tunisia and Jordan, local government expenditures as a share of total government expenditures are respectively 3.1% and 5.5%. The limited fiscal transfers and human resources at hand and the little fiscal and political autonomy severely impede local governments' capacity to finance, deliver and manage urban services.

Although largely a middle-income region, poverty and vulnerability are affecting a large and growing proportion of MNA's population. In 2001, 23.2% of the population lived on less than \$2 per day. The 1990s witnessed 20 million more persons living on less than \$2 per day despite higher growth than the previous decade, which saw a reduction in poverty. Such increasing vulnerability of the population is alarming in a region that witnessed frequent conflicts and natural disasters and which suffers from major natural resources constraints, especially water supply. The **"urbanization of poverty"** accompanying the region's rapid urbanization is also adding enormous pressures on cities to deliver infrastructure, services, housing and jobs to meet the growing demands and needs of the urban poor.

The overall **lack of secure property rights to land and real estate** and the difficult access to land have been identified by firms in most MNA countries as a constraint to investment (Egypt, Morocco, Yemen, Syria). The lack of secure property rights severely

hinders the ability to use land and real estate as collateral to access finance, which in large part explains why housing mortgage finance markets in the region remain undeveloped (Jordan and Tunisia are exceptions). The difficult access to land has also contributed to the **proliferation of slums and informal/squatter settlements** in cities in the region. Over 50% of Egypt's urban population lives in such conditions of limited, if any, tenure security and poor access to basic infrastructure services.

On the positive side, there is an increased trend towards decentralization in MNA (Yemen, Morocco, Jordan, Lebanon), even if still slow relative to other regions. This is resulting in an increasing autonomy of local government planning and decision-making as well as in urban management and service delivery activities. City-driven formulation of development strategies is currently being implemented in Jordan, Egypt and Yemen. Cities in Lebanon, Tunisia and Morocco are planning to launch participatory strategic planning efforts shortly. There is also growing demand for enhanced accountability and transparency and accelerated decentralization. This is critical to help meet the growing demand for and pressures on infrastructure and urban services, which requires improved service finance and delivery mechanisms, and accordingly strengthened municipal finances and service delivery and management capacity.

The demographic and labor force challenges in the region also represent an opportunity. ***Enabling the creation of productive employment*** for the working-age population—building on the large share of the region's population that is young and relatively well educated and the potential for much increased female labor force participation—could potentially boost GDP growth. Such potential for growth puts an increased onus on urban local governments.

The region is also endowed with an extraordinary ***cultural heritage of great significance*** for the countries and humanity at large, including 48 sites on UNESCO's World Heritage List. Cultural heritage initiatives would seek to promote the cultural identity of cities and places, while at the same time maximizing the potential high value cultural tourism to generate economic growth and job creation. Building on such unique assets to enhance city competitiveness would significantly contribute to economic growth and job creation.

World Bank Group Strategy

MNA's regional urban strategy focuses on creating livable cities that are able to fully tap their productive potential and deliver on their promise of development for all residents. This requires that cities be efficiently managed, economically competitive and financially viable. And while cities are in an increasingly important position to maintain social cohesion and drive productivity within countries, yet most cities still need to catch up with infrastructure and housing deficiencies and take needed steps toward sustainable urban management. To bring better quality of life, social equity and particularly, services to the poor, it is crucial to improve the overall regulatory environment for urban and housing development, that supports improved access and the livability of cities (infrastructure and housing delivery, revitalization of heritage sites), management of cities (capacity building of municipal governments and strengthening their fiscal base) and access to capital markets (housing and municipal finance).

The three strategic areas of focus of urban development in the MNA region are:

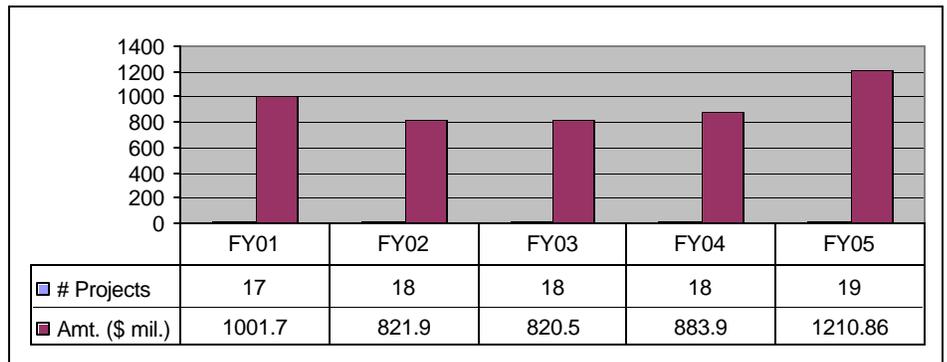
- **Improving decentralization and service delivery:** Providing policy guidance and building local government management capacity to further decentralization, strengthen municipal financing of basic urban service delivery, improve asset management and maintenance, and expand the involvement of the private sector in PPP arrangements, and responding to population pressures by financing needed infrastructure and urban services.
- **Strengthening Local Economic Development:** Assisting cities to respond to competitiveness pressures and harness their potential by enabling the participatory formulation of city development strategies (CDS), helping to improve strategic, physical and investment planning capacity, streamline administrative procedures and create an attractive local business environment is critical to attract investment, create jobs and contribute to growth and poverty reduction. Such upfront strategy and local

economic development work is carried out in Yemen (through the Port Cities Development Program) and in Egypt (through the Alexandria Growth Pole Project).

- **Development of efficient housing and land markets:** Assisting national and local governments in formulating sound housing policies and programs intended to provide adequate shelter for all based on stronger property rights, improving access to mortgage finance, rationalizing housing subsidies, and providing infrastructure for residential land development. In addition, providing policy guidance to the development of efficient urban land markets through enhancing registration of property rights, reducing transaction costs and regulatory obstacles to access to and development of land, putting in place transparent and efficient public land management and disposition procedures, as well as efficient property taxation systems.
- **A fourth component of the MNA urban strategy is the provision of effective emergency assistance:** Developing rapid and responsive interventions in post-conflict (West Bank and Gaza, Iraq) and natural disasters situations (earthquakes in Iran, floods in Algeria and Djibouti) is critical to enable cities and countries to rebuild destroyed economic and social infrastructure assets and resume the path of growth and poverty reduction.

World Bank Group Assistance and Opportunities

Bank activities: After a period of stability between 1998 and 2002, IDA/IBRD lending activities rapidly grew in volume and number of projects. By end FY05, the portfolio comprised 19 projects (about 12 projects closed between FY02 and FY05) with a total amount of US\$1.2 billion. A new feature of the recent lending is an increased average loan size from less than \$40 million in FY02 to \$64 million in FY05. Strong potential exists in the countries where the needs and potential impact are large, e.g. Iran, Egypt, Algeria and Iraq (reconstruction), and where there is some progress on sectoral issues such as decentralization, local economic development and housing (e.g. Jordan, Morocco). Looking ahead, a total of at least five new projects are expected in FY06 and FY07. After an expected dip in FY06, average loan size is expected to reach \$77 million in FY07.



	FY06	FY07
Number of New Operations	2	3
Amount of New Ops (\$ mil.)	35.0	230.0
Number of ESW / AAA	5	4

Non-lending activities. Updating and renewing the knowledge base with quality sector work and targeted support on (i) land management and housing finance; (ii) municipal development, local finance and asset management; and (iii) local economic development. Sustaining policy dialogue through strategic ESW and establishing the analytical base for action with Cities Alliance funding in countries or cities with no actual lending engagement

but where future operations are planned (as in Alexandria, Egypt).

Partnership and coordination. Key partnerships have been developed with the Cities Alliance and the World Bank Institute across the region (Yemen, Jordan, Egypt) and bilateral agencies on a project-by-project basis. Other partners include the Marseilles-based European-MNA Urban Network, which was launched in March 2004 to provide a framework for intercity cooperation on urban development and management between European and MNA cities (Alexandria is benefiting from such partnership), and the Arab Urban Development Institute (AUDI), which is collaborating in CDS formulation and local government urban planning and management capacity building.

The following are some examples of how urban interventions in MNA address the challenges identified earlier and support the Bank's goals of economic development, growth and poverty reduction.

- **Yemen Port Cities Development Program (PCDP).** In a move to strengthen Yemen's investment climate, encourage growth and create jobs in the strategic port cities of Aden, Hodeidah and Mukalla, the World Bank has approved in 2003 a \$23 million credit to the country—the first in a three-phase APL to develop Yemen's coastal cities over 12 years at a total cost of \$96 million. First phase financing is used to support local government capacity building, strategic and physical planning, small-scale infrastructure improvements, and other efforts needed to lay the foundation for future economic growth and establish a participatory development process. The program builds on Cities Alliance-funded work, in which participating cities analyzed their competitive endowments and started formulating CDS and investment programs to improve their business environments. Each city prioritizes and implements specific policy reforms with the aim of creating the enabling environment to encourage private sector development and growth, particularly in the key economic clusters contributing to its competitiveness.
- **West Bank and Gaza Municipal Infrastructure Development Project.** This project was launched in 1996 following two emergency rehabilitation projects in WBG in the aftermath of the signing of the Oslo Accords. Where the earlier generation of projects focused exclusively on infrastructure rehabilitation implemented by a transitional project management agency, MIDP provided the transitional framework that enabled the institutional foundation for the sector to be established legally and through the emergence of the Ministry of Local Government. It also provided over US\$34 million in financing for over 320 roads, water and sanitation, and neighborhood upgrading subprojects in tens of cities and towns.
- **Lebanon Municipal Infrastructure Project.** In response to the ravages of the civil war, this project aims to address urgent municipal works while setting the stage for gradual assumption of responsibility for municipal services at the local level. The project is progressing with a focus on restoring selected basic municipal infrastructure to improve living conditions, while supporting the municipal sector by enabling municipalities to begin addressing local infrastructure maintenance and rehabilitation needs for the first time in over twenty years. The project was catalytic in triggering the resumption of central government transfers to local governments to repair and rehabilitate the deteriorating capital stock in a country that is 90% urban.
- **Morocco Housing Sector Policy Development Loan.** In response to a request from the Government of Morocco, this operation aims at assisting the country in reforming the current policy framework of the housing sector with the objective of addressing the long standing housing crisis, which is affecting primarily the increasing number of low middle class and urban poor. The main objective of the project is to support the relevant sector institutions in developing and implementing a comprehensive reform plan to remove current market constraints and build a well functioning housing market where access to housing products is affordable to all segments of the population. The main policy reforms supported by the project include: a) simplification of urban planning regulations and maximizing land use by lowering land development standards; b) streamlining land titling and registration procedures; c) improving access to housing finance to low income groups; d)

restructuring and better targeting of public subsidies to the housing sector; e) development of private sector and restructuring of loss making public entities; and f) implementation of a national slum upgrading program to improve the living conditions of the urban poor and prevent further development of urban slums.

- **Tunisia Third Municipal Development Project.** The project development objective is to strengthen the institutional environment for the delivery of municipal basic services and infrastructure through: (a) increasing institutional capacity of both local governments and related central agencies, and (b) enhancing the financial and institutional capacity of the Municipal Development Fund (*Caisse des Prêts et de Soutien des Collectivités Locales*, CPSCCL) that provides financing for municipal investments. The project includes two main components: (i) Capacity-building for local governments and related central agencies to deliver and manage services; and (ii) Capacity-building for the Municipal Development Fund to provide funding for municipal investments. The project therefore entails a credit line to the CPSCCL to finance the investment projects of municipalities (physical component) and funds to finance consultancy work and training (institutional component). The further evolution of both municipalities and sector institutions are intertwined and are addressed in tandem. A Special feature of this operation is the policy dimension consisting of establishing and implementing a restructuring program for financially stressed municipalities with the aim of restoring their credit worthiness prior to further borrowing from the municipal fund.

All dollar figures are in US dollar equivalents.

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