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**INTERIM STRATEGY NOTE**

**FOR**

**THE REPUBLIC OF YEMEN**

**FY 2013 – 2014**

**October 1, 2012**

**Yemen Country Management Unit  
Middle East and North Africa Region  
World Bank**

**Strategy Unit  
Middle East and North Africa Region  
The International Finance Corporation**

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## CURRENCY AND EQUIVALENTS

Unit of Currency = Yemeni Rial (YR)  
 (Exchange Rate as of September 10, 2012: US\$1= 214.88 YR)  
 Fiscal Year: January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities	JSEA	Joint Social and Economic Assessment
AF	Additional Financing	LIW	Labor-Intensive Works
ANSA	Affiliated Networks for Social Accountability	MAF	Mutual Accountability Framework
AQAP	Al-Qaeda in the Arabian Peninsula	MDG	Millennium Development Goal
AS	Advisory Services	MDTF	Multidonor Trust Fund
BEDP	Basic Education Development Project	MENA	Middle East and North Africa
CAS	Country Assistance Strategy	MIGA	Multilateral Investment Guarantee Agency
CBY	Central Bank of Yemen	MSEs	Micro and Small Enterprises
CCT	Conditional Cash Transfers	MSME	Micro, Small, and Medium Enterprise
COCA	Central Organization for Control and Auditing	NGO	Nongovernmental Organization
CPS	Country Partnership Strategy	NLTA	Nonlending Technical Assistance
CSOs	Civil Society Organizations	OBA	Output-Based Aid
DFID	Department for International Development	ODA	Overseas Development Assistance
EITI	Extractive Industries Transparency Initiative	OECD	Organization for Economic Co-operation and Development
EU	European Union	OP	Operational Policy
FY	Fiscal Year	PEP	Politically Exposed Person
GAC	Governance and Anticorruption	PIP	Public Investment Program
GCC	Gulf Cooperation Council	PIU	Project Implementation Unit
GDP	Gross Domestic Product	PPCR	Pilot Program for Climate Resilience
GEF	Global Environmental Fund	PPPs	Public-Private Partnerships
GOY	Government of Yemen	PWP	Public Works Program
GPE	Global Partnership for Education	SFD	Social Fund for Development
HBS	Household Budget Survey	SMEs	Small and Medium Enterprises
IBRD	International Bank for Reconstruction and Development	SNACC	Supreme National Authority for Combating Corruption
ICT	Information and Communications Technology	SPF	State and Peace Building Trust Fund
ICZM	Integrated Coastal Zone Management	SWF	Social Welfare Fund
IDA	International Development Agency	TA	Technical Assistance
IDPs	Internally Displaced Persons	TPSD	Transitional Program for Stabilization and Development
IFC	International Finance Corporation	UN	United Nations
IFIs	International Financial Institutions	UNDP	United Nations Development Programme
IMF	International Monetary Fund	UNHCR	United Nations High Commissioner for Refugees
ISN	Interim Strategy Note	WDR	World Development Report
		WFP	World Food Programme
		WSSP	Water Sector Support Project
		WTO	World Trade Organization

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## Contents

<b>EXECUTIVE SUMMARY .....</b>	<b>i</b>
<b>I. INTRODUCTION.....</b>	<b>1</b>
<b>II. COUNTRY CONTEXT .....</b>	<b>1</b>
A. The Crisis of 2011 and Recent Political Developments .....	1
B. Economic Context .....	3
C. Poverty and Human Development.....	4
D. Governance.....	6
E. Infrastructure and Management of Natural Resources .....	7
F. Private and Financial Sector Development .....	8
G. Key Challenges During the Transition .....	9
H. The Government’s Program .....	9
<b>III. WORLD BANK GROUP INTERIM STRATEGY.....</b>	<b>11</b>
A. Recent Bank Group Engagement in Yemen.....	11
B. Lessons Learned .....	13
C. Rationale for an Interim Strategy and Strategic Foundations.....	14
D. Guiding Principles .....	15
E. Areas of Engagement.....	16
(i) Achieving Quick Wins and Protecting the Poor.....	17
(ii) Promoting Growth and Improving Economic Management .....	21
(iii) Enhancing Governance and Local Service Delivery .....	23
F. Implementing the ISN Program.....	25
G. Partnerships and Donor Coordination .....	27
H. Monitoring and Evaluation of Results.....	28
<b>IV. RISKS TO THE INTERIM STRATEGY AND MITIGATION MEASURES.....</b>	<b>28</b>

### Tables:

Table 1: Selected Economic Indicators for Yemen.....	3
Table 2: TPSD Priorities and Estimated Financing Requirements .....	10

### Boxes:

Box 1: A Summary of Seminal Events in Yemen.....	1
Box 2: Summary of Consultations for the ISN .....	15
Box 3: Enhancing Human development – Portfolio Under Implementations .....	17
Box 4: ISN Implementation –The Overriding Objective and Guiding Principles in Practice.....	26

**Annexes:**

Annex 1: GoY Mutual Accountability Framework .....	31
Annex 2: Bank Efforts on Portfolio Restructuring .....	35
Annex 3: Summary of ISN Consultations.....	37
Annex 4: ISN Indicative Program Matrix.....	47
Annex 5: ISN Results Matrix.....	48
Annex 6: Yemen Donor Aid Flows (2006-2010) .....	53
Annex 7: Yemen At a Glance .....	55
Annex 8: Selected Indicators of Portfolio Performance and Management.....	58
Annex 9: Operations Portfolio (IBRD/IDA Grants).....	59
Annex 10: Summary of IDA Nonlending Operations.....	60
Annex 11: Yemen Trust Funds FY2006-FY2012.....	61
Annex 12: Statement of IFC's Committed and Outstanding Portfolio.....	63
Annex 13: IFC Operations Current Portfolio.....	64
Map.....	65

## EXECUTIVE SUMMARY

i. *After almost a year of crisis, in the wake of the Arab Spring movement, Yemen has embarked on a political transition based on an agreement brokered by the Gulf Cooperation Council (GCC). The Government of National Reconciliation<sup>1</sup> was formed and confirmed by the Parliament in December 2011. Presidential elections were held in February 2012, and President Abd Rabbuh Mansur Hadi was sworn in soon afterward. During the transition the Government is expected to host a National Dialogue, draft a new constitution, and reform the army and security establishments. The transition is expected to end in February 2014 with legislative and presidential elections, to be held under the new constitution, followed by the inauguration of a new president and formation of a new parliament. Implementation of the GCC agreement is largely on track, though gains achieved so far are fragile and important challenges lie ahead.*

ii. *The Transition Government has an opportunity to start addressing the underlying causes of instability and social strife in order to rebuild Yemen's social and economic base and restore macroeconomic stability. Despite a history of conflict and recent unrest, there is an overall sense of optimism and hope for inclusive change in post-revolution Yemen. However, Yemen's transition may face significant risks if reforms do not materialize quickly and if substantive changes are not felt by the population, thus contributing to disillusionment with the efforts of the new Government and potentially a return to unrest and a reversal of gains made. Yemen needs the collective support of the development community as it works to sustain its transition and recovery, while fighting strong countervailing forces, including regional grievances that have led to enduring separatist violence in the north and south, al-Qaeda militancy, and recalcitrant elements of the previous regime in Sana'a.*

iii. *This Interim Strategy Note (ISN) lays out the World Bank Group's strategy of support to Yemen for FY2013–2014, corresponding to the current transition period and its immediate aftermath. The preparation of an ISN for Yemen is appropriate given emerging needs and the significant shift in development priorities in light of the unrest and revolution of 2011 and the subsequent political transition, as well as the short time horizon of the Transition Government and the anticipation of a post-transition national plan to which a follow-on Country Partnership Strategy (CPS) could be aligned. Recognizing the role of private sector development in ensuring national stability and well-diversified growth, this ISN has been prepared jointly by the World Bank and International Finance Corporation (IFC).*

iv. *Implementation of the ISN will be guided by three principles that will be mainstreamed across the program: (i) intensifying participation and inclusion, especially among women and young people; (ii) strengthening institutional capacity, governance, transparency, and accountability; and (iii) enhancing the operational flexibility of the Bank's program. Adhering to these principles will be critical if the collective efforts of the Government and donor community are to produce long-lasting development impact.*

v. *The overriding objective of the ISN is to help the Government produce tangible results that stabilize the transition in the short term, while laying the groundwork for medium-term reforms and sustainable longer-term benefits. The ISN proposes to support these objectives across three strategic pillars: (i) achieving quick wins and protecting the poor by creating short-term jobs, restoring basic services, improving access to social safety nets, and revitalizing livelihoods; (ii) promoting growth and improving economic management by helping maintain macro stability, strengthening fiscal policies and public financial management, and improving the enabling environment for private sector growth and competitiveness; and (iii) enhancing governance and local service delivery by supporting transparency, accountability, capacity building, institutional strengthening, and improved citizen engagement.*

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<sup>1</sup> The transition government, known as the Government of National Reconciliation, is the recognized government of Yemen. Throughout this document, it is referred to as the Government of Yemen, GoY, or Government.



## I. INTRODUCTION

1. *This Interim Strategy Note (ISN) lays out the World Bank Group's strategy of assistance to Yemen for fiscal years 2013 and 2014, a time frame that corresponds to the current transition period and its immediate aftermath.* The overall objective during this period is to help the Government produce tangible results in the short term, while laying the groundwork for medium-term reforms and sustainable longer-term benefits. Following the uprising and the subsequent political transition in 2011, the Government needs to begin addressing the underlying factors of instability and social upheaval in order to restore Yemen's social and economic foundations. It is critical that the process be carried out in an inclusive manner and its main findings and recommendations reflected in development programs that address the grievances that sparked the crisis and provide an immediate boost to welfare and livelihoods.

## II. COUNTRY CONTEXT

### A. The Crisis of 2011 and Recent Political Developments

2. *The mass protests, violent clashes, and armed conflict that destabilized Yemen in 2011 represented the culmination of simultaneous political, social, and economic crises that exacerbated the country's difficult overall environment* (Box 1).<sup>2</sup> The poor performance of the Government's development strategy in the decades following reunification, driven by weak institutions and poor governance structures, triggered increasing social and political tension. The resulting fragmentation of identities and allegiances contributed to the resurgence of a longstanding Al-Houthi rebellion in the north, more vocal demands for greater autonomy in the south, and the emergence of Al-Qaeda in the Arabian Peninsula (AQAP). This growing turmoil called into question the stability of the state. Deteriorating economic conditions destabilized the patronage-based governance system that had grown out of the country's dependence on oil revenues. As revenues contracted, public investment in critical public services declined and inefficiencies in the use of public resources were brought to light, thus undermining public trust in state institutions.

#### Box 1: A Summary of Seminal Events in Yemen

- Toppling of the Imamate in Northern Yemen in 1962, and ensuing civil war until 1970
- Successful anticolonial movement that created the southern socialist regime in 1967
- Ali Abdullah Saleh's ascension to the presidency in 1978
- Discovery of oil in the 1980s
- Unification of North and South Yemen in May 1990
- Expulsion of over 800,000 expatriate Yemenis from other Gulf countries following the first Gulf War, from 1990-91
- Civil war between the North and South, ending in 1994
- Intermittent fighting between al Houthi militants and government forces north of the capital, Sana'a, ending in 2010
- Most recent internal conflict in Yemen, sparked in January 2011, when examples of Tunisian and Egyptian revolutions and unrest, coupled with resource deficits and growing inequality, catalyzed mass demonstrations against the national government
- On November 23, 2011, Ali Abdullah Saleh signed the GCC agreement, leading to the handover of the presidency to Vice President Abd Rabbuh Mansour Hadi, who was elected president of Yemen on February 21, 2012 for a two year transition period.

<sup>2</sup> The political and economic context assessments are underpinned by the following studies: (i) Yemen – Understanding Societal Dynamics, Behind the Current Crisis (World Bank Sustainable Development Network, December 2010); (ii) Support to Durable Solutions for Displaced in Yemen – The Development Challenge (World Bank Sustainable Development Network, August 2011); (iii) Stakeholder Mapping Exercise (World Bank Middle East North Africa Region, March 2012); and (iv) Joint Social Economic Assessment for the Republic of Yemen (World Bank, United Nations, European Union, and Islamic Development Bank, in collaboration with the Government of Yemen, represented by the Ministry of Planning and International Cooperation, June 2012).

3. *Driven by deepening poverty and unemployment, and a widespread sense of injustice and exclusion, Yemen's citizens took to the streets to demand better governance, greater voice, and improved economic opportunities.* In 2011, the Arab uprisings in Tunisia and Egypt gave new momentum to those dissatisfied with Yemen's unresolved problems. Demonstrations initially led by Yemeni youth turned quickly into a mass movement including diverse elements of Yemeni society. The protestors' demands escalated to calls for Yemeni President Ali Abdullah Saleh to resign.

4. *Against this backdrop, Yemen has embarked on a two-year political transition brokered by the GCC and overseen by the United Nations (UN) and other key stakeholders.* The GCC-initiated Transition Road Map reflects the Government's commitment to host a viable National Dialogue, draft a new constitution, reform the military and security forces, and prepare for parliamentary elections. This process is expected to provide a forum for negotiating a new governance framework under which future economic and social policies would be created and implemented, and for expanding the political space beyond the current elite coalition to include a range of diverse stakeholders. Though implementation of the GCC agreement is broadly on track and there is gradual but steady progress,<sup>3</sup> advances made thus far are vulnerable and significant challenges lie ahead.

5. *The current unity Government is fragile and confronts the formidable task of uniting the country in the face of significant strife.* The Government, currently made up of a tenuous coalition of elements of the previous regime and members of the opposition, is facing a crisis not only of capacity but also of legitimacy and authority. At the same time, it is under heavy pressure to deliver results over a short period of time in order to build confidence in the state, strengthen constitutional processes, and avoid the resurgence of popular dissatisfaction and domestic unrest. The National Dialogue process offers an opportunity to bring together rival factions and enhance the state's authority, but it could run the risk of a stalemate if violence or debilitating political conflict persists, if previous patronage-based governance practices open the door to elite capture of the transition process, or if major stakeholders do not take part in the process. Yet the public's high expectations of rapid institutional change during the transition must be carefully managed through open communication.

6. *Pressing security issues are at the forefront of the Government's agenda, and efforts to address broader development needs will need to emphasize the nexus between security and development.* The emergence of AQAP in 2006 has heightened security concerns in and around Yemen, particularly in the southern province of Abyan. While work is underway to reorganize and restructure the military and security apparatus, the rift between the Republican Guard and security forces continues to pose serious security risks, as evidenced by the violent raids of the Ministry of Interior and Ministry of Defense in August 2012. Though some security improvements have been achieved in major cities, bombings and bomb threats occur with regularity. Most recently, in September 2012, a powerful car bomb targeting the Yemeni Minister of Defense resulted in several casualties, pointing to increased activity on the part of AQAP, as the group seeks reprisals over the killing of their second-in-command in Hadhramout. The Transition Government faces a longstanding regional conflict with Al-Houthi rebels in Sa'ada Governorate in the north, and a separatist movement in the south, supported by forces that were prominent in the former South Yemen prior to the 1994 civil war. These security concerns are compounded by continuing low-level clashes between tribal groups and the widespread breakdown of conflict management mechanisms at local and community levels, while several provinces remain outside central government control. Since 2008, attacks by Somali pirates in the Red Sea have become more frequent, disrupting fisheries and marine traffic, and undermining the economic viability of Aden Port.

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<sup>3</sup> As of August 30, 2012, a National Dialogue Committee has been established with 25 members, representing various ethnic and tribal groups, and is expected to initiate a six-month National Dialogue process in November 2012. Informed by the National Dialogue, the constitutional amendment process is expected to be completed before the end of 2013, followed by a referendum and elections in early 2014. The reform of the military and security forces has begun, but progress is expected to be gradual in light of political sensitivities around the organizational structure and leadership of the armed forces inherited from the Saleh era. The population has generally considered this progress to be positive thus far.

## B. Economic Context

7. *The economy, already under significant strain prior to the crisis, has been severely disrupted by recent events* (Table 1). Reduced availability of fuel, particularly diesel, has aggravated electricity and water shortages. Agricultural, service, and industrial sectors have faced significant cost increases for inputs such as irrigation, transportation, and marketing, ultimately reducing production and exports. The interruption of production processes has resulted in business closures and job losses. Food and consumer prices have also risen steeply, and official price data for 2011 show an upsurge in annual inflation to 23 percent (at end-2011). While maintaining a relatively stable exchange rate throughout the crisis has helped to anchor expectations and counter food price inflation, Yemen remains one of the world's most food insecure countries (paragraph 17).

**Table 1: Selected Economic Indicators for Yemen**

<b>Economic Indicators</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011<sup>1</sup></b>	<b>2012<sup>2</sup></b>	<b>2013<sup>2</sup></b>
Real GDP growth (in %):	3.6	3.9	7.7	-10.5	-1.9	2.9
Growth of hydrocarbon sector	-8.1	1.6	46.9	-14.5	-4.8	7.0
Growth of non-hydrocarbon sector	4.8	4.1	4.4	-10.0	-1.6	3.0
Inflation (annual average in %)	19.0	3.7	11.2	19.5	15.2	13.1
Fiscal balance (in % of GDP) - incl. grants	-4.5	-10.2	-4.0	-4.3	-5.8	-6.5
Fiscal balance (in % of GDP) - excl. grants	-4.8	-10.6	-5.2	-5.5	-12.7	-7.9
Current account balance (in % of GDP)	-4.6	-10.2	-4.4	-3.0	-3.3	-5.9
Debt service to export ratio (in % of GDP)	2.7	3.6	2.7	2.6	2.8	3.1
Public debt to GDP ratio	36.4	49.8	40.9	42.4	44.9	45.1
Nominal exchange rate (annual average)	200.0	203.0	220.0	214.0	...	...
Real exchange rate <sup>3</sup> (annual average)	109.0	115.0	113.0	125.0	....	...

1/ Preliminary. 2/ Projected. 3/ Base year 2005=100.

Source: Government and Bank staff calculations.

8. *Yemen's fiscal pressures increased during the crisis and were financed by three substantial oil grants from Saudi Arabia.* While the fiscal deficit has structural origins (oil production delivers 70 percent of fiscal revenues, depending on global oil prices), the events of 2011 have severely disrupted tax revenues and foreign exchange earnings. Repeated bombings of the Marib pipeline have caused a 40-percent drop in oil production since December 2011, an estimated loss of US\$200 million per month. Public investment spending was cut to negligible levels (2 percent of GDP in 2011) while current expenditures, especially salary payments, were maintained. The three oil grants provided by the Kingdom of Saudi Arabia since mid-2011 (one amounting to 1.2 percent of GDP in 2011 and two amounting to 5.5 percent of GDP in 2012) have helped maintain fiscal balance, with a resulting fiscal deficit (after grants) of about 4.3 percent of GDP in 2011 and a projected fiscal deficit of 5.8 percent of GDP (US\$2 billion) in 2012. While the fiscal deficit is expected to return to its observed average of around 5 percent as the transition in Yemen gains further momentum and as political and economic normalcy is restored (including normal operations of the oil pipelines), Yemen's efforts to overcome the impact of the crisis and return to a sustainable development trajectory will require substantial and sustained support from regional and international partners over the medium term.

9. *The 2011 crisis brought economic reforms to the investment climate, economic and regional integration, and institutional strengthening of the social protection system to a halt.* The Yemeni economy continues to be poorly diversified. Exports consist largely of petroleum products, and one-third of imports are made up of food products. Productivity-enhancing investments in infrastructure over the last 20 years have not translated into a thriving private sector. The real exchange rate has shown a gradual and nonlinear

appreciation of 166 percent over the last two decades, reducing the competitiveness of the nonhydrocarbon sector and putting the small export sector at an increasing disadvantage. While this outcome has helped improve consumer welfare, especially through lower or more stable food prices, it was achieved at the expense of job creation and the productive sectors.

10. *Addressing the country's social and economic problems will require the creation of sustainable income opportunities for the many unemployed and underemployed Yemenis, especially young people whose numbers are set to double between 2010 and 2050*<sup>4</sup>. The unemployment rate is high, ranging from official estimates of about 15 percent to unofficial estimates of up to 40 percent, and is concentrated among the younger members of the working-age population, especially new graduates seeking jobs. The unemployment situation was aggravated by the crisis, with unofficial estimates suggesting that up to one million workers may have lost their jobs in 2011.

### C. Poverty and Human Development

11. *Even before the crisis, Yemen was one of the poorest countries in the Arab region with a per-capita GDP of US\$1,209*. The country has one of the highest population growth rates in the world, placing pressure on educational and health services, drinking water supplies, and employment opportunities. Yemen is not expected to meet any of the Millennium Development Goals (MDGs).<sup>5</sup>

12. *Poverty, which was already increasing prior to the crisis, is estimated to have risen further from 42 percent of the population in 2009 to 54.5 percent in 2012*.<sup>6</sup> Poverty is particularly high in rural areas, which are home to about 73 percent of the population and 84 percent of the poor. Urban poverty is concentrated primarily in Sana'a and Aden and is particularly extreme in Hodeidah, Taiz, and Mukalla. An estimated 807,000 people are now considered most vulnerable due to current and previous conflicts in Yemen,<sup>7</sup> including children who have been directly involved in or affected by the infighting and violence, as well as 213,000 vulnerable returnees and war-affected persons in the north, 203,900 refugees and asylum seekers,<sup>8</sup> and approximately 150,000 displaced people in the south.<sup>9</sup>

13. *Women, who are already severely disadvantaged in Yemen, have suffered disproportionately as a result of the crisis*. Preliminary figures from 2011 indicate decreased access to basic and social services and economic opportunities, as well as high levels of gender-based violence as a result of the unrest. These effects have compounded the severe gender imbalances that already existed. For six consecutive years, Yemen has ranked last in the 2011 Global Gender Gap Index.<sup>10</sup> While there have been gains over the years,<sup>11</sup> women's inclusion in development remains an acute challenge. Girls are still much less likely than boys to complete basic education, and their primary and secondary school completion rates are well below those in other countries in the Middle East and North Africa (MENA) region. Yemen has the highest fertility rate in the region at 5.2 births per woman in 2008, which corresponds to a low contraceptive prevalence rate at 28 percent in 2006. Early marriage is high at 50 percent. Yemen's poor record on gender equality in human development outcomes is accompanied by stark disparities in economic and civic participation. Women's labor force participation is among the lowest in the world at 21 percent, and only

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<sup>4</sup> The United Nations forecasts that the youth population (defined as those under 30) will double from 17.9 million in 2010 to 34.6 million 2050. According to UNDP estimates (<http://www.undp.org/ye/y-profile.php>), more than 60 percent of the Yemeni population is under 24 years of age.

<sup>5</sup> Republic of Yemen and UNDP. 2010. *The Second National Millennium Development Goals Report*.

<sup>6</sup> Joint Social and Economic Assessment.

<sup>7</sup> United Nations High Commissioner for Refugees (UNHCR).

<sup>8</sup> UNHCR. 2011. "2011 UNHCR Country Operations Profile–Yemen," Global Appeal 2011 Update.

<sup>9</sup> Escalated fighting in Abyan Governorate, southern Yemen, displaced approximately 1,800 people in March 2012, according to the U.N. Office for the Coordination of Humanitarian Affairs.

<sup>10</sup> The Global Gender Gap Index is a composite indicator of gender inequalities in economic participation and opportunity, educational attainment, political empowerment, and health and survival. See Ricardo Hausmann, Laura D. Tyson, and Saadia Zahidi. 2011. *The Global Gender Gap Report 2011*. Geneva: World Economic Forum. <http://reports.weforum.org/global-gender-gap-2011/>.

<sup>11</sup> Girls' enrollment in primary school has increased from 60% in 2001 to 78% in 2010 on a gross basis. Maternal mortality rates have been cut in half since 1990, and skilled attendance at birth has increased modestly from 21.6% in 1997 to 35.7% in 2006. Social protection has improved under the Social Fund for Development and Social Welfare Fund, with some efforts to target women and children.

11 percent of micro and small enterprises (MSEs) are owned by women.<sup>12</sup> Women are severely under-represented in political and civic institutions. Women account for only 5 percent of the Cabinet and 2 percent of Shura Council members, and only one woman has sat in parliament since 2003.

14. *The youth movement, which initiated and gave momentum to Yemen's Arab Spring, remains at the margins of formal institutions and processes.* Young people constitute a formidable force for social and political change and are a leading force in the new civil society. Though not unified, key activists of the youth movement could usefully be included in decision-making processes as a means to enhance the legitimacy and sustainability of the country's transition. In the absence of such opportunities for participation and inclusion, the conflict risks related to Yemen's youth bulge would be exacerbated, especially given the limited economic prospects and low economic returns on additional education in the short term.

15. *Part of the country's educational infrastructure was damaged as a result of the fighting, and continuing insecurity has decreased student access and increased teacher absenteeism.* The crisis has also hampered the Government's ability to deliver educational services due to staff capacity and budget constraints. These interruptions contrast with the important gains made in expanding formal education opportunities over the past 40 years, including substantial improvements in enrollment rates at all levels (from 62 percent in 1998 to 86 percent in 2010 in basic education) and a drop in illiteracy from 90 percent in 1973 to 45 percent in 2004. Still, about 2 million children are out of school, many of whom live in rural areas and are part of marginalized communities, and there are serious shortfalls in educational quality. Gender parity remains low (at 0.75 for basic education and 0.61 for secondary education in 2010),<sup>13</sup> and youth female literacy (ages 15-24) stands at only 70 percent (as compared to 95 percent for males in the same age range).

16. *The crisis also exacerbated alarming vulnerabilities in the health status of Yemenis.* Yemen lacks an integrated national health program that could deliver quality, accessible and affordable health services to the population. Infant and child mortality rates are among the highest in the MENA region, behind only Djibouti and Iraq. The maternal mortality rate is among the highest in the world at 430 per 100,000 live births. There is evidence that the prevalence of HIV/AIDS is rising. More than 1.2 million Yemenis suffer from malaria, and about 20,000 people are infected by tuberculosis. Given this weak starting point, the country's most vulnerable families were not well prepared to absorb the shocks induced by the crisis. Insecurity and rising prices for essential goods aggravated hunger and malnutrition and reduced access to clean water, with catastrophic results in 2011. These problems were compounded by the effects of *qat* chewing, which is widespread and extensive in Yemen, with about 72 percent of men and 33 percent of women using it regularly. Even during the crisis, severely food insecure households are estimated to have spent 8 percent of their income on *qat*.

17. *Yemen is one of the ten most food insecure countries in the world and the most food insecure country in MENA.* Approximately 45 percent of the population (10 million people) was food insecure in March 2012, up significantly from just under 32 percent in 2009.<sup>14</sup> It is estimated that 61 percent of children under five are malnourished, compared to 58 percent in 2006. About two-thirds of very young Yemeni children are stunted, and severe (life threatening) stunting affects one-third of all children in the country. The prevalence of hunger and malnutrition is predominantly rural. Yemen is highly reliant on food imports, which account for 81 percent of food consumption. As a result, the country is particularly vulnerable to external food price shocks.<sup>15</sup> With the average Yemeni only 300 calories above hunger,

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<sup>12</sup> World Bank. 2010. Investment Climate Assessment.

<sup>13</sup> Gender parity measures the ratio of enrolled girls to boys. A score of 1 indicates parity between the sexes; scores between 0 and 1 typically indicate disparity in favor of males; and scores greater than 1 indicate disparity in favor of females.

<sup>14</sup> United Nations World Food Programme (WFP). Preliminary findings of the recently completed Yemen Comprehensive Food Security Survey (CFSS) were released by the WFP on March 14, 2012.

<sup>15</sup> The 2010 food price spike placed stress on the balance of payments, with estimates suggesting that a 50 percent increase in wheat prices cost one percent of GDP and 20 percent of foreign reserves.

domestic price rises will push many more Yemenis into food insecurity.

18. *Access to social protection services, which was poor prior to the crisis, has deteriorated.* Given the current fragile circumstances, the ability of Yemen's social protection system to effectively deliver services to poor and vulnerable people will be important to building public confidence in the state and donors' confidence in the two main social protection institutions—the Social Welfare Fund (SWF) and the Social Fund for Development (SFD). Despite the difficult environment, the two institutions continue to provide much-needed support to the population. Given the magnitude of the need, however, their resources and capacity are stretched to the limit and will have to be enhanced if they are to deliver their vital services effectively. Increased coordination and support from development partners will be critical to help these institutions address the widening consumption gap among Yemeni households, improve their operational efficiency, including targeting, and enhance their role in contributing to the reduction of chronic poverty and malnutrition.

#### **D. Governance**

19. *The quality of governance and service delivery remains weak, exacerbating the country's development challenges.* Dissatisfaction with poor governance, corruption, and limited access to services and economic opportunities was a key cause of the 2011 protests. The central government has been able to provide little more than basic services and is largely absent in the country's remote areas. In addition, limited avenues for meaningful participation, low prospects for social mobilization, weak accountability, and lack of transparency opened the door to high levels of corruption and abuse of office. This growing concentration of economic and political power in the hands of a few eroded the state's legitimacy and weakened traditional systems of social cohesion, governance, and accountability, while “modern” rules to guarantee good governance and accountability were not yet fully operational. Though Yemeni society is undergoing a transformation—marked by the growing role of the private sector, gradual emergence of civil society, urbanization, and modernization—the dynamics of a complex social, political, and traditional structure are likely to remain at the heart of governance issues in Yemen.

20. *Weaknesses in institutional capacity and corruption seriously hinder the Government's ability to form a viable development vision, manage resources, perform core functions, deliver services, or design and implement reforms.* Most institutions are relatively weak, as reflected by the country's low overall score of 3.0 out of 6.0 on the Country Policy and Institutional Assessment. The civil service remains either over- or understaffed,<sup>16</sup> and adequate management and incentive systems are lacking. There are significant gaps in capacity, and the pool of qualified staff is limited. The Government's institutional structure and respective mandates need to be clarified. The country's ranking on the Corruption Perceptions Index has declined steadily since 2005 to 164<sup>th</sup> of 182 countries in 2011. While there has been some recent progress in instituting and implementing laws and regulations to improve the overall governance environment, including passage of a freedom of information act, major challenges remain.<sup>17</sup> Yemen has been a member of the Extractive Industries Transparency Initiative (EITI) since September 2007, though it was suspended for 12 months beginning in June 2011 in light of difficulties maintaining civil society participation during a period of political instability.<sup>18</sup>

21. *Progress on decentralization has been slow, and administrative functions have not yet been consolidated at the district level, contributing to stresses and institutional deficits that cause repetitive cycles of conflict and violence in the country.* Over the years, the credibility and effectiveness of local

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<sup>16</sup> These uneven staffing numbers are a legacy of the 1990 reunification, when existing civil services were merged without reform.

<sup>17</sup> These include establishing a transparent budget and procurement process with proper legislative oversight, promoting free media, encouraging transparency around political financing, enforcing effective conflict of interest safeguards across all branches of government; and protecting the independence of the civil service, law enforcement, and judiciary agencies.

<sup>18</sup> Yemen's participation has been supported by a US\$350,000 grant from the EITI Multidonor Trust Fund, of which 88 percent had been disbursed for EITI activities at the time of suspension. Yemen has been encouraged to reapply to lift the suspension once the situation in the country stabilizes. In the meantime, an extension of the original closing date is being sought to enable continued implementation of the Initiative.

councils have been undermined by state or tribal capture as well as by their highly constrained fiscal autonomy, severe capacity shortages, and lack of institutionalized avenues for receiving feedback from and providing accountability to citizens. The presence of plural governing systems at the community level (tribal, religious, regional/ethnic) exacerbates the problem. The 2011 uprising brought to the forefront the public's general dissatisfaction with poor service delivery and lack of performance, accountability, and intergovernmental systems at local levels, making decentralization one of the main areas of focus in the National Dialogue during the transition period.

#### **E. Infrastructure and Management of Natural Resources**

22. *Yemen is the least electrified country in the MENA region, and the impact of the 2011 crisis was felt strongly in the power sector.* Power supplies were cut in half, and the financially frail energy sector was further weakened. Transmission lines were damaged, and a lack of fuel seriously disrupted the operations of most power plants. The conflict caused significant delays in power generation, transmission, and distribution projects, which will worsen the already acute power supply situation in coming years. Installed capacity is about 1,200 MW, giving only about half the population access to electricity (20 percent in rural areas). The sector is heavily subsidized, with low operational efficiency and high electricity losses.

23. *The water sector, already under serious pressure given that Yemen's freshwater availability is among the lowest in the world, suffered widespread disruptions as a result of the crisis.* Interruptions in public programs had an immediate impact on the availability of water, sanitation and irrigation services. At only 135 m<sup>3</sup>/capita/year, freshwater resources fall well below the MENA average of over 1,000 m<sup>3</sup>/capita/year in 2010. In the highlands, groundwater is mostly nonrenewable due to high utilization.<sup>19</sup> Groundwater levels are declining rapidly (as fast as 4–10 m/year in Sana'a basin) due to the expansion of irrigated agriculture and competing demands from urban users. *Qat* cultivation consumes up to 40 percent of the groundwater used for agriculture in the highlands. These challenges are exacerbated by the lack of effective governance in the water sector and limited advances on reform, with potentially devastating effects on the future availability of water resources.

24. *Given that much of Yemen's population and economic activity are located far from ports, the economy is highly dependent on road transport for development and production efficiency.* In rural areas, roads are essential to ensure reliable access to population centers for employment as well as health and education services, and thus to underpin growth and stability. Despite significant progress in the roads subsector in the past four years, the need to connect the population remains grave. Moreover, the transport sector continues to suffer from institutional weaknesses and inadequate expenditure policies, especially the underfunding of road maintenance, lack of high standard highways to connect major cities, and lack of modern airports. Private sector involvement in the transport sector continues to be constrained by the absence of adequate regulations and institutional understanding of public-private partnerships (PPPs).

25. *Topographical isolation and increasing water scarcity, compounded by poor connectivity, have made migration to urban areas a critical coping strategy for the rural poor and placed increasing pressure on cities.* During the crisis, urban centers—primarily Sana'a and Ta'iz—endured direct damage to public property and suffered significant losses due to foregone revenues. Since before the crisis, rural-urban migration has put pressure on Yemen's cities, where population growth rates of 5 percent are the highest in the MENA region. Many migrants live in informal housing units, which are estimated to make up about half of the housing stock in major cities. The resulting urban sprawl and emergence of slums, where access to basic infrastructure and services is limited, contribute to deteriorating health conditions and quality of life. At 3 percent per year, population growth in coastal areas also carries high risks given the heavy reliance on natural resource exploitation for livelihoods and food security.

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<sup>19</sup> Utilization rates are estimated to be 1.5 times the rate of natural recharge, on average, and in certain cases up to four times the rate.

26. *Yemen's natural heritage and unique environment, although relatively well conserved at present, are threatened by endemic poverty, water scarcity, land degradation, climate change, and disaster risk.* Yemen is predominantly rural, and much of the rural population is scattered across more than 140,000 widely dispersed villages, which affects the Government's ability to reliably deliver basic services at a reasonable cost. This limitation is a source of growing social and political unrest in some governorates. Most of Yemen's poorest people are farmers, of which 60 percent work under rainfed conditions. Agriculture, including *qat* production, is the main source of income for 53 percent of the population but contributes only 15 percent to GDP. Land planted with *qat* increased by 11 times between 1970 and 2005, crowding out other crops, increasing food insecurity, and accelerating the depletion of scarce water resources. Fisheries constitute a major source of employment and income in the poorest rural areas.<sup>20</sup>

27. *Yemen is particularly vulnerable to climate change and variability.* Rainfall is erratic and variable, a situation made worse by high evapotranspiration rates. Flash-flooding and droughts are frequent hazards, claiming lives, displacing thousands, and causing significant damage to assets and livelihoods. Institutional weaknesses undermine the state's ability to adjust to demographic pressures, a problem made more difficult by the poor economic outlook. In addition, a lack of long-term, systematic records of rainfall and temperature severely hampers efforts to quantify lasting changes in climate, assess renewable natural resources such as water, prepare climate projections, and develop adequate policy and program responses.<sup>21</sup>

## **F. Private and Financial Sector Development**

28. *Private sector sources have estimated their losses resulting from the 2011 uprising to be in the range of US\$8 to US\$17 billion.* A recent rapid survey of private enterprises found that the average firm lost 69 operating days last year, with 53 percent reporting that they had to close their doors for at least part of the crisis period and 6.5 percent reporting that they were unable to operate at all during the conflict.<sup>22</sup> Nearly three-quarters (72 percent) of firms surveyed reported a decline in sales since December 2010. Employment declined on average in all firms surveyed, with greater effects on smaller firms.

29. *Even prior to the crisis, Yemen traveled a difficult path toward diversified, private sector-led economic growth.* Yemeni enterprises of all sizes, sectors, and ownership structures have consistently identified corruption as a leading constraint to private enterprise activity and growth.<sup>23</sup> The rapid survey confirmed that the lack of electricity supply and instability were firms' leading concerns, in addition to lack of working capital, transportation, theft and vandalism, and interrupted supplies. Insecurity in urban areas and in the transport of goods and inputs on intercity roads is a key barrier. Business owners reported a range of coping mechanisms to address insecurity and higher costs, including limiting business to immediate urban areas, closing down temporarily, rerouting trade through more costly but more secure routes.<sup>24</sup> The potential for a rebound in private sector activity is further constrained by Yemen's financial sector, which is among the weakest in the MENA region. Financing for MSE development is lacking; while 53 percent of MSEs surveyed by IFC in 2007 would have liked a bank loan, only 6 percent had one.<sup>25</sup> The system is dominated by the banking sector and suffers from an inadequate regulatory and supervisory framework, as well as weak institutional infrastructure. The vast majority of Yemen's population does not use formal financial services.<sup>26</sup>

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<sup>20</sup> Fish exports have become one of the leading sources of foreign exchange in Yemen, bringing in US\$272 million in export earnings in 2010.

<sup>21</sup> Yemen Strategic Program for Climate Resilience, prepared for the Pilot Program for Climate Resilience (PPCR) Sub-Committee, April 2012.

<sup>22</sup> World Bank. 2012. Rapid Survey of Impact of Crisis on Private Sector Enterprises, unpublished.

<sup>23</sup> Yemen Investment Climate Assessment Update 2011: Challenges to Private-led Growth and Diversification, Finance and Private Sector Development Department, Middle East and North Africa Region, World Bank, 2011.

<sup>24</sup> Some fishing exporters reportedly responded to insecurity in the route from Mukallah to Aden port by rerouting export shipments through the Salalah port in Oman, thus increasing shipping costs. Factory owners reported moving production facilities to neighboring Saudi Arabia due to increasing insecurity and higher costs of production in Yemen. They plan to export to the Yemen market in lieu of local production.

<sup>25</sup> IFC. 2007. Assessment of MSE Financial Needs in Yemen – Final Report.

<sup>26</sup> Only 800,000 people have an account with a formal financial institution. The number of deposits per 1,000 people in Yemen is estimated at 35,

## G. Key Challenges During the Transition

30. *Despite a history of conflict and recent unrest, there is an overall sense of cautious optimism and hope for inclusive change in post-revolution Yemen.*<sup>27</sup> The Government has an opportunity to start addressing the underlying factors of instability and social strife in order to rebuild Yemen's social and economic base and restore macroeconomic stability. Short-term confidence-building efforts in political, security, and humanitarian areas will need to be complemented by targeted actions to begin addressing longer-term development and governance challenges. Within the context of the National Dialogue, the Government must continue to expand its communication and outreach to citizens in order to identify sources of conflict and plausible coping strategies, to share information on progress made, and to set and manage expectations. It is critical that the process be carried out in an inclusive manner and its main findings and recommendations reflected in government development programs that address the principal grievances that sparked the crisis and provide an immediate boost to welfare and livelihoods.

31. *The main threat to stability and social cohesion in the post-2011 period will be the Government's failure to meet Yemenis' high expectations for change.* These expectations include implementation of the transition plan and inclusive National Dialogue, efforts to address patronage and corruption, institutional development that consolidates formal and informal rules and governance systems, job creation, reduced poverty and inequality, management of growing competition for scarce natural resources, resolution of protracted displacement, and efforts to settle grievances in the north and south. While many of these challenges can only be addressed over the medium to long term, the Government will need to make credible progress in tackling a few key areas during the transition in order to demonstrate a commitment to change.

32. *Yemen's efforts to overcome the short-term social and economic impact of the crisis and return to a sustainable development trajectory will require support from regional and international partners.* To better understand the challenges the country faces in the aftermath of the 2011 crisis, the Government asked development partners to prepare a Joint Social and Economic Assessment (JSEA). This assessment—led by the World Bank in cooperation with the Government, UN, European Union, and Islamic Development Bank, and completed in June 2012—reviewed the social and economic impact of the crisis in Yemen and identified key challenges and priorities for early interventions, primarily during the transition period. Recommended areas for donor support included: (i) restoring basic services, improving livelihoods, and creating short-term jobs by accelerating the implementation of donor-supported projects; and (ii) undertaking the policy actions needed to stabilize the economy and restore growth, with a focus on private sector-led growth. The JSEA estimates that Yemen's external financing needs would amount to US\$1.9 billion annually from 2013 to 2016, declining to US\$1.6 billion annually for 2017 to 2020, if the country were to tackle the ambitious policy reform program recommended by the JSEA in an efficient and timely manner. This would imply economic growth rates of 7 to 9 percent and a reduction in poverty to around 30 percent by 2020.<sup>28</sup> Due to its fragile economy and expected large fiscal gaps, Yemen cannot generate the resources it needs to finance recovery and growth, and will need substantial and sustained international support.<sup>29</sup>

## H. The Government's Program

33. *The Government has recently finalized an ambitious Transitional Program for Stabilization and Development (TPSD), which projects total financing gap of about US\$11.9 billion, with US\$4.26 billion*

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less than any country that has provided such data to the World Bank. World Bank. *Finance for All*, Table A2.

<sup>27</sup> As evidenced by a review of Yemeni, regional, and international media as well as responses to a stakeholder survey conducted between late January and early March 2012 as part of a background study.

<sup>28</sup> Joint Social and Economic Assessment, p. xxvii.

<sup>29</sup> In April 2012, the Board of the International Monetary Fund (IMF) approved a Rapid Credit Facility amounting to US\$100 million. In June 2012, the Board of the Arab Monetary Fund approved two credit facilities totaling US\$205 million to support Yemen's balance of payments deficit. Although these funds, together with the oil grants from the Kingdom of Saudi Arabia, have alleviated some of the financing pressure, further resources will be needed to ensure recovery and restoration of macroeconomic stability and development.

for short-term security, stabilization, and humanitarian needs and US\$7.65 billion for medium-term growth and development priorities (Table 2). Given the limited absorption and implementation capacity of various government institutions, especially in a transitional context, a Joint Donor Group worked closely with the Government to strengthen and prioritize the TPSD and its Public Investment Program (PIP) through: (i) consultations with line ministries, donors, private sector, and civil society organizations (CSOs); (ii) preparation of a “Mutual Accountability Framework” (MAF) that defines Government and donor commitments, roles, and responsibilities; and (iii) development of a “Resource Mobilization Strategy” that defines funding flows by short and medium term priorities, provides details on the costing, suggested funding modality, and implementing agency.

**Table 2: TPSD Priorities and Estimated Financing Requirements\***

TPSD Priorities		Financing Need (US\$ billions)
<b>Short-Term Priorities</b>		<b>4.26</b>
1	<b>Peaceful Power Transfer:</b> inclusive national dialogue, constitutional reforms, elections	0.15
2	<b>Security Stabilization and Rule of Law:</b> emergency security measures, counterterrorism and counter piracy, restructuring of the Army and security establishments	0.42
3	<b>Emergency and Humanitarian:</b> basic food supplies and services, human damage compensation, service restoration and reconstruction	3.22
4	<b>Macroeconomic Stabilization:</b> budget deficit, national currency, inflation, IMF program reforms	0.47
<b>Medium-Term Priorities</b>		<b>7.65</b>
1	<b>Economic Growth Sectors:</b> agriculture, fisheries, manufacturing, oil, gas, minerals, tourism	1.2
2	<b>Improvement of Basic Infrastructure:</b> environment, water, electricity, transport, information and communications technology (ICT), public works and roads, housing and urban development	2.39
3	<b>Expansion of Social Protection:</b> social safety net	0.95
4	<b>Youth Aspirations and Human Resources Development:</b> education, health, job creation, women’s empowerment	1.98
5	<b>Private Sector and Business Enabling Environment</b>	0.74
6	<b>Good Governance and State-Building:</b> civil service reforms, judiciary, transparency, accountability and anticorruption, legal affairs, rights and liberties, local governance	0.39
<b>TOTAL (short and medium term)</b>		<b>11.91</b>

\* Source: Government of Yemen Transitional Program Priorities and Resource Summary Matrix.

34. *The final TPSD and PIP were presented at a Donor Conference held in Riyadh on September 4-5, 2012, and at the Friends of Yemen Meeting held in New York on September 27, 2012, and received pledges of about US\$7.5 billion from the international community in support of Yemen’s short-term development agenda. The US\$7.5 billion (including US\$3.25 billion from Saudi Arabia) are expected to support the country’s urgent stabilization and development needs and to assist its ongoing political transition over the next 18 months. Following the transition, another donor conference is expected to be organized to invite support for the subsequent phases of the country’s development plan. The international community and the Yemeni Council of Ministers endorsed the MAF (Annex 1), which will help the Government monitor the implementation of the TPSD over the transition period and ensure that donor pledges are aligned with national priorities and matched with specific programs and projects that are implemented both effectively and transparently. The donors also agreed to explore options for a Capacity Building Trust Fund to support the implementation of the MAF and help enhance the absorptive capacity of the government to prepare and implement projects to be funded by the donor pledges.*

### III. WORLD BANK GROUP INTERIM STRATEGY

#### A. Recent Bank Group Engagement in Yemen

35. *The Bank Group has a longstanding relationship with Yemen.* The former Yemen Arab Republic and People's Democratic Republic of Yemen joined the International Development Association (IDA) in 1971. From 1971 to 1994, IDA approved 93 projects for Yemen, valued at about US\$1.09 billion. Assistance to the newly unified Yemen increased substantially in the aftermath of the civil war, and since 1995, IDA has approved 58 projects totaling US\$2.16 billion and provided substantial analytical and technical support. Having relaunched its activities in Yemen in 1998, IFC has been providing a broad array of advisory services (AS) in addition to implementing a selective investment portfolio.

36. *The Yemen country program is supported by a substantial portfolio of IDA projects.* During the IDA15 cycle (FY2009–2011), the Bank prepared 14 projects totaling US\$487 million.<sup>30</sup> Support under IDA15 was frontloaded in the first two years of the cycle to enable the country to withstand the effects of the global financial crisis. The country received SDR 25 million (about US\$38 million) from IDA's Crisis Response Window in FY2010 to supplement its base allocation. Yemen's indicative IDA16 envelope totals SDR 241.5 million (about US\$362 million) for FY2012–2014.<sup>31</sup> Due to the political turmoil, only one operation has been approved thus far, the Labor Intensive Public Works Project for US\$61 million, leaving about US\$300 million available for allocation to new projects over the next two years.

37. *IFC's engagement in Yemen has consisted of a successful advisory services (AS) program and a selective investment portfolio.* The AS program is supported by a Trust Fund Agreement with the United Kingdom's Department for International Development (DFID). Despite the very challenging domestic environment for IFC operations even prior to January 2011, there have been a number of successes due to the comprehensive advisory program under implementation. Some of these successes include: (i) improvements in business startup procedures, as highlighted in *Doing Business 2009*; (ii) a substantial increase in Business Edge business skills training for small and medium enterprises (SMEs); (iii) parliamentary passage of contentious new investment and income tax laws; (iv) assistance with the preparation and passage of a new mining law and executive regulations; (v) assistance to the preparation and passage of a leasing law; and (vi) support to the Government on an international best-practice PPP law and a law on special economic zones (neither of which has yet been approved by the Cabinet). Progress has been slower in other areas, particularly in the implementation of PPPs in infrastructure, due in large part to a lack of agreement within different parts of the Government on how to move forward with this agenda. IFC advised the Government on three independent power projects totaling 375 MW, but was unable to move them forward due to concerns regarding the creditworthiness of the public electricity company.

38. *Although not large in absolute terms, IFC's investment exposure in Yemen has increased on a commitment basis from US\$10 million in three companies in FY2005 to US\$85 million in six companies at present.*<sup>32</sup> An additional US\$46 million has been mobilized from B Loan participants. In early FY2011, IFC committed US\$4 million in Saba Islamic Bank through its Global Trade Finance Program. In FY2010, IFC supported US\$12.3 million in trade finance to Saba Islamic Bank and provided AS to the bank to strengthen its overall risk management and internal control processes (including a comprehensive corporate governance activity). At the moment, activities with Saba Islamic Bank (both AS and

<sup>30</sup> Four projects were approved in FY2009, for US\$165 million, seven in FY2010 for US\$205 million, and three in FY2011 for US\$117 million, covering water, energy, roads, health, urban development, social protection, education, and macroeconomic and public sector reform areas.

<sup>31</sup> This amount is indicative only, as the actual allocation for FY2014 will depend on: (i) the country's own performance; (ii) its performance relative to that of other IDA recipients; (iii) the amount of overall resources available to IDA; (iv) changes in the list of active IDA-eligible countries; (v) terms of financial assistance provided (grants or loans); and (vi) the amount of compensatory resources received for the Multilateral Debt Reduction Initiative.

<sup>32</sup> The IFC's investment portfolio is dominated (75 percent) by the manufacturing sector (specifically, cement production); health care is the other main sector of IFC investment

investment) are on hold due to concerns regarding Politically Exposed Persons (PEP).<sup>33</sup> IFC has committed US\$50 million in a regional oil and gas project with Kuwait Energy Company to finance its operations in Egypt and Yemen, using a Murabaha Islamic finance structure. The performance of IFC's investment portfolio in Yemen continues to be weak, in part because of the current volatility in the country, with only one out of the six IFC projects performing according to expectations, while three others have been classified as distressed assets.

39. *The Multilateral Investment Guarantee Agency (MIGA) currently has no exposure in Yemen. MIGA would be open to exploring future opportunities for engagement with SMEs in the manufacturing, agribusiness, or services sectors.*

40. *During the crisis, the deteriorating security situation had an adverse impact on the Government's ability to implement IDA-funded projects and the World Bank's ability to provide sufficient implementation support and fiduciary oversight over its portfolio, resulting in a suspension of disbursements across the portfolio in July 2011.* Disbursements for the operating costs of six well-performing project implementation units (PIUs) were exempted from the suspension, and informal dialogue continued to a limited extent with several PIUs to maintain institutional capacity. IFC's AS program was also suspended. In January 2012, following the signing of the GCC agreement and the political transition, it was deemed that the extraordinary situation that had led to the portfolio suspension (including with regard to the recipient's ability to implement Bank Group projects) was no longer in place. In response, the Bank lifted the suspension and resumed normal operations, and IFC agreed to restart activities that focused on the private sector. The IDA Country Manager and IFC Country Officer now reside in Sana'a. The Bank Group's co-located country office currently operates out of a hotel with core staff, as the previous office was closed due to security concerns. Arrangements for establishing a new office in a more secure location are underway. Non-essential operational missions are currently being undertaken outside Yemen ("reverse missions") due to security concerns, while essential missions are being allowed on a case-by-case basis with prior management approval.

41. *The IDA portfolio in Yemen includes 19 active projects with US\$760 million in commitments,<sup>34</sup> of which about US\$494 million in undisbursed balances remain.<sup>35</sup> IDA's support to Yemen is complemented by trust funds valued at about US\$41.5 million, with cumulative disbursements of about US\$9.4 million.<sup>36</sup> Until the start of the 2011 crisis, Yemen's portfolio implementation progress, disbursement performance, risk levels, and outcome indicators were comparable to Bank-wide IDA averages. The disbursement ratio for FY12 was 8.3 percent, less than half the IDA average of 22 percent. Ten projects in the IDA portfolio are classified as problem projects. Though it is clear that the unrest in 2011 and the subsequent suspension of Bank disbursements contributed to this poor portfolio performance, attention is needed to address the systemic capacity-related issues that also play a role.*

42. *The Bank is renewing efforts to restructure its portfolio in Yemen, with a view to improving implementation performance.* During the suspension period, the Bank completed a detailed portfolio performance review and initiated discussions with the Government on cancelling or restructuring several nonperforming projects. The aim was to better align the program with emerging priorities, to make better use of scarce IDA and Bank budget resources, and to avoid the fragmentation of tasks, which places an

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<sup>33</sup> PEPs are described as individuals who are or have been entrusted with prominent public functions in a foreign country, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials. Business relationships with family members or close associates of PEPs involve reputational risks similar to those with PEPs themselves. The definition is not intended to cover middle ranking or more junior individuals in the foregoing.

<sup>34</sup> The portfolio's sectoral composition includes infrastructure (30 percent); social sectors (30 percent); urban development (27 percent); agriculture and rural development (12 percent); and public sector reform (1 percent).

<sup>35</sup> Data as of September 26, 2012. Business Warehouse.

<sup>36</sup> Data as of July 25, 2012. Of the 32 active trust funds, 10 are recipient-executed and 22 Bank-executed. About 53 percent of the commitment value is targeted at sustainable development (which includes activities on agriculture, water, biodiversity and climate resilience, disaster risk reduction, and strengthening of the powerless/community development); about 46 percent is for human development (including activities on education, health, and social safety nets); and 1 percent supports the implementation of a household budget survey.

additional burden on the country's already limited institutional capacity (see Annex 2 for a more detailed review of portfolio restructuring progress and plans to date). The Bank's ability to comprehensively restructure the portfolio has been somewhat constrained by the need to secure the Government's agreement amid competing demands during the current transition and in light of line ministries' interest in maintaining ongoing development assistance. The Bank will maintain its ongoing dialogue on portfolio restructuring options given the importance of program prioritization and the need to make a short-term impact over the ISN period. The Bank is also considering alternative modalities for program implementation support, including through third-party monitoring and independent verification, to ensure satisfactory progress and fiduciary integrity of its ongoing portfolio.

## **B. Lessons Learned**

43. *The lessons learned through the implementation of the Bank Group's program will be incorporated as appropriate in ongoing and new operations.* These lessons draw in particular from the Country Assistance Strategy (CAS) for fiscal years 2010–2013, which was under implementation until the onset of the crisis in 2011.

- ***The understanding of local drivers of conflict and fragility in Yemen will need to be better reflected in the strategic and operational design of the Bank program.***<sup>37</sup> The Bank's policy dialogue and selected operations should target both demand- and supply-side governance issues, at the central and local levels, with a special focus on enhancing citizen participation, strengthening decentralized and representational decision making, and supporting equity (and opportunity) in the management and delivery of public goods. In the absence of such support, the Bank's programs risk producing marginal results and failing to contribute to sustainable long-term development in Yemen.
- ***In a context of fragility and limited institutional capacity, project design and implementation require special focus.*** Greater selectivity, realism, and flexibility in project design and implementation, including the ability to take measured risks, are crucial. There is a need for a more nuanced understanding of the specific capacity constraints that hinder program implementation in Yemen, particularly at the local level, in order to better account for project design and implementation constraints, to define the expected results of new programs accordingly, and to begin to address these capacity deficiencies more broadly.
- ***There is a need for a real shift from a supervision approach to an implementation partnership by providing direct, sustainable technical and fiduciary support.*** Going forward, the Bank intends to focus closely on procurement and financial management issues to enhance efficiency, transparency, accountability, and institutional capacity.<sup>38</sup> These efforts could be supplemented in the short to medium term by new modalities that allow nongovernment actors to implement projects directly, where appropriate. Similarly, making use of third-party monitoring agents to provide a solid evidence base for improving project design, delivery, and implementation support can help build confidence and trust between the Government and implementing partners. In ensuring the success of IFC projects, the choice of private sector sponsor is a key factor; partnering with sponsors with weak capacity has compounded the problems caused to IFC's portfolio by the adverse domestic and regional environment.

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<sup>37</sup> As per *Reducing Conflict Risk: Conflict, Fragility and Development in MENA*, the region's accompanying piece to the 2011 WDR.

<sup>38</sup> Yemen has recently undertaken effective reform of its procurement and financial management system and practices. This includes establishing an Accounting and Financial Management Information System in 14 ministries and three departments; introducing a Commitment Control System in nine ministries, enacting a new procurement law and associated executive regulations, restructuring the High Tender Board, establishing the High Authority for Tender Control, ratifying an anticorruption law, and establishing the Supreme National Authority for Combating Corruption (SNACC). Despite this progress, the institutional capacity of public procurement and financial management institutions continues to be a challenge.

- ***There is a trade-off between a short-term focus on results and the medium-term need to strengthen capacity.*** The use of ring-fenced PIUs or cross-sectoral entities, such as the SFD, to channel resources has proven to be an efficient way to achieve results on the ground. Yet there is a risk that such mechanisms will undermine broader efforts to build implementation capacity in line ministries over the medium term. Parallel efforts need to be made to strengthen capacity within sector ministries, with a view to better integrating PIUs within the ministerial structure and preparing for an eventual transfer of responsibilities. There is also a need for long-term efforts to tackle the public sector’s weak incentive structures and support governance and effective service delivery at local levels, together with enhanced procurement and financial management measures.
- ***Particularly in an uncertain environment such as that of post-transition Yemen, clear communication about program objectives, instruments, and progress is critical to gaining the trust of citizens.*** Building two-way partnerships with a broad range of stakeholders is an important factor in promoting public support for the policy reforms and program interventions that pave the way for sustainable development. The Bank’s experience in Yemen has shown that program design and implementation benefit from the input and support of potential beneficiaries, as well as from open communication with potential opponents. In the current transition environment, it will be even more critical for the Bank to raise awareness of its activities and how it operates while taking time to listen and gather feedback from a wide variety of sources, including those who struggle to make their voices heard.

### C. Rationale for an Interim Strategy and Strategic Foundations

44. *The preparation of an ISN for Yemen is appropriate given the current environment of uncertainty.* The rationale for an ISN is driven by: (i) the significant shift in priorities for development support in the aftermath of the events of 2011, as articulated within the current two-year transition framework, requiring a commensurate shift in the Bank Group’s priorities for supporting Yemen during this time of transformation; (ii) the short time horizon of the Transition Government, whose mandate is expected to come to an end in 2014; (iii) the importance of ensuring an inclusive and viable settlement of key governance issues and urgent economic needs; and (iv) the expectation that the TPSD will be succeeded by a more comprehensive national plan to which a follow-on CPS could be aligned.

45. *The proposed engagement in Yemen is firmly anchored in the government program, as articulated in the TPSD and the accompanying PIP, and is informed by consultations with a wide range of stakeholders.* The actions proposed under the ISN align with the priorities identified by the authorities as well as the recommendations by the joint Government-donor JSEA and draw upon feedback from government and nongovernment stakeholders (Box 2).

46. *The ISN is consistent with key strategic approaches laid out by the World Bank.* The proposed activities are aligned with the priorities set out in the Framework for Engagement in the MENA Region which was prepared in response to the Arab Spring and focuses on better governance, increased social and economic inclusion, job creation, and accelerated sustainable growth. The ISN is also aligned with the main recommendations of the 2011 World Development Report (WDR) on Conflict, Security, and Development and the MENA region’s accompanying piece on Reducing Conflict Risk: Conflict, Fragility and Development in MENA, which highlight the importance of “inclusive enough” coalitions to galvanize support for change as well as the need to achieve early results to maintain momentum and to call for development interventions that restore confidence and transform institutions to create a virtuous circle that moves a country out of repeated cycles of violence and fragility to security and prosperity.<sup>39</sup> In addition,

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<sup>39</sup> A key lesson of the WDR was that creative, inclusive approaches to achieving early results can be compatible with, rather than undermine, long-term institution building and government legitimacy. The companion piece on the MENA region recommended emphasizing international approaches underpinned by stronger analysis of political economy drivers and constraints, building demand for good governance, promoting inclusive growth through employment generation and economic diversification, and bringing regional and global mechanisms to bear in addressing cross-border challenges.

the ISN will endeavor to apply the principles enshrined in the Bank's Governance and Anticorruption (GAC) Strategy and Implementation Plan.<sup>40</sup>

#### **Box 2: A Summary of Consultations on the ISN**

Due to the prevailing security situation in the country, ISN consultations were limited to those undertaken in Sana'a (with representatives from the government, civil society, women's and youth groups, the media, the private sector (including women entrepreneurs), and donor organizations) and those conducted during reverse supervision missions outside Yemen (with counterparts from line ministries involved in health, education, environment, urban development, social protection, water, agriculture and irrigation). In addition, in August 2012, a summary with most salient features of the ISN was posted on a blog, both in English and Arabic, for public review and comments. The purpose of these consultations was to exchange views with a broad range of stakeholders, to gain a better understanding of the challenges they face, to listen to different perspectives on how best to improve the quality of the Bank Group's operations in Yemen, and to help set priorities for engagement over the next 12 to 18 months.

Participants put forward several key messages that have informed this ISN and will continue to guide the design and implementation of its programs, within the Bank's resource envelope and in coordination with other donor activities. In addition to general agreement that the ISN pillars were correctly specified and sufficiently aligned with the needs of the country, the consultations stressed the importance of:

- Building capacity, including through technical assistance (TA) and heightened supervision;
- Exploring the use of CSOs and nongovernment actors in project implementation;
- Bringing further prioritization and focus to the draft ISN;
- Country ownership;
- Focusing on the dissemination of Bank Group activities;
- Mechanisms to strengthen SMEs' access to finance;
- Strengthening the quality of basic and higher education;
- Focusing on labor market needs and vocational and technical education outcomes;
- Supporting governance and anti-corruption initiatives;
- Focusing on agriculture and fisheries sectors to create employment;
- Investing in water, electricity, and roads infrastructure; and
- Supporting youth initiatives and programs.

The content of these consultations is summarized in greater detail in Annex 3.

#### **D. Guiding Principles**

47. *Recognizing the need to adapt to changing circumstances in Yemen and build on lessons learned, implementation of the ISN will be guided by three principles of engagement.* The purpose of these principles is to help Bank teams make a concerted effort to achieve quick wins across the ISN program, with a focus on inclusiveness and transparency and drawing on the full range of instruments available. These principles will not only inform the Bank Group's program and the specific projects to be selected, but more importantly will guide the design of projects and the selection of implementation and financing mechanisms to support the ISN's strategic direction.

48. *The first principle focuses on **intensifying participation and inclusion, with a special focus on gender and youth**.* Given the deep social, political, and regional inequalities in Yemen and the legacy of past patronage-based governance and mismanagement—all of which constitute possible triggers for renewed or future conflict—the Bank Group will continue to strive to promote greater inclusiveness and equity in development programs. This effort will begin with the Bank's own portfolio by devoting greater

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<sup>40</sup> These principles include: (i) helping to create a capable and accountable state that creates opportunities for the poor; (ii) ensuring that this work is country-driven; (iii) adapting implementation to country circumstances; (iv) remaining engaged even in poorly governed countries; (v) engaging with a broad array of stakeholders; (vi) striving to strengthen, not bypass, country systems; and (vii) working with governments, donors, and other actors at country and global levels to ensure a harmonized approach

attention to regional equity considerations in allocating aid and by ensuring that the needs of young people and women factor into the design and implementation of its operations. More broadly, Bank interventions will work to lay the foundations for promoting greater equity through voice, participation, engagement, and, to the extent possible within current security constraints, outreach, with a particular focus on those who have been politically, economically, or socially excluded in the past.<sup>41</sup> IFC will also use a gender and youth lens in implementing its program (especially its AS program) in Yemen, drawing on the successes already achieved through its Business Edge program.

49. *The second principle will be to **strengthen institutional capacity and improve governance, transparency, and accountability** as a means to improve the links between public policy and spending, and results on the ground.* The state's deep legitimacy, accountability, and capacity deficits need to be addressed across all of the Bank Group's strategic objectives and programs, in both the design and implementation phases. In addition to exploring projects that specifically focus on improving service delivery and accountability, the Bank will enhance its efforts to systematically address institutional strengthening and capacity building needs through existing and upcoming projects. Bank interventions will aim at improving the Government's capacity to perform core functions and services (with a focus on institutions, processes, and capacity) as well as developing more inclusive and transparent systems for decision making and resource allocation. In doing so, the Bank aims to support inclusive national policy dialogue and consensus-building on priorities for institutional transformation in the short term, while attempting to enhance the demand for good governance and transparency in the medium term through participatory approaches and support to CSOs and private sector entrepreneurs.

50. *The third principle will be to **enhance the operational flexibility of the Bank's program** by making better use of available instruments and options that are appropriate for fragile and conflict-affected states.* The ISN will seek to promote a calculated approach to risk rather than inaction, and to maximize implementation flexibility while upholding fiduciary principles. The ISN program will make use of the full spectrum of instruments available to improve project preparation and implementation (including enhanced use of additional financing or repeater projects, as well as programs such as output-based aid (OBA) where appropriate). To enhance this flexibility, the Bank will consider processing new operations, where appropriate, under Operational Policy (OP) 8.00, *Rapid Response to Crises and Emergencies*. The Bank will also seek opportunities to make use of nongovernment actors to implement projects directly and to utilize third-party monitoring and independent verification agents to provide a solid evidence base for improving project design, delivery, and implementation support.

## **E. Areas of Engagement**

51. *The overriding objective of the ISN is to help the Government produce tangible results that stabilize the transition in the short term, while laying the groundwork for medium-term reforms and sustainable longer-term benefits.* Through its support, the Bank Group intends to help restore trust and confidence between the state and its citizens by facilitating inclusive dialogue among national actors on a sound technical basis and strengthening mechanisms for service delivery, targeted distribution of social safety nets, and short-term employment creation. Over the medium term, Bank Group support will be oriented toward addressing the key institutional and structural weaknesses that caused the crisis—including notably governance deficits, acute poverty, and deep horizontal inequalities—while helping to establish the foundations for long-term development and private sector-led growth. The ISN proposes to support these objectives across three strategic pillars: (i) achieving quick wins and protecting the poor; (ii) promoting growth and improving economic management; and (iii) enhancing governance and local service delivery. These pillars are not mutually exclusive, and success under one is expected to have positive spillover effects on the others (Annex 4).

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<sup>41</sup> These groups include, in addition to women and young people, members of disadvantaged social groups such as al Akdham or IDPs, who may not be automatically mapped as members of a community.

52. *Expected outcomes over this 18-month period are modest* (summarized in Annex 5) given the short time frame, the uncertainties involved in the near future, the inherent institutional and capacity weaknesses in a fragile transitional context, and operational constraints posed by the current security situation. The program will be selective, flexible, and realistic, and will include activities that are in line with its comparative advantage and expertise. Priority will be given to projects that complement the ongoing portfolio<sup>42</sup> and are aligned with key priorities and implementable over the short span of the ISN.

**(i) Achieving Quick Wins and Protecting the Poor**

53. *Bank support under this pillar will aim to help address key popular grievances and reduce situations of acute vulnerability by improving access to basic social services and infrastructure.* This will be achieved through implementation of the existing portfolio of projects, as well as new lending and nonlending activities that support the core of Yemen’s social protection and human development efforts in the short term, while initiating work to address underlying structural problems and deficiencies in the medium term. Box 3 provides a summary of ongoing projects that support human development and short-term job creation for the benefit of poor people.

**Box 3: Enhancing Human Development – Portfolio Under Implementation**

- The **Social Fund for Development** (SFD) has a proven track record of supporting broad based and participatory development interventions with focus on rural and remote areas. Key programs include Community Driven Development, Labor Intensive Works, Small and Micro Enterprises Development, and Empowerment of Local Development. Since its inception in 1997, SFD has served poor communities by helping them to access basic services, improve living conditions and provide temporary and permanent work opportunities. Throughout three previous phases and the ongoing Phase IV, IDA has joined forces with Government and other donors to build and rehabilitate over 27,000 classrooms benefiting about 2.3 million students, train more than 3,600 health care workers (both male and female). Additionally, SFD has constructed 1,175 rainwater harvesting systems with the capacity of 7 million m<sup>3</sup>, benefiting more than 2,500,000 individuals, and improved 1,900 kilometers of rural roads, benefiting about 2 million citizens. These efforts have created more than 36 million days of employment. IDA is supporting the fourth phase of SFD with US\$60 million, of which US\$44 million remains undisbursed.
- IDA support for the **Social Welfare Fund** (SWF) (US\$10 million, of which US\$9.6 million has yet to be disbursed) aims to increase the share of poor households who are among the beneficiaries of the cash transfer program; and to contribute to building the human capital of SWF beneficiaries in selected districts. Donor support to the SWF could be scaled up through improved targeting of the most vulnerable populations, additional resources, and refinement of monitoring and evaluation.
- IDA has supported Yemen’s **Public Works Program** since 1996 through four successive projects, including the recently approved **Labor Intensive Public Works Project** (US\$61 million). The program aims to improve access to basic services while creating short-term jobs for the poor. The public good assets created (from IDA funds alone) have improved access to primary health services for over 800,000 people, improved enrollment capacity for over 250,000 students, improved access to water for more than 245,000 beneficiaries, provided access to water for over 325,000 people, paved access roads and streets for over one million people, and provided vocational training for almost 5,000 beneficiaries, mostly women.
- In health, IDA’s **Health and Population Project** (US\$35 million, of which US\$32.5 million remains undisbursed) aims to improve access to and utilization of maternal, neonatal, and child health services in selected governorates with a high concentration of districts with poor health indicators. IDA’s **Schistosomiasis Control Project** (US\$25 million, of which US\$18.7 million is undisbursed) seeks to decrease the prevalence and intensity of infection of both urinary and intestinal schistosomiasis among school-age children by 2015 in endemic regions of Yemen. The **Safe Motherhood** and **Healthy Motherhood Projects** provide maternal care services to poor women in Sana’a governorate through OBA.
- IDA is currently financing three education projects. The **Basic Education Development Project** (US\$65 million, of which US\$8.1 million is undisbursed) is helping the Government expand the provision of quality basic education, with special attention given to gender equity. The project is on target to complete civil works with 199 new schools. IDA’s **Secondary Education and Girls’ Access Project** (US\$20 million, of which US\$18.7 million is undisbursed) aims to enhance gender equity and improve the quality and efficiency of secondary education in selected districts, with a particular focus on girls in rural areas. IDA’s **Higher Education Quality Improvement Project** (US\$13 million of which US\$11.3 million is undisbursed) seeks to create enabling conditions for enhancing the quality of university programs and graduate employability.

<sup>42</sup> The programmatic reorientation of existing projects to address specific ISN priorities will continue. Operations initiated during the previous CAS period will continue, subject to the ongoing restructuring, pending discussions around the development of the next CPS for Yemen.

54. *In addition to supporting enhanced access to basic services and infrastructure, the Bank Group program will put a special focus on rising food prices and proactively prepare potential coping mechanisms.* The Bank will utilize available instruments to address volatility through enhanced support to safety nets and short-term income generating activities, which in turn will improve the purchasing power of the most-affected segments of the population and help them address potential food price hikes and food security risks. In addition, the Bank program will strive to maintain expenditures for critical basic services, especially for poor and vulnerable people, as one of the key objectives of the TPSD and a means to contribute to the stability of the transition.

55. *New activities that would target the vulnerabilities of poor people and marginalized groups in the short term include:*

- *An Emergency Recovery Grant* that would help prevent a worsening of the current humanitarian situation and ensure that the most critical social expenditures in the budget (for health and education, for example) are protected and executed.<sup>43</sup> In coordination with other development partners, the program will also explore options (as incremental expenditures) for school feeding programs, food-for-work initiatives, or voucher schemes that are quick to reach the poor and directly address risks around food insecurity as well as drivers of fragility and social unrest. In parallel, the Bank will aim to improve targeting of such interventions in the medium term through existing health operations and TA.
- *Additional Financing for SFD (US\$25 million) for Labor Intensive Works (LIW)* that would aim to reduce the vulnerability of poor people to food security risks through targeted short-term income generation. The SFD's LIW subprogram has become a critical safety net to help poor and vulnerable households smooth their income and consumption, while supporting the construction of priority basic social infrastructure. The proposed additional financing would be used to: (i) establish a cash-for-work program targeting primarily young people (ages 15-24), including women, to provide them with immediate income relief as well as work experience to improve their employability in the long run; and (ii) finance community-based nutrition interventions and provide income relief for female community health workers. As in the SFD project, the outcomes of the additional financing will be monitored using gender-disaggregated data.
- *An Output-based Maternal and Child Health Care program* that would scale up existing OBA pilots that support public health services targeting maternity and child health care. The proposed project would support delivery of a defined package of maternal and child health services through contracting of qualified service providers in the private sector, for profit or not-profit, for a defined price. Payments for services provided would be made on the basis of defined outputs and invoices submitted by service providers and verified by an independent verification expert.
- *A Second Basic Education Development Project (BEDP II) (US\$65 million).* This project will support the second phase of the Basic Education Development Strategy, building on progress made under the earlier BEDP I<sup>44</sup> and aim to expand access to basic education to all Yemeni children, improving the quality of learning, and reducing disparities (including gender-based ones) in basic education. In particular, the project will have a focus on early grade reading skills and

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<sup>43</sup> The grant would be prepared as an investment loan under Bank Operational Policy 8.00. Project financing amount will depend on identification of suitable budget line items, and/or incremental crisis related expenditures eligible for financing under Bank policy. Preliminary estimates indicate the range of total project financing to be between US\$75-100 million.

<sup>44</sup> BEDP I will close in December 2012 after satisfactorily achieving its development objectives. The project funded the construction of 1,996 new classrooms and rehabilitation of 1,765 existing classrooms in 10 governorates, contributing to a 12.3 percent increase in enrollment in those governorates between 2005 and 2010. The project promoted girls' enrollment and retention in basic education by training and supporting about 5,000 Parents' Councils, recruiting and training about 500 female teachers for work in rural areas, and providing conditional cash transfers to benefit about 35,000 girls in the governorates of Hodeida and Iahj. Overall, girls' enrollment increased by 17.5 percent and the Gender Parity Index improved from 0.7 to 0.77 in the 10 governorates targeted by the project during 2005–2010.

expand BEDP I interventions that have been effective in improving girls' enrollment and retention, including recruitment of female teachers in rural areas, support to Fathers and Mothers Councils to enhance community awareness and involvement, the pilot conditional cash transfer (CCT) scheme,<sup>45</sup> and efforts to ensure the collection and monitoring of gender-disaggregated data. BEDP II interventions will be supplemented by a Global Partnership for Education (GPE) Grant, for which an indicative amount of US\$82 million has been allocated. The Bank will work with relevant development partners to make sure that BEDP II and GPE grant interventions are implemented in a coordinated manner to support the education sector plan effectively. In addition, the Bank will continue to support the Government in developing a National Education Vision for Yemen and help address both supply-side and demand-side challenges to enhanced access to basic education.

56. *Nonlending services and policy dialogue will help enhance understanding of social and economic needs and underlying grievances, and aim to inform the development of existing and future operations. These include:*

- Completion of the *Yemen Household Budget Survey (HBS)* in 2013 to enhance understanding of poverty and other indicators of economic and social development in the aftermath of the 2011 uprising. The survey will cover over 10,000 households across rural and urban areas of all governorates and collect household and individual-level information on demographic, economic, and human development status. The dataset will be disaggregated by gender, age group, and region, and results will inform the Bank Group's strategy and operations.
- *A Stocktaking of Youth Issues* through nonlending technical assistance (NLTA) which would give the Bank a better understanding of the challenges faced by young people, possible ways to improve their inclusion and participation in economic opportunities and public debate, and potential entry points for future Bank work in this area.
- *A Policy Note on Gender Challenges in Yemen* will explore major gender issues in Yemen based on qualitative and quantitative data, and will make recommendations on required policy actions. Building on recent progress in strengthening the gender dialogue with Yemeni authorities, the Bank program will continue to ensure that gender equality concerns are integrated in the analysis of the problems faced by particular sectors, informing sectoral policies, programs and projects, and that sex-differentiated analysis and gender-informed strategies are explicitly incorporated in the design of operations and investments in Yemen.<sup>46</sup> The Bank will work to expand dialogue on addressing gender inequality beyond traditional partners to include urban, social, infrastructure, and rural development line ministries to strengthen the operational focus and develop multi-stakeholder partnerships.
- *Public perceptions surveys* will be carried out, including through regular project preparation and implementation support, and to the extent the security situation permits, to canvass and track citizen perceptions on issues central to the transition process, to identify existing and emerging grievances, to inform the policy agenda, and to measure the effectiveness of government actions in addressing priority social and economic needs.
- *IFC has relaunched its Business Edge training programs.* The Business Edge program will continue to provide business skills training to Yemenis, primarily to the young and unemployed.

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<sup>45</sup> The CCT scheme targeted girls enrolled in grades 4-9, in order to reduce the risk of dropout and increase the chances that girls would continue to secondary education. Criteria for cash transfer include family income and girls' school attendance and performance. About 35,000 girls are currently benefiting from the CCT, and the government intends to scale up the program to reach 65,000 girls under BEDP II.

<sup>46</sup> The Yemen Country Team is working closely with the PREM Gender Group to identify specific gender considerations that could be integrated in project design, implementation, and monitoring and evaluation arrangements, and to explore additional entry points for further Bank support in advancing the gender agenda in Yemen.

This program has been particularly successful in providing training to women and will continue to seek to maximize its engagement with women.<sup>47</sup>

57. *In addition, the ISN program will support improvements in infrastructure and sustainable use of natural resources and, in doing so, will enable improved access through:*

- *A Road Asset Management Project (US\$40 million) that would aim to assist the Government in improving the condition and safety of existing paved road infrastructure in three to four governorates, and putting in place institutional arrangements for efficient routine and emergency maintenance of paved roads. The project would seek to ensure the sustainability of these efforts through broad involvement of the private contracting industry using an output-based financing approach, while creating local employment and income for unskilled poor people, including women, through labor-intensive maintenance activities. The project would prioritize road segments most frequently used by women in accessing markets and basic services. Improving transport infrastructure will also be vital for increasing food security and improving economic livelihoods and productivity in the medium term.*
- *Operations financed under the Pilot Program for Climate Resilience (PPCR) umbrella under the Climate Investment Funds (US\$50 million) would aim to protect and best utilize Yemen's scarce natural resources and improve livelihoods. These would include: (i) Climate Information System and PPCR Program Coordination (US\$19 million) to deliver hydro-meteorological and climate services to end users; (ii) Improving the Climate Resilience of the Water Sector and Rural Livelihood through Adaptation in Rainfed Agriculture (US\$11 million through additional financing for IDA's existing Rainfed Agriculture and Livestock Project) to help improve the resilience of local populations to climate risks; and (iii) Climate-Resilient Integrated Coastal Zone Management (ICZM) (US\$20 million) to help enhance the capacity and awareness of national and local-level institutions in selected coastal governorates and to demonstrate the benefits of implementing climate-resilient ICZM in three target sites. Recognizing men's and women's varying climate-related roles and vulnerabilities, the PPCR has worked to mainstream gender considerations throughout the program, to involve both men and women in design and implementation, and to monitor results against gender-sensitive indicators. In parallel, the Bank team will continue to work with partners to explore sources of renewable energy, given Yemen's strong potential for wind power and identify gaps in complementary infrastructure and regulations required for the sector.*
- *A Water Sector Support TA to complement Bank support to the water sector under the existing Water Sector Support Project (WSSP). This strategic TA would aim to engage water users' associations and grassroots participation, including women, to encourage candid discussions on the long-term implications of water scarcity for Yemen's economic development, and to explore innovative approaches that have worked at the community level and could be scaled up to inform relevant policy decisions. In parallel, Bank support to the implementation of the National Water Sector Strategy and Investment Program will continue under the existing WSSP. The project is being restructured to direct most of its remaining investments to critical water stress areas, including Sana'a, Taiz, and Ibb, and support the exploration of technical options for sustainable water supply and sanitation.<sup>48</sup> The WSSP will continue to support institutional strengthening of the sector and facilitate private sector participation in water supply and sanitation services provision through OBA and PPP approaches.*

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<sup>47</sup> This program, implemented in collaboration with the Yemen Education for Employment Foundation (YEFE), has been particularly successful in reaching out to unemployed youth, and results include (i) 764 youth trained, generating 6,876 training seats for the 2 Yemeni Business Edge (BE) accredited providers mobilized; and (ii) 329 trainees hired in the private sector-- 43% of the trainees are now employed at the sponsor companies, and every business which has employed YEFE/BE alumni has asked for more trainees. Some of these young professionals now work internationally.

<sup>48</sup> Options could include desalination, transfer of water from rural to urban areas, and demand and propensity to pay assessments.

58. *The Bank will explore opportunities to support the integration of marginalized groups' considerations into the Government's public policy agenda. Issues of livelihood, land, service delivery, and governance are particularly acute for internally displaced persons (IDPs), and if left unresolved could contribute to conflict in the communities in which they compete for scarce resources. The Bank will finalize the updating of its 2011 report on IDPs<sup>49</sup> to better understand the challenges they face (and create within host communities) and explore potential development interventions that could be supported over the medium term, in close coordination with other donors working on IDP issues, to address tensions over resource scarcity, access to basic services, and inclusion in host communities.*

**(ii) Promoting Growth and Improving Economic Management**

59. *Consistent with the recommendations of the JSEA, the Bank will enhance its ongoing policy dialogue with the Government to help improve budget management and maintain critical social expenditures, especially for poor people, and to put in place the building blocks for stronger, more diversified economic growth over the medium to long term. Reigniting economic growth, generating employment in the private sector, and ensuring that public resources are spent efficiently, effectively, and on priority activities will be essential, not only to sustain the transition in the short term but also to support Yemen's effort to return to a sustainable growth path in the medium term. While comprehensive progress on these fronts will take time, it will be important for the Government to show credible progress in better understanding and launching policy actions during the transition period. Recognizing the importance of systems and capacity improvements in undertaking this challenging agenda, the Bank is discussing with the Government a proposed Institutional Capacity Development Program for a select group of ministries and the Central Bank of Yemen, and focused on areas including financial infrastructure, customs management, tax administration, and telecommunications.*

- *Guided by JSEA analysis and recommendations, a series of policy notes will be prepared in combination with capacity-building TA to help the Yemeni Government shift economic thinking and policy making from the very short term to the medium and longer term, and to help strengthen its capacity to link development planning closely with public expenditure management.*
- *The Bank will continue to implement its ongoing Public Financial Management Project, focusing on budget management and transparency to ensure that the population sees and feels the results of government spending. The project aims to improve efficiency and transparency in the management of public finances by strengthening decision-support systems and building capacity in the Government's central finance institutions. Specific actions will continue to focus on: (i) strengthening the link between policies, resources, planning, and budgeting; (ii) improving budget control and execution; (iii) enhancing public procurement control systems; (iv) strengthening the Central Organization for Control and Auditing (COCA), the country's supreme audit institution; and (v) strengthening procurement oversight entities. These efforts link closely with the second phase of the Government's National Public Financial Management Reform Strategy, currently under implementation. The project will also support the preparation of a Public Expenditure and Financial Accountability Assessment in selected governorates to assess the key parameters of fiscal decentralization. An Additional Financing component, currently under preparation, will aim to support the Government's efforts to improve transparency and fight corruption (paragraph 63).*

60. *The Bank will enhance its ongoing technical work to strengthen the analytical underpinnings required to advance the competitiveness and growth agendas as a means to open economic options beyond the hydrocarbon sector and the low-productivity service sector in the medium term. The strategic aim would be to identify obstacles to the competitiveness of Yemen's economic operators,<sup>50</sup> which by their*

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<sup>49</sup> "Support to Durable Solutions for Displaced in Yemen–The Development Challenge." World Bank Social Development Dept., August 2011.

<sup>50</sup> These would include macroeconomic performance (for example, the exchange rate), investment climate, financial sector development, private sector development, and infrastructure (such as water, roads, telecommunications and electricity).

nature require a cross-sectoral approach around the question of competitiveness as an analytical anchor for encouraging the use of Yemen's economic and natural assets in different ways than in the past, and to begin to break the cycle of bad governance and poor economic results. To inform the higher-level reform agenda on strengthening the enabling environment for business development and private sector growth over the medium term, the Bank will provide NLTA and policy advice to the Government, including on:

- The *World Trade Organization (WTO) accession process*, which provides an umbrella framework and momentum for advancing reform efforts. This support will focus on WTO accession requirements, including alignment of custom procedures with WTO standards and liberalization of the telecommunications market (which is mandated within five years of WTO membership).
- *PPPs, with a particular focus on infrastructure*. This NLTA will initiate dialogue with a prioritized set of ministries, including water, power, and transport, to take stock of ongoing work, identify gaps, and make recommendations on prioritization and sequencing of required policy actions. IFC will also provide advisory services for PPP support in collaboration with the Bank and where possible, will complement this work by the TA portion of the Arab Financing Facility for Infrastructure (AFFI), a joint initiative of the World Bank, IFC, and Islamic Development Bank (paragraph 61).
- *ICT services, with a particular focus on the accessibility and affordability of broadband Internet services*. This study will examine infrastructure and regulatory bottlenecks, both domestic and regional, and provide recommendations on reform sequencing to help foster a more competitive and vibrant ICT sector, better regional connectivity, and improved communications services to all citizens and businesses.
- *Workforce development benchmarking*. This exercise will help the Government systematically examine and strengthen the performance of its education and training systems, institutions, and policies to promote the development of an appropriately-skilled workforce to support Yemen's economic and social development goals.<sup>51</sup> The objective of Bank support would be to provide diagnostic information on the system as a whole, including required policy actions to support pre-employment training, continuous education, labor market programs, and on-the-job training.
- *Strengthening financial management and auditing* through an update to the 2004 Accounting and Auditing Report on the Observation of Standards and Codes, together with dialogue on strengthening institutional capacity for accounting and auditing services.

61. IFC will continue to seek out opportunities for further investments in local and foreign companies (in particular, GCC and/or south-south investments) and to enhance its AS program. Potential investments in infrastructure, the financial sector (through direct investment and/or Trade and SME Credit Lines), manufacturing, and export-oriented activities will be explored. Labor-intensive sectors will take priority. Depending on government commitment and capacity to work effectively across ministries, IFC hopes to build on the momentum achieved in improving the environment for private sector development under the previous DFID-supported IFC AS program. IFC will continue existing work in the financial sector (including financial infrastructure and microfinance), explore venues for cooperation with Government and the private sector to help improve the foreign investment environment (for example, PPPs in infrastructure and investment climate reforms), and identify new areas where IFC engagement may support stability (such as by generating employment and economic activity).

- *PPP support*. At the September 2012 Yemen Donor Conference in Riyadh, the Government asked

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<sup>51</sup> The Workforce Development study for Yemen is part of a global benchmarking exercise (SABER) undertaken by the Bank following the launch of the World Bank's Education Sector Strategy 2020.

for IFC's support on PPPs, and IFC is ready to continue to assist the Government in moving the PPP agenda forward in collaboration with the Bank. Under the existing Memorandum of Understanding, and with the support of the Government in ensuring sufficient and qualified staff, IFC will help to build a PPP unit, finalize the drafting of the PPP law, and assist in identifying projects. Similarly, IFC is ready to re-engage with the Government to look at new solutions and/or structures to encourage more Independent Power Producers (IPPs) in Yemen.

- *IFC's ongoing Corporate Governance project will continue to provide training to local consultants on undertaking corporate governance assessments and to local companies on the importance and benefits of good corporate governance practices.*
- *IFC plans to continue advisory support to local microfinance institutions.* The extensive capacity building project that was in place prior to the events of 2011 to support a local microfinance institution (Al Amal MFB) will be completed. In addition, IFC plans to undertake an assessment and develop a comprehensive organizational and capacity building plan for a newly established microfinance institution (Al Kuraimi MFB).

### **(iii) Enhancing Governance and Local Service Delivery**

62. *The Bank's support to the governance agenda during the ISN period will be guided by the National Dialogue and constitutional amendment processes.* This support will aim to help identify and address core grievances in the short term while establishing solid foundations for deeper institutional and governance reforms in the medium term. The focus will be on strengthening the state's capacity to fulfill basic functions and deliver services on the ground, and on enhancing citizens' confidence, trust, sense of justice, and engagement in state institutions. Strengthening the capacities of civil society—especially vulnerable groups, IDPs, women, and young people—to articulate their needs and effectively engage with state institutions will be important in channeling current grievances toward constructive engagement with the Government. Similarly, promoting responsive and accountable service delivery, especially at the local level, will be critical to rebuilding the legitimacy of and trust in the state. As a key short-term priority, the Bank will explore opportunities to collaborate with the UN to support the National Dialogue and constitutional amendment process, where it can leverage its technical expertise and experience from similar exercises in other countries.<sup>52</sup>

63. *The Bank program will support the broader governance agenda through:*

- *Additional Financing (US\$5 million) to the ongoing Public Financial Management Project, which will step up the Bank's efforts to support the Government's fight against corruption.* The project will help enhance the capacity of the anticorruption agency (SNACC) to develop and implement a national anticorruption strategy. It will support the Civil Society Coalition Against Corruption, which comprises 16 CSOs that are working to enhance demand for good governance, and in doing so will work to ensure that the voices of both women and men are represented and considered. These efforts will be complemented by initiatives to strengthen internal audit through policy dialogue and support to COCA in auditing selected Bank- and donor-financed projects on a pilot basis. The Bank will continue its policy dialogue with the Prime Minister's office to develop a Transparency and Accountability Action Plan to enhance budget transparency and accessibility, introduce measures for enhanced accountability for public officials,<sup>53</sup> improve access to public procurement information, and enhance the independence of COCA.

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<sup>52</sup> The region will continue its close collaboration with the Bank's Fragile and Conflict-Affected Countries Group, the Social Development Department, and the Justice Reform Unit within the Legal Vice Presidency, and will explore the possibility of commissioning an in-depth scoping study of conflicting/affected parties and grievances at national and local levels. This study would provide an independent baseline against which the progress of the National Dialogue process could be evaluated and which would inform Bank and development partner operations.

<sup>53</sup> Proposed actions include removing immunity for higher government officials from prosecution on corruption charges, establishing special anticorruption courts, ensuring compliance of court orders, and initiating disciplinary actions against officials convicted in corruption crimes.

- An *Institutional and Capacity Needs Assessment* that would identify the gaps in government capacity to perform core functions and to effectively design, implement, monitor, and manage its significant reform program. The findings and recommendations of the assessment will be expected to guide the medium-term reform agenda for institutional strengthening and capacity building at central and local levels.
- A *Civil Society Assessment* that would enhance the Bank’s understanding of the emerging CSO universe in Yemen by: (i) identifying existing and new voices in civil society, including stakeholders and reform champions that have emerged since the transition; (ii) assessing the functions of CSOs (such as service provision, citizen voice, and participation) and of the Government (including line ministries and local governments); (iii) evaluating the potential strengths and weaknesses of CSOs in performing functions in partnership with the appropriate level of government; and (iv) fostering policy dialogue among line ministries, local governments, and civil society to develop a common understanding of the complementarities and efficiency gains needed to achieve Yemen’s institution- and state-building goals.
- A *Civil Society Support Project in FY2014*, informed by the Civil Society Assessment. Given the importance of bottom-up approaches in enhancing inclusion and addressing grievances, the project would aim to equip CSOs with greater capacity to provide select services complementary to those of Government, to conduct third-party monitoring, and to promote citizen voice and participation, in addition to helping CSOs strengthen their internal governance. The project would include a youth component to capitalize on and support institution building in the youth movement, including by helping to establish independent youth platforms to enhance their participation and influence at the local and national levels. The project would complement the Bank’s ongoing efforts to enhance inclusion and participation through its existing portfolio.

64. *The Bank will employ lending and nonlending services to support the evolving decentralization agenda and the debate around restructuring of the state as key components of the National Dialogue.* The main focus would be on undertaking diagnostic work that seeks to identify the sources of local conflict and grievances, and constraints to effective local governance and service delivery. This work would enhance the Bank’s understanding of decentralization issues in Yemen (including aspects of accountability, fiscal and administrative devolution, capacity, and incentives), and inform policy dialogue as well as the prioritization and sequencing of potential future Bank involvement in this area, with the ultimate objective of bringing government closer to its citizens.

- A *Yemen Decentralization Initiative NLTA, supported by the MENA multidonor trust fund (MDTF)*, would aim to contribute to the policy dialogue on enabling effective decentralization of the state, efficient intergovernmental systems, and strengthened local service delivery. By facilitating knowledge exchanges with other countries and building local awareness, the NLTA would help Yemenis establish rules and build capacity for a more transparent and equitable intergovernmental fiscal system; help strengthen the effectiveness and social connectivity of local councils; and start embedding systems of transparency, accountability, and participation in local development—thus helping to promote a more accountable and inclusive state, while responding to underlying sources of conflict.
- A *State and Peace-building Trust Fund (SPF)-financed local governance and service delivery pilot* would complement the Yemen Decentralization Initiative, and would work to strengthen service delivery mandates in selected governorates. The objective would be to explore modalities of local governance that enhance transparency, participation, and accountability, and systematically work to empower citizen and community voice as a means to prioritize and deliver local services, address local development needs, manage the commons, and enhance social cohesion. The proposed initiative would include: (i) local governance pilots in select governorates and local

councils to test responsive and effective modalities of local governance and development; (ii) support to the central government, participating governorates, local councils, and other stakeholders in strengthening local governance systems; and (iii) robust evaluation of the process and its impacts.

- Provided there is sufficient progress on the decentralization agenda in the context of the National Dialogue, experiences gained through the above initiatives could inform the preparation of a *proposed Local Service Delivery Project (timing and amount to be confirmed)*. In close coordination with UNDP's ongoing Local Government Support Project and drawing on the insights of the above NLTA and pilot work as well as lessons learned in the Bank's long experience in supporting decentralization initiatives around the world, this project would aim to equip local authorities with greater discretion, resources, and capacities to help them fulfill public expectations for more transparent and accountable services and to bridge the gap between the state and its citizens, thus aiming to address some of the stresses and institutional deficits that cause repetitive cycles of conflict and violence.

65. *The Bank will explore opportunities to strengthen capacity for social accountability through the Affiliated Networks for Social Accountability (ANSA)-Arab World partnership<sup>54</sup> and by incorporating relevant approaches and tools into existing and upcoming Bank operations.* The Yemen ANSA members promote dialogue on access to information and services, including budget transparency. Additionally, existing social accountability approaches in the urban, water, and social protection sectors are being integrated into Bank operations and expanded to other sectors.

#### **F. Implementing the ISN Program**

66. *The Bank Group intends to use the full spectrum of available instruments, policy dialogue, proactive portfolio management, and a new IDA-supported lending program to implement the ISN.* The strategy's guiding principles (paragraphs 47–50) and GAC principles (footnote 40), as well as the lessons learned from previous Bank engagement in Yemen (paragraph 43), will guide implementation. In light of the events of 2011, implementation of the Bank Group program will require stronger partnerships with civil society and private sector actors who could continue implementation, monitoring, and evaluation of projects and delivery of much needed services during times of crisis. Similarly, the potential value-added of alternative implementation arrangements, including independent verification and third-party monitoring, will be explored to ensure appropriate implementation and fiduciary oversight. The ISN program will seek to make better use of available instruments, including emergency lending, output-based aid, the Program for Results, additional financing, and repeater projects to overcome structural problems inhibiting implementation progress. Box 4 provides an example of how these principles are being put in practice under the Bank's ongoing health portfolio.

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<sup>54</sup> Formally launched in March 2012, ANSA-Arab World is a platform for engagement and dialogue with CSOs, government, media, and the private sector with the aim of improving service delivery and addressing governance challenges by raising awareness of participatory governance and social accountability, and by building capacity to implement social accountability tools through training and action-learning programs.

#### **Box 4: ISN Implementation – The Overriding Objective and Guiding Principles in Practice**

Interventions in the health sector provide an example of how the Bank could translate the overriding objective and guiding principles of the ISN into tangible changes to the design and implementation while taking the country context of fragility, uncertainty, and low capacity into account.

- **To focus on confidence-building measures and results**, Bank-financed projects have been designed to invest in delivering health services directly to project beneficiaries. The Health & Population Project (HPP) has established an outreach-based service delivery model. This approach is intended to motivate staff in fixed health facilities to expand the delivery of maternal and child health services at the community level through establishment of selected referral centers for needy cases. National drug distribution campaigns based in schools and communities were organized to promote treatment of Schistosomiasis and other parasitic infestations under the Schistosomiasis Control Project (SCP). The Safe Motherhood Project (SMP) and the Healthy Motherhood Project (HMP) deliver maternal health for poor eligible women in the Sana'a governorate while the SWF receives cash transfers under the Nutrition-Conditional Cash Transfer Project (Nutrition-CCT) to provide nutrition services directly to beneficiaries.
- **To intensify participation and inclusion**, the Bank introduced innovative models to deliver services by contracting private sector providers under the SMP and contracting NGOs under the HMP, as well as by targeting usually those who are excluded in these communities. In addition, both the HPP and the SCP are being implemented using local government organizations at the governorate and district level with adequate time and funds allocated for proper micro-planning at that level within the context of national planning guidelines. Outreach services are seen as an integral part of the service delivery model in Yemen and an evaluation is planned to assess its impact on project beneficiaries.
- **To strengthen institutional capacity and improve governance, transparency, and accountability through enhanced operational flexibility**, the project explored suitable alternative measures for ensuring quality and fiduciary standards, including the use of independent third-party technical monitoring and financial auditing/verification firms (nongovernmental organizations or private sector firms) during project implementation. The capacity of different local public governmental and non-governmental organizations at the governorate and district level is taken into account in project design.
- Further, strategic partnerships were established with key development partners in the health sector, including WHO, UNICEF, UNFPA, and the Schistosomiasis Control Initiative (SCI), with emerging collaboration in the area of nutrition with DFID.

- **Portfolio and pipeline management**: While proactive management of the portfolio and support to the implementation of active projects will remain the principal priority for IDA and IFC, the short-term needs and the medium-term development agenda will also be supported through the preparation and initiation of new development projects consistent with government priorities.
- **Trust funds**: IDA will seek to deploy additional trust fund resources to enhance its responsiveness and flexibility—in particular, the MENA MDTF, SPF, the Global Food Crisis Response Program, the IDA Crisis Response Window, the PPCR, and the Global Partnership on Output-Based Aid.
- **IFC investments**: Within the constraints of the current uncertain political and economic situation, IFC will make available a mix of investment instruments, including debt, equity, guarantees, and/or refinancing products. IFC will focus on increasing south-south investments into Yemen, particularly from GCC investors, while helping to mobilize external investors into the country through participation in the financing of its projects (for example, B Loan participations and parallel loans).
- **Nonlending program**: The nonlending program will focus on providing just-in-time policy advice and sharing global good practice to support the Government in analyzing longstanding challenges and designing appropriate interventions. This work will emphasize capacity building—especially for procurement, financial management, and local service delivery at the governorate level. The nonlending program will promote outreach to the private sector, civil society, young people, and women's groups to increase their participation in public policy debate. IFC will selectively deploy AS in areas where there is strong private sector demand (such as microfinance, SME development, and corporate governance). It is expected that, over the medium term, an AS program of capacity

and institution building would help lay the foundations for investment once the political and security situation stabilizes.

- **World Bank Institute:** The Bank Group’s efforts will be complemented by WBI activities that focus on strengthening the capacity of demand-and supply-side actors, as well as improving the processes and mechanisms for state-citizen engagement. WBI initiatives will contribute to the country program’s development goals by supporting access to information, citizen engagement in policy and budget formulation, strengthening of the ANSA-Arab World partnership, global platforms on governance topics, and south-south/peer-to-peer knowledge exchange.

## **G. Partnerships and Donor Coordination**

67. *The total aid volume mobilized by Yemen quadrupled from an average of US\$300 million per year before 2006 to roughly US\$1.2 billion per year during 2006–2010.* The increase in overseas development assistance (ODA) is attributed to the entry of Arab donors (particularly GCC donor countries), which represent half of overall ODA (Annex 6). Disbursement and absorption capacity continue to be of concern, and the diversity of aid partners in Yemen and the multiplicity of aid agendas have taxed the Government’s management and coordination capacity. The TPSD has introduced a structure to help streamline aid behaviors and practices during the transition period, establishing a “Strategic Partnership Forum” to institutionalize aid effectiveness practices, improve donor harmonization and alignment with the TPSD and its PIP, and enhance dialogue and monitoring and evaluation at the policy and sector levels. In coordination with a donor working group, the Government prepared and presented at the Yemen Donors Meeting a Mutual Accountability Framework (Annex 1) that aims to define roles and responsibilities of the Government and donors, and monitor the effective implementation of the commitments pledged for the transition period.

68. *The Bank Group will continue to play a critical role in donor resource mobilization and coordination during the transition.* The World Bank will also continue to co-chair with the UN the Donor Coordination Forum, which has served as an efficient venue for enhanced in-country donor dialogue and information sharing. Specifically, the Bank Group will:

- Continue to work closely with other donors, including GCC partners, to strengthen cooperation, improve harmonization, and ensure consistency of policy messages.
- Support the preparation of high-level donor events to ensure due attention to prominent issues and help coordinate resource mobilization.
- Strive to play a leadership role, through IFC, in coordinating donors’ private sector engagements and actively encouraging south-south investments, particularly from GCC countries.
- Continue to work with the UN to strengthen the Government’s capacity to coordinate international assistance. Priorities during the ISN period will include: working with MoPIC to rationalize and improve the efficiency of aid coordination structures; strengthening aid monitoring and tracking capabilities; improving monitoring and evaluation systems; and working with donors to improve the coherence, alignment, and prioritization of international assistance—with a focus on transition-period priorities.
- Seek to identify opportunities at the sector and project level, to develop and strengthen partnerships with other multilateral, regional, and bilateral partners to mutually leverage expertise and resources in support of common priorities, and based on the comparative advantages of each institution<sup>55</sup>.

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<sup>55</sup> At the request of several key donors, the Bank had prepared and distributed to the Donor Coordination Forum in Sana’a (January 2011) a technical paper outlining the objectives, priority areas, implementation, and governance arrangements of a possible MDTF. This work could be re-launched in the future provided that there is renewed interest from the Government and a critical mass of financing commitments from the

## H. Monitoring and Evaluation of Results

69. *The Bank Group's performance will be measured against its contributions to the Government's priorities as proposed in this ISN.* Given that Yemen has undergone radical changes and that development priorities have altered since the 2010–13 CAS, a revised results framework has been prepared covering CAS performance up to the onset of the 2011 crisis together with expected results under this ISN (Annex 5). This revised matrix will be used to prepare a CAS Completion Report at the end of the ISN period, which will feed into a full CPS beyond 2014. Expected outcomes and corresponding indicators have been drawn directly from ongoing and new programs to show the links between government priorities, Bank Group activities, and expected ISN results. An effort has been made to ensure that indicators adequately reflect factors of fragility and conflict and are sufficiently disaggregated to measure results for key population groups—particularly women, young people, IDPs, and those in disadvantaged regions. Implementation Status and Results Reports and Implementation Completion and Results Reports will be used to monitor program performance, and the Bank will continue to hold regular Country Portfolio Performance Reviews to evaluate program performance jointly with Yemeni counterparts. Following on the review undertaken during the portfolio suspension in the latter half of 2011, sector portfolio reviews will be carried out regularly throughout the life of the ISN to identify implementation bottlenecks and restructuring needs. IFC's engagements will be measured against project-level outputs and outcomes, and improvements in portfolio performance.

## IV. RISKS TO THE INTERIM STRATEGY AND MITIGATION MEASURES

70. *Inadequate commitment, or resistance, to Yemen's transformation agenda and societal demands by political elites could provoke renewed instability and violence and undermine investor confidence.* While the popular protests in 2011 were led by a wide array of national actors and interest groups, their participation in the political process remains limited, and the political transition process remains largely under the purview of established political figures elites. The risk of “elite capture” is thus significant and could create pressure to contain demands for radical changes in governance. This could provoke further unrest and violence among stakeholders who feel marginalized or dissatisfied with the pace of change. Although this is an exogenous risk for the Bank Group, the ISN's strategic focus on helping the Government achieve quick wins and produce tangible short-term results is intended to assist in stabilizing the transition and mitigating the potential for destabilization and renewed violence.

71. *Continued political instability and security risks could threaten gains made.* With ongoing civil conflicts, threats from AQAP, and tribal dissent, social and political instability continues to put pressure on an already fragile political situation. These tensions are threatening the political gains made in this transition period and pose considerable risks to Bank Group operations in the country. Many areas of Yemen are already inaccessible to Bank Group staff due to ongoing security concerns, and the situation on the ground remains uncertain. The Bank Group is closely monitoring the situation through a small group of core staff based in Sana'a. The Bank Group is currently allowing essential missions to Sana'a and encouraging the use of reverse missions in other countries as a means to facilitate program implementation. Given the fluidity of the situation, the Bank Group will continue to regularly assess the country context (including political and security dimensions, as well as the ability of the Government to satisfactorily implement Bank programs), and will seek to maintain operational flexibility to adapt to changing needs and demands on the ground. While the Bank Group will do all possible to remain engaged and contribute to Yemen's development efforts, it would have to significantly scale back operations and staff presence if the security situation were to deteriorate substantially and rapidly, to ensure the safety of staff and the fiduciary integrity of operations.

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international community. The Bank is also continuing to explore co-financing opportunities with interested development partners to scale up ongoing or upcoming programs.

72. *Exogenous factors such as a renewed global economic downturn, spike in non-oil world commodity prices, or a sharp decline in oil prices could have a serious impact on Yemen's fiscal and economic framework.* Current macroeconomic challenges pose short-term risks, which could have a politically destabilizing effect. Ongoing fuel shortages and electricity disruptions, the reluctance of banks to provide credit to the private sector, and the tenuous fiscal situation have the potential to undermine an already fragile economic situation. The Bank is closely monitoring the situation and stands ready to provide rapid assistance to address these pressing concerns. In this regard, the Bank is working with the IMF and other development partners to help the Government improve economic management during these challenging times.

73. *One of the ten most food insecure countries in the world, relying heavily on food imports, Yemen is particularly vulnerable to external food price shocks.* The recent surge in global grain and oil seed prices has renewed concerns about food security in Yemen, not only as a threat to the fiscal and economic framework and poverty reduction efforts, but also to social cohesion and the stability of the transition. Cognizant of these risks, the ISN proposes financial and technical assistance to support the Government at both the central and community levels to address price volatility risks in the short term. The proposed Emergency Recovery Grant (US\$75-100 million) aims to ensure that most critical social expenditures in the approved national budget (for health and education, for example) are executed and incremental expenditures that could help address a potential food security crisis are supported. In addition to the Bank's already significant ongoing support to Yemen's social safety, through the Public Works Program and SFD, the ISN proposes Additional Financing of US\$25 million for the SFD with the aim of creating short-term income opportunities targeted to poor young people and to women running community nutrition programs. The Bank will also continue its dialogue with the Government on a medium-term agenda to be tackled under the next CPS, possibly including policy changes and investments to improve health and nutrition outcomes, facilitate trade and transport of food, rationalize water use, and enhance the resilience of domestic agricultural systems.

74. *Lack of sufficient progress in strengthening governance, and particularly in improving the transparency and accountability of decision making, could lead to disillusionment.* The desire for greater attention to governance and accountability was one of the principal causes of the 2011 protests and, ultimately, the country's political transformation. Without sufficient progress in this area, this dissatisfaction will remain and threaten the fragile political gains made. The Bank has an active governance program in Yemen, which aims to help strengthen the Government's ability to improve transparency and fight corruption. In addition, the ISN's renewed emphasis on participation, inclusion, and accountability, together with its proposed support to the decentralization agenda, will help enhance governance and mitigate this risk. Difficulty in building the capacity of the local private sector and sponsor issues may undermine IFC's ability to increase its investment portfolio. Under such a circumstance, IFC will strive to increase partnerships with foreign investors interested in Yemen, and continue to focus on engaging in the country through its AS program

75. *Government ownership of a medium-term reform agenda will be critical.* The ISN objectives are in line with many of the aspirations that led to the revolution and are consistent with TPSD goals. There is a risk, however, that the Government would not move forward on reforms if they were to prove unpopular or create further social disruptions, particularly given the Government's short mandate. The Bank Group will draw on an open dialogue with Government, civil society, and other partners to maintain realistic expectations of what can be achieved during the transition. The ISN's focus on quick, visible results in the short term, while laying the groundwork for medium-term progress, will provide the framework for such dialogue and assist in keeping due attention on longer-term challenges.

76. *Lack of sufficient job opportunities, specifically for large unemployed youth cohorts with limited opportunities for voice and participation, may exacerbate conflict risks.* The Bank program will strive to bring renewed focus on youth issues through its proposed lending and nonlending services under the ISN,

including: (i) a stocktaking exercise to review youth-specific needs and demands in the aftermath of the 2011 events; (ii) support for a labor-intensive works program targeted to young people; and (iii) support for enhanced youth engagement and participation through the Civil Society Support Project.

77. *Weak institutional capacity and fiduciary risks could hold back progress toward program objectives.* There is a continued risk of misuse of funds made available under Bank-financed operations. A secondary risk is that “ring-fenced” fiduciary arrangements may continue to undermine institutional capacity development. The Bank will continue to shift its focus from “supervision” to sustained implementation support by making capacity building components an integral part of each project’s design and implementation, with appropriate performance indicators, outputs, and outcomes, and by providing continuous support to line ministries on project management activities. The Bank will conduct an Institutional and Capacity Needs Assessment TA to identify gaps and inform the medium-term reform agenda. The Bank will also continue to explore suitable alternative methods for ensuring quality and fiduciary standards, including through the use of independent technical auditing and financial firms during project design, and of independent third-party monitoring and verification agents (including nongovernmental organizations and private sector firms) during project implementation.

78. *Given Yemen’s vulnerability to climate variability, climate change, and natural disasters, another event like the 2008 floods could deepen the crisis-related impact on poverty, food security, livelihoods, and access to social services.* The Bank has been providing substantial financial and technical assistance to help respond to natural disasters and prepare a national strategy to increase resilience to the impact of climate change. The Bank will continue to pursue these efforts through existing IDA and Global Environmental Fund (GEF) programs, through support to the priority elements of the climate change strategy under the PPCR umbrella, and through TA to strengthen the capacity of relevant government institutions. The Bank will also explore opportunities to provide exceptional assistance to support recovery efforts if or as may be needed.

## Annex 1: GoY Mutual Accountability Framework



DRAFT

Government of Yemen

**Mutual Accountability Framework (MAF)**

Economic Transition Priorities

Yemen Donor Conference, Riyadh 4th September 2012

### Introduction:

At the Yemen Donor Conference, 4<sup>th</sup> September 2012 in Riyadh, the Government of Yemen and its Development Partners, reaffirmed their partnership through Yemen's transition and agreed on a Mutual Accountability Framework (MAF). The MAF draws on the Gulf Cooperation Council (GCC) brokered political initiative and its implementation mechanism, signed on 23<sup>rd</sup> November 2011 in addition to the UN Security Council Resolution 2014 and most notably the Transitional Program for Stabilization and Development (TPSD) 2012-2014, the Resources Summary Matrix of the TPSD and the Joint Social and Economic Assessment. The Ministerial Meeting of the Friends of Yemen Group in Riyadh, on 23 May 2012, has also reaffirmed the commitment of the international community to support Yemen's economic transition.

The MAF presents a realistic approach to key economic policy reforms that complement political and security related reforms under the ongoing GCC political initiative and its implementation mechanism. The framework builds on government ownership and guides flexible, effective and relevant engagement of all partners during the transition. The MAF contributes towards the overarching goals set out by the Government of Yemen to *restore political, security and economic stability and enhance state building*<sup>56</sup>.

### Section One: International Good Practice Principles Guiding the MAF

- Capacity building is an integrated approach in the delivery of the MAF.
- National ownership should be respected and promoted by all stakeholders.
- International cooperation should be aligned with national priorities.
- Aid should be predictable, transparent and go to key priorities of the government.
- Monitoring of implementation including benchmarks should be established to enhance accountability and sustainability and the monitoring should include citizens' representatives.
- Good governance has a direct bearing on development performance across the transition agenda and must display tangible improvements to the citizens in the transition period.
- Business as usual should be discontinued to create a successful transition.

### Section Two: Framework Pillars

The framework pillars of the MAF (below) are proposed on the basis of namely the TPSD (2012-2014) and its Resources Summary Matrix. The MAF proposes *key actions* of mutual accountability to be carried out by the Government and the donors during the transition period. Other actions listed in the Resource Summary Matrix will also be implemented, but the MAF boils down the many actions of the Resource Matrix to those that the Government and donors proposed are the most realistic to be able to measure given the limited time span of the transition period.

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<sup>56</sup> Overarching goal of the TPSD.

*Finalizing the Peaceful Transfer of Power and Restoring Political Stability, and Achieving Security Stability and Enhancing the Rule of Law* is of highest priority for the Government of Yemen, but the actions are not included in the MAF matrix, as the priorities are implemented and monitored within the GCC Political Initiative and its Implementation Mechanism.

***Pillar I. Work towards Coherence between the Priorities of the Budget, the Public Investment Plan (PIP) and the TPSD.***

*(Draws on Short Term Priorities, Policy Action 4: Achieve Macroeconomic Stability of the Resources Summary Matrix).*

***The Government confirms to:***

- Ensure coherence between the TPSD, the PIP and the budget in order to implement key short-term priorities and accelerate key medium term priorities.
- Continue the implementation of stable macro-economic policies and keep engaged in a conducive dialogue with the IMF, beyond the completion of the ongoing program under the Rapid Credit Facility.

***The Development Partners confirm to:***

- Commit to allocate financial pledges in accordance with priorities of TPSD and the PIP by the end of 2012 at the latest, reflecting the urgency of the transition.
- Provide indicative disbursement plans before the end of Yemen's fiscal year 2012.
- Re-align un-committed pledges including those from 2006 to the extent possible to priorities identified in the Transition Program and PIP.

***Pillar II. Create Employment Opportunities particularly for Youth and Women.***

*(Draws on Medium Term Priorities 1: Revive Economic Growth; 2: Improve Infrastructure; and 4: Develop human Resources and Enhance the Role of Youth and Women).*

***The Government confirms to:***

- Promote labour intensive public works where possible to maximise employment.
- Adopt more conducive policies for micro, small and medium enterprise development and expand micro and SMEs programs.
- Establish a conducive environment for attracting Foreign Direct Investment from the GCC and other countries.

***The Development Partners confirm to:***

- Direct existing and new programs in ways that strengthen employment opportunities targeting youth and women.
- Provide financial and technical assistance to promote micro, small and medium enterprise employment, particularly targeting youth and women.
- Support the government to create a conducive environment for the private sector to participate in these efforts.

***Pillar III. Good Governance, Rule of Law and Human Rights.***

*(Draws on Medium Term Priority 6: Support for Good Governance and State Building)*

***The Government confirms to:***

- Take the necessary steps to allow investigation, prosecution and trial of high officials charged with corruption.

- Initiate administrative action against civil servants against whom competent courts have issued conviction orders.
- Ensure autonomy of the Anti-Corruption Commission and establish an anti-corruption court.
- Observe budget transparency – including revenues from oil and gas and other natural resources.
- Initiate practical steps towards realizing the autonomy of the Central Organization for Control and Auditing (COCA).
- Observe independent and transparent merit-based recruitment through vetting process of senior civil service appointments,
- Implement the program to remove ghost workers and double dippers in the civil service system including the military and security.
- Release those that have been detained without charges.

***The Development Partners confirm to:***

- Provide financial and technical assistance to support public accountability and anti-corruption and human rights.

***Pillar IV. Increase effectiveness of key service sectors, and partnering with the private sector in PPP.***

*(Draws on Medium Term Priority 5: Enhance the Role of the Private Sector and Improve the Business Climate).*

***The Government confirms to:***

- Finalize and submit to parliament PPP and special economic zones legislation.
- Initiate pilot PPP transactions in infrastructure sectors.
- Implement power sector reforms for scaling up investment and efficient service delivery.

***The Development Partners confirm to:***

- Provide Technical Assistance (TA) in the finalization of the PPP legislation, and the special economic zones legislation.
- Provide TA and financing for launching pilot PPP projects.
- Provide financing and TA for power sector reforms.

***Pillar V. Meet Emergency Humanitarian and Material Needs and Deliver Basic Services to Citizens***

*(Draws on Short term Priority 3: Meet urgent Humanitarian and Material Needs and Medium Term Priority 3: Expand Social Protection and Safety).*

***The Government confirms to:***

- Expand food for education programs.
- Establish consolidated programs to address malnutrition.
- Improve the effectiveness and targeting mechanisms of the Social Welfare Fund.
- Implement re-construction of affected regions.

***The Development Partners confirm to:***

- Provide direct budget financing for the Social Welfare Fund.
- Provide financing for re-construction and service rehabilitation.
- Provide technical Assistance and financing in the fields of malnutrition and conditional cash transfers under food for education schemes.
- Assist the government with communication outreach to citizens nationwide
- Finance to the extent possible the full cost of projects.

### ***Pillar VI. Civil Society Empowerment and Partnership.***

*(Draws on Short term Priority 3: Meet urgent Humanitarian and Material Needs and Medium Term Priority 3: Expand Social Protection and Safety).*

#### ***The Government confirms to:***

- Establish a partnership framework with civil society organizations.
- Expedite the finalization of civil society organization legislation and bylaws.
- Engage civil society organisations as partners and active players in the transition and the short and medium term development agenda.

#### ***The Development Partners confirm to:***

- Provide financial and technical assistance to enhance the capacities and empowerment of civil society organizations to become effective development partners.

### **Section three: Monitoring and Dialogue Structure**

The Government of Yemen and the Development Partners agree to establish an institutional mechanism to review and monitor the progress of implementation of the MAF. Monitoring and dialogue will enable decisions to accommodate changing realities in the transition period and optimize resources to meet the priorities of the government.

Post the Yemen Donor Conference, the government and partners shall come together and establish within 3 months a technical secretariat, and a light and efficient monitoring and coordination mechanism to review progress of implementation of this document against a set of a manageable number of indicators to be established in a form of a matrix.

A structured dialogue for post-conference coordination and monitoring is envisaged to be co-led by the Government of Yemen and the two co-chairs of the Yemen Donor Conference (i.e., the World Bank and the Kingdom of Saudi Arabia) as follows:

1. *High-level policy dialogue* on bi-annual basis or as needs arise.
2. *Head of Agency – level in-country dialogue* every 3 months.

Civil society and private sector representatives will be part of the monitoring and dialogue processes. Manageable modalities should be developed.

## Annex 2: Bank Efforts on Portfolio Restructuring

To more effectively respond to Yemen's needs and emerging priorities, the World Bank undertook a review of its portfolio in FY2012. The primary goals for this exercise were to evaluate the relevance and performance of the portfolio's active projects in view of the changing country context and priorities, to identify implementation bottlenecks, and to explore potential remedies to strengthen progress toward achieving project development objectives. The portfolio review was also intended to better align the Bank program with the emerging needs of the country, to make more effective use of scarce IDA and administrative budget resources, and to eliminate fragmentation of tasks given the limited institutional capacity in the country. The Bank has been working closely with the Government to follow through on the portfolio review's recommendations regarding restructuring or partially or fully cancelling projects or components as needed to meet the above objectives.

The current IDA portfolio in Yemen includes 19 projects with US\$760 million in commitments, of which about US\$494 million is yet to be disbursed<sup>57</sup>. Up to the start of the 2011 crisis, Yemen's portfolio implementation progress, disbursement performance, risk levels, and outcome indicators were comparable to Bank-wide IDA averages (Table 1). In particular, Yemen's disbursement ratio was at or above IDA averages between 2006 and 2010, before falling dramatically in the wake of the events of 2011 and the Bank's subsequent six-month suspension of disbursements during FY2012.

**Table 1: Yemen Portfolio Risk and Disbursement Ratings by FY**

	2006	2007	2008	2009	2010	2011	2012
<b>Disbursement Ratio %</b>							
Yemen	25.6	27.6	23.3	25.8	23.7	12.2	8.3
IDA Average	26.2	23.5	20.8	22.8	24.8	21.6	22
<b>Commitment at risk %</b>							
Yemen	2.8	21.8	0.0	11	37.6	42	76.7
IDA	15.7	16.8	21.5	19.5	24.1	18.3	17.8

Similarly, before the portfolio suspension, the share of unsatisfactory project exits in the Yemen portfolio was around IDA averages (Table 2). While implementation progress and disbursements have started picking up since the lifting of the suspension, the Bank expects that it will take time for Yemen's portfolio indicators to recover and that the portfolio will need persistent and proactive attention over the next several months. The impact on the portfolio is likely to be more evident for projects exiting in 2011 and 2012.

**Table 2: Percentage of Outcomes Rated Unsatisfactory as Measured by the World Bank's Independent Evaluation Group**

	FY95-FY99	FY00-FY04	FY05-FY09	FY10-FY12 <sup>58</sup>
Yemen	32	30	33	50
IDA	36	28	27	33

As noted, the Government of Yemen and the Bank are working together to implement the portfolio restructuring plan. This restructuring exercise focuses on restructuring and partial or full cancellation of a number of projects in key sectors (Table 3). The cancellations of IDA resources from ongoing underperforming projects, or from projects that are no longer aligned with the current needs, are expected to be returned to the Yemen IDA envelope to be committed for emerging new priorities<sup>59</sup>.

<sup>57</sup> Data as of September 26, 2012. Business Warehouse.

<sup>58</sup> Data based on exits that have been evaluated to date.

<sup>59</sup> Subject to the IDA provisions for the recommitment of such resources. Current estimates of the funding amount that could be returned to the Yemen's IDA envelope as a result of potential cancellations are around US\$55 million.

**Table 3: Portfolio Restructuring Plans**

<b>Sector</b>	<b>Project</b>	<b>Action</b>	<b>Amount expected to be cancelled</b>
<b>Finance and Private Sector Development</b>	Institutional Reform Development Policy Grant (P101453)	Second tranche cancelled (in September 2011) due to the prevailing macroeconomic environment in the country following the onset of the 2011 events.	US\$25m
<b>Education</b>	Basic Education Project (P076185)	Restructured with a partial cancellation of US\$7.7 million, reallocation of the proceeds, and revision of the results framework	US\$7.7m
	Second Vocational Training Project (P086308)	Full cancellation in process	US\$14-15m
<b>Agriculture and Rural Development</b>	Fisheries Resource Management & Conservation Project (P086886)	Restructured with a partial cancellation of US\$2.7 million, reallocation of credit proceeds among eligible expenditures, and revision of the results framework	US\$2.7m
	Rainfed and Agriculture Livestock Project (P089259)	Restructuring processed, including: (i) adjustments to the scope of remaining project activities; (ii) modification of project implementation arrangements; (iii) reallocation of proceeds; and (iv) removal of all procurement thresholds from the Development Credit Agreement and their transfer to the Procurement Plan	
<b>Water</b>	Water Sector Support Project (P107037)	Restructuring Package under preparation to revise project development objectives	
<b>Urban Development</b>	The Bank is working with the Government to reconfigure 3 projects (Flood Protection and Emergency Reconstruction, Port Cities Development II, and Integrated Urban Development) with a view to consolidating them under one PMU while maintaining all existing contract commitments. Immediate actions in process are below:		US\$4-8m
	Flood Protection and Emergency Reconstruction Project (P070092)	Restructuring package under preparation	
	Port Cities Development Project II (P088435)	Restructuring in process to update project implementation arrangements and update project costs	
<b>Energy</b>	Rural Energy Access Project (P092211)	The Government and the Bank agreed to reassess implementation status in October 2012 to decide whether to cancel or continue the project. Total commitments amount to US\$25 million.	
	Power Sector Project (P086865)	The Government and the Bank agreed to reassess implementation status in October 2012 to decide whether to cancel or continue the project. Total commitments amount to US\$50 million.	

## **Annex 3: Summary of ISN Consultations**

### **1. The Process**

The World Bank's experience in Yemen has demonstrated the critical importance of communication and two-way partnerships in designing sound and sustainable programs, implementing them well, and building trust of client governments and citizens alike. This has been the case throughout the Bank's long engagement in Yemen, and became more acutely evident as the 2011 crisis unfolded. As a result, this ISN has taken intensifying participation and inclusion as a guiding principle in the selection, design, and implementation of the program, both in an effort to help the Government strengthen its communication vis-à-vis citizens and as a guide to the Bank's own interactions in the country. In the current transition environment, it is also important for the Bank to raise awareness of its activities and operations while gathering feedback from a wide variety of sources.

The first step in this process has been a broad program of consultations undertaken in June and July 2012 in the context of the elaboration of this ISN. Due to the prevailing security situation in Yemen, consultation efforts were limited to those undertaken in Sana'a (with representatives from the Government, civil society, the media, the private sector, and donor organizations) and those conducted during reverse supervision missions outside the country (with counterparts from line ministries involved in health, education, environment, urban development, social protection, water, agriculture, and irrigation). Initial consultations held with youth, women, the private sector, and CSO groups as part of a stakeholder mapping exercise in March 2012 also provided invaluable feedback.

Consultations with government counterparts included representatives from the Ministry of International Cooperation and Planning, Ministry of Finance, Ministry of Public Health and Population, Ministry of Education, Ministry of Higher Education and Scientific Research, Ministry of Local Administration, Ministry of Social Affairs and Labor, Supreme Council for Education Planning, Skills Development Fund, Ministry of Agriculture and Irrigation, Environment Protection Authority, Civil Aviation and Meteorological Authority, National Water Resources Authority, Agricultural Research and Extension Authority, Social Fund for Development, and Social Welfare Fund.

Discussions were also held with members of parliament, youth, women, local and international NGOs, and the donor community. Consultations with representatives from the private sector included separate roundtable discussions with: (i) microfinance banks and SMEs, (ii) commercial banks, and (iii) local corporations and women entrepreneurs. In addition, at the beginning of August, a summary with most salient features of the ISN was posted on a blog, both in English and Arabic, for public review and comments.

The purpose of these consultations was to exchange views with stakeholders, to gain a better understanding of the challenges they face, to listen to different perspectives on how best to improve the quality of the Bank Group's operations in Yemen, and to help set priorities for engagement over the next 12 to 18 months.

The feedback received from the consultations is summarized below.

## 2. Consultations Feedback

Participants put forward several key messages that have informed this ISN and will continue to guide the design and implementation of its programs, within the Bank's resource envelope and in coordination with other donor activities. In addition to general agreement that the ISN pillars were correctly specified and sufficiently aligned with the needs of the country, the consultations provided the following feedback.

### **Pillar 1: Achieving Quick Wins and Protecting the Poor**

#### Issues raised by participants:

- There is a need for capacity building in government agencies, particularly to meet the current humanitarian needs.
- The presence of IDPs is becoming a burden on the health system, and there is a need for additional humanitarian services to assist this group.
- Social safety nets are in their worst condition.
- The top social protection priority is employment and income generation, especially among youth, to mitigate the increased poverty and decline in income that resulted from the political instability and economic crisis and to instill social cohesion in the country.
- These challenges are related to a skills mismatch due to poor education outcomes in the country, which necessitates reform of the technical and vocational education and training system, as well as the basic education system, with the objective of building skills that fulfill labor market needs. Corruption in the school system is considered a factor.
- The quality of basic and higher education is critical as a long-term investment.
- Health and nutrition issues need to be addressed, especially acute malnutrition and the need to stimulate demand for nutrition services.
- There have been recent disease outbreaks (measles, dengue).
- Service delivery in certain governorates is suffering more than others such as Abyan, mainly due to destruction of health facilities and movement of health staff.
- The role of the Ministry of Planning is viewed as a negative.
- Security issues need to be tackled if any development is to take place.
- The World Bank and/or Government need to do a better job of meeting the needs of poor people and to communicate better about how funds are spent to help the poor.
- There is a need to focus on infrastructure and continue support of electricity, roads, water and rural roads.
- It will be important to provide clean drinking water to citizens, especially in rural areas, to reduce/combat the spread of disease.
- Power/electricity shortage has been a contributor to poverty in Yemen
- The Ministry of Agriculture has no food security plan.

#### Ideas for addressing these issues:

- Provide immediate support to realize stability through plans that engage CSOs
- Consider an Emergency Reconstruction Program to consolidate the various funds established recently for reconstruction of war-torn areas; interested in the Bank establishing the mechanism and harmonizing procedures and norms
- Bank-led mechanisms may be strengthened (SWF) and building structures in social safety nets and social protection
- Create employment opportunities for poor people, such as through the public works program and other labor intensive investment activities

- Improve the income of youth and poor communities, especially in rural areas, by providing new job opportunities through implementation of urgent projects: water harvesting, improved marketing of agricultural products, and reuse of treated wastewater in the cultivation of cotton and flowers
- Provide support for youth capacity and institution building
- Allow local communities to implement small projects such as harvesting of rainwater through direct contracts
- Institutionalizing outreach as part of the service delivery system
- Increase access to education in poor areas to improve equity
- Revise curriculum, train trainers and teachers, etc., to better align skills with labor market needs
- Support health institutes
- Considering restructuring the Health & Population project to introduce results-based financing interventions (\$5 million), especially for those services with low demand to increase utilization of nutrition and maternal and child health and reproductive health services
- More flexible instruments for financing health activities under the project
- Expanding WB financial and technical support to address reproductive health needs in terms of availing nationwide contraceptives and capacity development
- Introduce new nutrition interventions to address acute malnutrition such as early detection, referral, and treatment especially in coastal governorates
- Establish an emergency program to support the water sector and the collapsed service institutions
- Implement pilot projects using solar energy to generate electricity and use in irrigation to reduce the cost of labor and diesel
- Focus on agriculture and fisheries sectors to create employment

## **Pillar 2: Promoting Growth and Improving Economic Management**

### Issues raised by participants:

- The Government needs to improve performance. Budget monitoring could be improved.
- There are no agreed statistics on poverty.
- Addressing the *qat* issue requires a long-term strategy, including awareness-raising activities.
- Oil subsidies accompanied by other reforms.
- There is a need for price reforms.
- Government fiscal and monetary policies result in high interest rates making accessing finance more difficult.
- Bank projects are seen as payment to consultants and travel.
- There is a need for the creation of economic zones.
- It will be important to focus on labor market needs and vocational and technical education outcomes.
- Agriculture diversification and funding markets are important.
- It is of high priority to focus on employment and income generation, especially among young people, and on private sector development
- In the current security environment, it is unlikely local or foreign firms will risk making investments. Furthermore, lack of significantly increases the cost of doing business and acts as a further impediment to new investment.
- The overall legal framework for the private sector is weak.
- The judiciary is weak, particularly with regard to commercial law and commercial disputes, and legal decisions are apt to be driven more by connections and corruption than by the law and facts.
- Most businesses prefer to find alternative forms of financing which are Sharia-compliant, but these are lacking.

- While actual tax rates are not unacceptable, their application is uneven and unfair, which creates a “tax avoiding” culture in the private sector. Tax inspections and rulings are arbitrary, and MSMEs are easy targets.
- The lack of reliable electricity, water, means of transportation make operations of commercial enterprises significantly more difficult and costly. The Government must do more to make it easier for the private sector to participate in larger infrastructure projects.
- Government tendering processes are slow.
- The environment for exporters is difficult.
- The Government does not have the capacity to implement reforms or use donor funds in an efficient and timely manner.
- It is difficult for the private sector especially MSMEs to find capable, well-trained staff.
- There is little trust in the security of bank deposits and concerns about the banks maintaining the confidentiality of client information. There are no comprehensive regulatory requirements for credit approvals. While the Social Fund for Development has a credit registry for MSEs, it is not comprehensive, nor reliable.
- The cost and availability of financing for productive sectors (agriculture, fisheries, light manufacturing) is prohibitive.
- The telecommunications sector is weak, limiting opportunities for MSMEs.
- Land is the only source of collateral for many MSMEs, but for many Yemenis it is not possible to demonstrate ownership of their land. Many Yemenis lack proper identification documents/legal address, which poses a challenge for microfinance.
- Women entrepreneurs face not only the above challenges, but also cultural and social barriers.

Ideas for addressing these issues:

- There is a need for balance in the Bank’s medium- and long-term policies.
- The Government has to take strong decisions to improve economy.
- Help strengthen management of domestic resources (e.g., through tight taxation control).
- Make public expenditures more transparent.
- Reform the subsidy system to make it pro-poor.
- Improve self-employment through training and capacity building.
- Improve access to micro-credit; microfinance banks could be helped to scale up to cover small businesses.
- Improved regional procedures and processes for customs would encourage greater exports.
- There is a need to improve technical and vocational education and skills development and to encourage entrepreneurs to take a lead in this.
- Support SME development for employment generation.
- Work to develop the institutional capacity of the private sector.
- Generate projects for youth entrepreneurs.
- Improve the Central Bank’s independence and capacity. Better supervision and regulation will improve access to finance.
- Formal mechanisms need to be developed to enhance communication and trust between the Government and the private sector.
- Provide more support to women entrepreneurs, particularly as they are involved primarily in the MSME sector.
- Improved awareness of banking and lending within the judiciary is critical. Better regulation of banks’ credit approval processes is needed. Broader rules for reporting of reliable financial information are needed.

- An improved legal environment would permit better implementation of collateral requirements, which are currently prohibitive for most borrowers.
- Banks need to develop products that are Sharia-compliant to both broaden their depositor base to provide more capital to businesses.
- SMEs in particular would benefit from a more effective leasing environment; as leasing is Sharia-compliant, this is an area where quick gains could be made.
- There is a need to develop the micro-insurance business, as microfinance banks would like to offer this product to their existing clients.

### **Pillar 3: Enhancing Governance and Local Service Delivery**

#### Issues raised by participants:

- The role of the Government is currently weak, and there is a need to strengthen the partnership and trust between the Government and citizens. Poor governance and corruption are seen as the main cause of draining resources and must be combated.
- Laws are weak and lack effective implementation.
- There is a need for governance and anticorruption initiatives given the GCC's concerns about corruption.
- There is a need to build the capacity of Government officials. Since capacity building takes a relatively long time, technical support to the Government is very much needed in the short term; advisors and experts to public sector institutions can fill the skills gaps until local capacity is developed.
- There is no vision for a tripartite partnership between Government, the private sector, and CSOs.
- There is a need to positively engage with CSOs and provide funding to improve accountability on government implementation.
- Under the current security situation, the World Bank is not able to monitor projects. NGOs need training on what monitoring is and how to work with the Government and governors.
- Capacity building for local councils, CSOs, and local NGOs is important to ensure their full participation in the development process. This will reflect on the absorptive capacity of Yemen to manage aid and development support and align it with national priorities. Transparency and monitoring and evaluation capacity building are topics mentioned by the participants were the need for improvement lies.
- CSOs in Yemen are not allowed to work in an organized environment. There is no CSO leadership, but it is important to have the right CSOs at the table.
- NGOs need predictable funding and a creation of a funding mechanism.
- There is a need to strengthen the capacity of the media.
- There is a need to capitalize on women's capacities.
- There is an absence of a comprehensive framework for other donor contributions.
- There is a need to strengthen decentralization.
- There are grievances on the part of governorates regarding central government practices.
- There is a need to reactivate cooperatives and local initiatives.

#### Ideas for addressing these issues:

- The Government should listen to the people.
- The media should play a strong role in conveying key messages.
- MPs and CSOs should be made part of any dialogue or consultations. There is a need to continuously consult with the Parliament to build a strong partnership.

- Support CSOs through the enactment of laws that regulate their work in a transparent manner and give them independence.
- Set up a coordinating mechanism to bridge the gap among the Government, private sector, and CSOs to improve the delivery of services to the people and strengthen social accountability.
- Efforts must be made to work on relevant laws, and there is a need for legislative reform to address contradictions between local and central laws.
- Donor coordination must be strengthened.
- There is a need to review progress on administrative reform.
- Consider restructuring the SFD and SWF projects in light of corruption claims.

### 3. Individual Consultation Sessions

**A. Workshop on National Education Vision and ISN Consultation. Tunis, Tunisia. June 11-16, 2012.** Discussion of the proposed ISN focused on what the Bank should consider in the coming phase of its support to Yemen. Participants felt the Bank should take the following into account in developing ISN interventions: (a) focusing on country priorities and providing necessary support; (b) providing extensive institutional capacity building through professional development and training, financed by a portion of project costs; (c) providing more support in the selection and recruitment of PIU staff; (d) considering operations that could be implemented by the private sector or CSOs; (e) avoiding high-cost projects and safeguarding against potential misuse of funds; (f) expanding the Bank’s network of consultants in Yemen; and (g) giving a higher degree of importance to project outcomes and impact over inputs and processes. The Bank was encouraged to widely disseminate the outcomes of its various activities so that lessons learned could be taken into consideration.

**B. Meeting with Representatives of the Social Fund for Development, Social Welfare Fund, and Donor Organizations. Amman, Jordan. June 17, 2012.** Participants emphasized the importance of the World Bank’s role in maintaining close and sustained support to the Government, providing guidance on priorities, and coordinating the efforts of other donors. Most participants considered the main priority to be employment and income generation, especially among young people. Labor-intensive public works, relevant vocational and technical education, and broader private sector development were seen as the main reform interventions in this regard. Infrastructure and electricity shortages were also cited as a key contributor to poverty, and participants felt that the Bank could make a useful contribution in supporting capacity building in government agencies, particularly with regard to addressing humanitarian needs, as well as capacity building for nongovernment entities to encourage their full participation in the development process. Participants felt that over-reliance on project implementation units had created parallel administrative systems with higher compensation than in the public sector, which created tensions and discouraged cooperation. The meeting emphasized the need for quick, simple, and flexible design and implementation of interventions, and urged the Bank to maintain its field presence to the extent possible to ensure smooth operations and consistent support to the country’s development.

**C. Meeting with Representatives of the Ministry of Public Health and Population, Ministry of Planning and International Cooperation, and Ministry of Finance. June 18, 2012.** Concerns raised during this meeting centered on challenges that had been made more difficult by the post-conflict context in Yemen, including interruptions in service delivery, acute malnutrition, recent and expected disease outbreaks, the importance of ensuring the availability of drugs and contraceptives, and the additional service delivery burden posed by significant numbers of IDPs. Participants emphasized the importance of institutionalizing outreach as part of the service delivery system, strengthening capacity through technical assistance and intensive supervision, and introducing more flexible instruments—including results-based financing—to finance health activities under the Bank’s ongoing projects. It was suggested that the Bank consider introducing new nutrition interventions, especially in coastal governorates; expanding its financial and technical support to address reproductive health needs; and increasing allocations to support service

delivery at fixed primary health care facilities that serve outreach teams. Participants suggested that implementation of the current portfolio could be accelerated through more frequent supervision missions and the provision of “no objections” for outreach activities.

**D. Meeting with Representatives from the Government. July 4, 2012.** Participants emphasized that the Bank Group’s support to the transition should focus on making an immediate impact and achieving tangible results. It was suggested that the Bank take the lead in social and economic development, including humanitarian aspects and reconstruction of public and private infrastructure. In addition, participants favored Bank technical support to help build government capacity. It was suggested that the Bank reference the economic plan developed by the Ministry of Planning and International Cooperation in selecting projects to support under the ISN. Other areas highlighted for Bank support included governance and anticorruption, improved quality and relevance of education, agriculture and fisheries, and institution building in the private sector to generate employment.

**E. Donor Forum. July 8, 2012.** Donor partners felt that the ISN focus areas were well aligned with the Government’s Transition Plan and would feed into donor coordination efforts during the transition. There was some concern that the initial proposed portfolio (since slimmed down) would be overly ambitious and possibly raise expectations with regard to job creation, which is difficult to measure. Participants suggested ensuring sufficient staffing resources in Yemen and streamlined project approval procedures to allow for timely disbursement within the transition context.

**F. Meeting with Members of Parliament. July 9, 2012.** Participants appreciated the consultation and suggested that the Bank continue to consult regularly with Parliament in order to build a strong partnership. Key areas of concern included reestablishing security; governance and anticorruption; infrastructure—particularly water, electricity, and rural roads; education, including higher education and vocational and technical education; social services; nutrition and health institutes; combating poverty; reviewing progress on administrative reform; price reform; accompanying oil subsidies with other reforms; supporting capacity building among Government and the media; monitoring budgets; investing in agriculture, fisheries, and transport; and strengthening safety nets.

**G. Meeting with Representatives of International NGOs. July 9, 2012.** Participants stressed the importance of an inclusive approach, ensuring that key CSOs had a place at the table. It would be ideal for consultations to take place across different parts of the country. It was suggested that the Bank would be well placed to capitalize on its knowledge and experience to help strengthen the capacity and accountability of local CSOs, which currently lack leadership skills and organizational capacity. It was suggested that NGOs need predictable funding mechanisms and more education on how to work effectively with the Government. Key sectors of concern included agriculture reform, including a long-term strategy for addressing *qat* and its impact on water, the economy, etc.; restructuring of SMEs; improved relations between central and local governments; and governance and accountability at all levels. It was suggested that the Bank revising the PIU system and consider alternative models, and that Bank-led mechanisms to support social protection could usefully be strengthened. Finally, participants suggested that the Bank pay attention to the country’s micro as well as macro needs, and to review the wealth of knowledge gained and useful work done by other donors and international NGOs.

**H. Meeting with Youth Representatives. July 10, 2012.** Participants emphasized the importance of maintaining a balance in medium- and long-term reforms and focusing on implementation, particularly in a challenging environment for project monitoring. It was suggested that the Bank and IFC take risks and find ways to innovate in order to stay engaged. Participants were particularly interested in interventions that directly met the needs of the poor and provided immediate support for stability with the engagement of CSOs and the media. Young people felt that they had previously been neglected by the Bank and hoped for a more meaningful engagement in the future. Key areas of concern included security; humanitarian relief;

labor market opportunities, especially youth employment; strengthening vocational and technical education; improved cooperation among Government, the private sector, and CSOs; support for youth capacity and institution building; gender and women's capacities; building capacity rather than providing equipment; raising awareness on the impact of *qat*; health issues; restructuring public and private institutions; addressing tribal issues; completing the legal framework; creating economic zones; and supporting SME's and microfinance activities. Participants recommended that the Bank focus particularly on governance and anticorruption, long-term investments in education, and support for youth initiatives and CSOs.

**I. Meeting with Representatives of Civil Society Organizations. July 11, 2012.** Key areas of concern for participants included education, poverty, health, gender, electricity, social services, governance and anticorruption, infrastructure development, support for youth initiatives, rural development, and decentralization. Participants emphasized the importance of building government capacity, strengthening trust in the Government, improving implementation of laws, reactivating cooperatives and local initiatives, and communicating better about the important role played by CSOs. The meeting also stressed the importance of developing the institutional capacity of the private sector, supporting SMEs and microfinance projects, strengthening the marketing of local products and crafts, and addressing excessively high interest rates. Participants recommended that the Bank focus particularly on governance and anticorruption; education, especially vocation and technical education; infrastructure, especially rural roads; and agriculture and fisheries sectors to create employment.

**J. Meeting with Representatives from the Environment Protection Authority, Ministry of Planning and International Cooperation, Ministry of Agriculture and Irrigation, Civil Aviation and Meteorological Authority, National Water Resources Authority, and Agricultural Research and Extension Authority. July 11, 2012.** Participants expressed concern about the Bank's suspension of disbursements following the crisis of 2011, sharing a feeling of abandonment during a time of need and encouraging the Bank to be open about lessons learned from the experience. They emphasized the need to support the people of Yemen in embarking on the path to sustainable development and to serve as the "development wheel" moving the development process forward during the transition period, during which the Government would also be distracted by political imperatives. Participants suggested that the Bank could play a stronger role in coordinating donors and helping to maximize synergies. Key sectors of concern were education, higher education and training, weather and climate change impacts, careful decentralization, and culturally appropriate approaches to governance and service delivery. Participants suggested that the Bank could improve program implementation by clearly linking interventions to the current national strategy, focusing on sustainability and accountability, avoiding piecemeal approaches, ensuring strong ownership, coordinating with other donors, shortening project preparation timelines to ensure quick and tangible results, addressing overlaps in projects and mission timing, learning from previous projects, and making an effort to make procedures less cumbersome. It was suggested that the Bank pay more attention to "soft" development needs such as capacity building, as compared to visible activities such as infrastructure development.

**K. Meeting with Representatives of the Water, Irrigation, and Environment Sectors. July 18, 2012.** On water, participants emphasized the importance of supporting private sector participation in providing drinking water, especially in major cities; exploring alternative sources of water; decelerating groundwater depletion; preventing illegal drilling; strengthening institutional capacities and reforming the financial and administrative system of the Ministry of Water and Environment; encouraging the expansion of rainfed agriculture and rainwater harvesting projects; reusing treated wastewater in the agricultural sector; and involving local communities in water management. It was suggested that the Bank consider establishing an emergency program to support the water sector and/or providing direct financial support to local institutions so that they could resume service provision.

On the environment, participants suggested prohibiting the use of pesticides and fertilizers.

On irrigation, it was suggested that the Bank support farmers in the critical basins through subsidized modern irrigation techniques, promoting rainfed agriculture, protecting the banks of the main *wadis* from erosion, and implementing pilot projects using solar energy to generate electricity and reduce the costs of irrigation.

On agriculture, participants suggested supporting farmers through the provision of agricultural inputs such as seeds and fertilizers, setting up a fund to support agricultural services, improving the marketing of agricultural products and providing storage space, building technical and institutional capacity in the agriculture sector, and helping to define key forest legislation and support forest nurseries.

On youth and local communities, it was suggested that the Bank help improve incomes by providing new job opportunities through the implementation of urgent projects such as water harvesting, agricultural marketing, and reuse of treated wastewater in the cultivation of cotton and flowers. Other suggestions included allowing local communities to implement small projects through direct contracts; implementing projects to improve the incomes and capacity of youth and women, especially in rural areas; implementing labor-intensive projects; supporting young graduates through employment in the water sector as well as training in research centers and universities of Yemen.

Combating poverty and corruption and promoting social accountability were also of concern, as was the Bank's current inability to mobilize monitoring missions outside of Sana'a. Participants encouraged the Bank to explore the possibility of contracting with third-party monitoring firms.

**L. Meeting with Representatives of the Private Sector and Women Entrepreneurs. July 28, 2012.**

The main issues and challenges raised by participants included political stability and insecurity, a weak legislative environment, corruption, the weak judiciary, the uneven and unfair application of tax rates, the limited trust and communication between Government and the private sector, the prohibitive cost and limited availability of financing for productive sectors, the lack of reliable infrastructure, high interest rates, the difficult environment for exporters, the lack of special economic zones to provide a reliable legal environment and reliable public services, the weak banking sector, limited government capacity, constraints to private sector participation in larger infrastructure projects for which the Government alone does not have sufficient funds, limited support for SMEs, and the difficulties in finding capable, well-trained staff. Key recommendations were to improve the independence and capacity of the Central Bank, to improve dialogue between the Government and private sector, to expand the Business Edge program, to arrange a workshop or training program to guide MSMEs through the process of applying for finance, and to provide more support to women entrepreneurs, who face additional challenges.

**M. Meeting with Representatives from Microfinance Institutions and the MSME Sector. July 28, 2012.**

The main issues and challenges raised by participants included the lack of a comprehensive, reliable credit registry with a broader (national) reach than that created by the Social Fund for Development; the lack of clear rules and regulations, combined with poor interpretation and weak enforcement; problems related to land registration and the lack of legal identification; arbitrary application of tax regulations; capacity deficiencies among MSMEs; corruption and nepotism; weak telecommunications; lack of reliable infrastructure; lack of incentives for MSMEs; few benefits to formalizing a business; a weak banking sector; constraints to microfinance institutions' ability to take deposits; and an education system that does not provide graduates with the tools they need for the modern workplace. Key recommendations were to undertake an updated MSME baseline survey to allow for a better understanding of the sector and help microfinance banks to develop more targeted products, to help develop the microinsurance business, to provide more direct support to MSMEs to help them improve their skills and technical capacities, and to develop a Business Edge program for those who are unable to read.

**N. Meeting with Representatives of Commercial Banks. July 28, 2012.** The main issues and challenges raised by participants included the weak judiciary, the lack of Sharia-compliant financing products, government monetary policies that crowd out commercial bank lending, limited public trust in the security of bank deposits and client information (despite the functioning deposit insurance scheme), the lack of reliable and comprehensive credit and financial information, ongoing power shortages, lack of formal credit approval regulations, and low banking penetration. Key recommendations were to focus on SMEs, which are not being serviced by either commercial banks or microfinance institutions; to improve awareness of banking and lending within the judiciary to strengthen regulations; to review collateral rules; to improve the availability of Islamic financing products; and to strengthen the leasing environment, which could be a “quick win,” as leasing is Sharia-compliant.

#### Annex 4: ISN Indicative Program Matrix

Pillars		FY13 Support to short term visible results	FY14 Support to medium-term development
Achieving Quick Wins and Protecting the Poor	IDA	Emergency Recovery Grant (US\$75-100m TBD) AF SFD - LIW for Youth and Food Security (US\$25m) AF Health & Population Project - OBA for Maternal and Child Health (US\$10m) Basic Education II (US\$65m)	Road Asset Management (US\$40m) <i>PPCR Funded Projects (US\$50m)</i>
	Nonlending	Household Budget Survey (FY13) Water TA (FY13-14) Gender Challenges in Yemen (FY13-14) Stocktaking of Youth Issues (FY13-14) IFC Business Edge Advisory Program	
Promoting Growth and Improving Economic Management	IDA		Institutional Modernization and Capacity Development Program (TBC)
	Nonlending	JSEA Follow-up (FY13) PPP in Infrastructure TA (FY13-14) ICT Sector Assessment (FY13) Workforce Development Benchmarking (FY13-14) IFC support for PPPs, MSME finance, and Corporate Governance	
Enhancing Governance and Local Service Delivery	IDA	AF PFM Project - Support to CSOs & SNAAC (FY13 - US\$5m) <i>SPF Local Governance and Service Delivery Pilot (tbd)</i>	Civil Society Support Project (US\$20m) Local Service Delivery Project (TBC)
	Nonlending	<i>Decentralization Initiative NLTA - MENA MDTF (FY13)</i> Civil Society Assessment ESW (FY13) Institutional and Capacity Needs Assessment (FY13)	

*Italic font indicates activities expected to be funded by Trust Funds.*

### Annex 5: ISN Results Matrix

National priorities as expressed in the TPSD <sup>60</sup>	Revised CAS outcomes (new ISN outcomes are identified with *)	Progress to date	Milestones for monitoring progress by end ISN period <sup>61</sup>	Bank Program (proposed new program for ISN period in bold) <sup>62</sup>
<b>STRATEGIC OBJECTIVE 1: ACHIEVING QUICK WINS AND PROTECTING THE POOR</b>				
Strengthen human resource development 3.2	Improve basic service delivery, including education and health with a focus on poor communities	<ul style="list-style-type: none"> <li>• 3,400 primary classrooms constructed and rehabilitated</li> <li>• 90,000 teachers trained</li> <li>• Girls' enrollment in basic education increased by 17.5% and the Gender Parity Index improved from 0.7 to 0.77 in the 10 governorates targeted by the Basic Education Development Project</li> </ul>	<ul style="list-style-type: none"> <li>• 44 secondary schools in 5 governorates rehabilitated through the ongoing Secondary Education Development and Girls' Access Project</li> <li>• New academic programs responding to labor market needs implemented in 8 public universities through the ongoing Higher Education and Quality Improvement Project</li> <li>• National Education Vision for Yemen endorsed by the Government through joint WB/UNESCO TA</li> </ul>	<b>Basic Education II (New IDA)</b> Basic Education Development, Secondary Education Development and Girls' Access (SPN) Higher Education and Quality Improvement Project, (SPN) Social Fund for Development IV (SPN) <b>SABER-Workforce Benchmarking Study (AAA)</b> Education for All FTI Phase III (TF) WB/UNESCO TA on education (AAA)
		<ul style="list-style-type: none"> <li>• Recommendations on integration of reproductive health and nutrition within outreach services adopted</li> <li>• Nationwide Schistosomiasis prevalence reduced by 10%</li> <li>• Contribution to the nationwide immunization polio campaigns</li> </ul>	<ul style="list-style-type: none"> <li>• Health outreach services launched in project target areas</li> <li>• Second nationwide drug distribution campaign against Schistosomiasis and Soil Transmitted Helminths completed</li> <li>• Maternal health services delivery model for contracting private sector providers delivered</li> <li>• Community Management of Acute Malnutrition launched</li> <li>• Output-Based Maternal Health Services launched in project target areas</li> </ul>	<b>Health and Population Project (AF) (New IDA)</b> <b>Emergency Assistance Grant: OP 8.0 (new IDA)</b> Health and Population Project (SPN) Safe Motherhood (GPOBA) Schistosomiasis Control Project (SPN) Healthy Mother (JSDF TF)
Expand social protection 3.3	Expand access to social protection programs and improve targeting	<ul style="list-style-type: none"> <li>• 140,966 person-months of employment created through SFD</li> <li>• Bylaw to the Social Welfare law</li> </ul>	<ul style="list-style-type: none"> <li>• Household budget survey conducted</li> <li>• 30,000 additional person-months of employment created through SFD</li> </ul>	<b>Social Fund for Development (New IDA AF)</b> <b>Household Budget Survey (TA)</b>

<sup>60</sup> This Results Framework updates the Results Framework from the 2010-2013 CAS mairix and includes ISN priorities. The numbers under each national priority refer to the corresponding national priority in the original CAS Results Framework where relevant.

<sup>61</sup> Unless otherwise indicated, milestones are expected to be reached by June 2014.

<sup>62</sup> SPN: Implementation support of ongoing IDA operations; New IDA: New IDA financing; IDA AAA: IDA Analytical and Advisory Activities; TFs: IDA administered Trust Funds; IFC AS: IFC Advisory services; IFC INV: IFC investment (subject to demand by partner investors).

National priorities as expressed in the TPSD <sup>60</sup>	Revised CAS outcomes (new ISN outcomes are identified with *)	Progress to date	Milestones for monitoring progress by end ISN period <sup>61</sup>	Bank Program (proposed new program for ISN period in bold) <sup>62</sup>
		adopted <ul style="list-style-type: none"> <li>Standard methodology adopted to improve SWF's targeting, which is enshrined in its bylaw through DPG</li> <li>140,340 person months of short-term employment created through PWP III</li> </ul>	<ul style="list-style-type: none"> <li>55,000 person-months of short-term employment created through Labor Intensive Public Works Program</li> <li>SWF beneficiary phasing-out/graduation strategy drafted</li> <li>100,000 beneficiary households recertified using PMT method</li> </ul>	Social Fund for Development IV (SPN) Labor Intensive Public Works (SPN) Social Welfare Fund (IS)
Support aspirations for women and youth 3.1	Strengthen dialogue with and participation of women, young people, and marginalized groups*		<ul style="list-style-type: none"> <li>Gender analysis completed and disseminated in accessible format</li> <li>Youth stocktaking exercise completed, and recommendations discussed with Government</li> </ul>	<b>Civil Society Support Project (New IDA)</b> <b>Gender Challenges in Yemen (AAA)</b> <b>Stocktaking of Youth Issues (FY13-14)</b> Business Edge training and SME support targeting women and youth (IFC AS)
Improve and modernization water resource management 4.1	Improve management of water resources	<ul style="list-style-type: none"> <li>Annual water savings through improved irrigation efficiency increased from 40 to 55 million cubic meters</li> <li>Small and medium spate irrigation schemes improved on about 2,171 ha</li> <li>100 new Water User Groups established each year for irrigation and rural water supply and sanitation</li> <li>Rural access to water supply and sanitation services extended to an additional 11,000 and 500 people, respectively</li> <li>Urban Access to water supply extended to 41,000 people</li> <li>Additional 28,000 people in rural areas received improved access to water services as a result of rehabilitation work</li> <li>An additional 28,000 people in rural areas and 50,000 in urban areas received improved access to water services as a result of rehabilitation work</li> </ul>	<ul style="list-style-type: none"> <li>5 basin committees formed and functional based on IWRM principles</li> <li>Groundwater irrigation systems improved in priority basins on about 5,000 ha</li> <li>Rural access to water supply and sanitation services extended to an additional 15,000 and 5,000 people, respectively</li> <li>Urban access to water supply extended to an additional 4,000 people</li> <li>An additional 50,000 people in rural areas and 15,000 in urban areas receive improved access to water services as a result of rehabilitation work</li> </ul>	<b>Water TA (AAA)</b> Water Sector Support Project (SPN) Sana'a and Taiz water supply issues and options (AAA) GPOBA Water Program (TF)
Improve natural resource	Increase resilience to	<ul style="list-style-type: none"> <li>Climate Change Mitigation and</li> </ul>	<ul style="list-style-type: none"> <li>Climate information system developed</li> </ul>	<b>PPCR (TF)</b>

National priorities as expressed in the TPSD <sup>60</sup>	Revised CAS outcomes (new ISN outcomes are identified with *)	Progress to date	Milestones for monitoring progress by end ISN period <sup>61</sup>	Bank Program (proposed new program for ISN period in bold) <sup>62</sup>
management 4.2	natural disasters and climate change	Adaptation Strategy finalized <ul style="list-style-type: none"> <li>• Advanced warning system in Hadramout Governorate in place</li> <li>• 1,200 hectares protected in Taiz and Hadramout/Al Mahra</li> <li>• 80% fewer businesses affected by floods in Hadramout, Al Mahra, Taiz</li> </ul>		Climate Change Mitigation TA (AAA) GFDRR TA (AAA) Agrobiodiversity and Adaptation to Climate Change (GEF TF) Flood Protection and Emergency Reconstruction Project (SPN)
<b>STRATEGIC OBJECTIVE 2: IMPROVING ECONOMIC MANAGEMENT</b>				
Ensure a stable macroeconomic environment 1.1 <sup>63</sup>	Strengthen analytical underpinnings for economic policy making	<ul style="list-style-type: none"> <li>• Macroeconomic advice provided on a regular basis to adjust to global economic developments</li> <li>• Standard macro framework developed and used by the MOPIC, MOF, and CBY</li> <li>• Enhanced national accounts developed (with IMF TA) pending final discussion</li> </ul>	<ul style="list-style-type: none"> <li>• Options to gain fiscal space and alleviate fiscal distress developed</li> </ul>	<b>JSEA Follow up (AAA) Emergency Recovery Grant (New IDA)</b>
Opening economic options 1.4	Improve analytical framework on expanding economic options	<ul style="list-style-type: none"> <li>• General Investment Authority (new investment law) restructured</li> <li>• Key tax incentives consolidated</li> </ul>	<ul style="list-style-type: none"> <li>• Analytical work on economic integration options completed</li> </ul>	<b>JSEA Follow up (AAA)</b>
	Strengthen competitiveness in key sectors	<ul style="list-style-type: none"> <li>• Proposal for fisheries sector restructuring ratified and approved by cabinet</li> <li>• Presidential Decrees for establishment of four Fisheries Authorities for coastal governorates issued</li> <li>• 1,400 rural farm producer groups, associations, or networks in place and functioning</li> <li>• 30km of terrace walls rehabilitated</li> </ul>	<ul style="list-style-type: none"> <li>• Fisheries Authorities in coastal governorates operational</li> <li>• 800 rural farm producer groups, associations, or networks in place and functioning</li> <li>• 60km of terrace walls rehabilitated</li> </ul>	Rainfed Agriculture and Livestock Project (SPN) Water Sector Support Project (ISIS) Fisheries Resource Management and Conservation (SPN)

<sup>63</sup> This Results Framework updates the Results Framework from the 2010-2013 CAS mairix and includes ISN priorities. The numbers under each national priority refer to the corresponding national priority in the original CAS Results Framework where relevant.

National priorities as expressed in the TPSD <sup>60</sup>	Revised CAS outcomes (new ISN outcomes are identified with *)	Progress to date	Milestones for monitoring progress by end ISN period <sup>61</sup>	Bank Program (proposed new program for ISN period in bold) <sup>62</sup>
Strengthen public finance management 2.2	Improve capacity for effective public financial management	<ul style="list-style-type: none"> <li>• Use of AFMIS system covers 17 ministries and 3 departments</li> <li>• Use of LGMIS system covers 23 PMUs</li> <li>• Systems for cash flow management and commitment control introduced</li> <li>• Institutional capacity for implementation of procurement law introduced</li> <li>• Medium-term strategy for the Higher Authority on Tender Control developed</li> <li>• Capacity of COCA to conduct external audit in AFMIS environment enhanced</li> </ul>	<ul style="list-style-type: none"> <li>• Use of AFMIS expanded to 30 ministries, 11 departments, and 18 governorates</li> <li>• Use of LGMIS expanded to 36 PMUs</li> <li>• Commitment Control and Cash Management System introduced in AFMIS</li> <li>• Single public procurement portal developed for publishing bids and awards</li> <li>• Medium-term strategy for COCA developed</li> </ul>	Public Finance Modernization Project (SPN)
<b>Lay the groundwork for private sector led growth including through support for the MSME sector*</b>	Improve enabling environment for MSMEs*			<b>ICT Sector Assessment (AAA)</b> <b>Workforce Benchmarking (AAA)</b> Microfinance Advisory, Corporate Governance Project (IFC AS) Possible investment(s) in key targeted sectors (IFC INV) SME support (IFC AS)
Improve infrastructure 1.3	Improve infrastructure through expanding investments and strengthening management	<ul style="list-style-type: none"> <li>• 200 km of intermediate rural roads paved in accordance with acceptable industry standards</li> <li>• Formulation of strategies and programs to improve efficiency in key areas of the transport sector are completed</li> <li>• Study on renewable energy completed</li> </ul>	<ul style="list-style-type: none"> <li>• Study on assessing impact of energy pricing reform initiated</li> <li>• Dialogue on PPP in infrastructure initiated</li> </ul>	<b>Road Asset Management Project (New IDA)</b> <b>PPP in Infrastructure TA (AAA)</b> Rural Access II (SPN) Power Sector (SPN) Port Cities Development II (SPN) Integrated Urban Development (SPN) Rural Energy Access (SPN) Road Sector Management (AAA) Gender and Transport in Yemen (GAP TF) <b>PPP support (IFC AS)</b>
<b>STRATEGIC OBJECTIVE 3: ENHANCING LOCAL SERVICE DELIVERY</b>				
<b>Support Government in decentralization*</b>	Enhance local service delivery			<b>Local Service Delivery Project (New IDA)</b> <b>Civil Society Support Project (New IDA)</b>

National priorities as expressed in the TPSD <sup>60</sup>	Revised CAS outcomes (new ISN outcomes are identified with *)	Progress to date	Milestones for monitoring progress by end ISN period <sup>61</sup>	Bank Program (proposed new program for ISN period in bold) <sup>62</sup>
				<b>SPF Local Governance and Service Delivery Pilot (TF)</b> <b>Decentralization Initiative NLTA-MNA Regional MDTF (TF)</b> <b>Civil Society Assessment (AAA)</b> <b>Institutional and Capacity Needs Assessment (AAA)</b>
Strengthen transparency and accountability 2.1	Accelerate implementation of anticorruption reforms	<ul style="list-style-type: none"> <li>National strategy and action plan to combat corruption finalized</li> </ul>	<ul style="list-style-type: none"> <li>Decision Support System for Asset Declaration Unit established</li> <li>Management Information System for Complaints and Investigations established</li> </ul>	<b>Public Finance Modernization Project Additional Finance (New IDA)</b> <b>Civil Society Support Project (New IDA)</b>

**Annex 6: Yemen Donor Aid Flows (by pledge and disbursement of donor country/ agency 2006-2010) in \$ million as of December 2011**

		Pledge	Grant	Loan	Allocated		Signed		Disb.	Sector (s)
					Sum	%	Sum	%		
1	Saudia Arabia	1277	1000	227	1147	93.5	963	79	153	Roads, health, energy, social protection, vocational training, water and sanitation, higher education
2	Oman	100	100		100	100	100	100	16.6	energy, social protection, rural water and sanitation, health, higher education
3	United Arab Emirates	650	500	150	650	100	450	69	34.45	social protection, vocational training, transport, urban water supply and sanitation, agriculture, health, energy, culture and tourism
4	Qatar	500	350	150	282.2	56.4	2.2	0	2.2	health
5	Kuwait	208.4	8.4	200	208.4	100	129.4	22.3	22.3	energy, social protection, transport, microfinance
<b>I.</b>	<b>GCC total *</b>	<b>2735.4</b>	<b>1958.4</b>	<b>727</b>	<b>2387.6</b>		<b>1644.6</b>		<b>228.55</b>	
6	Islamic Development Bank	200		200	193.3	96.7	136.2	68	17.06	social protection, rural development, agriculture, water, rural electrification, roads, fisheries
7	Arab Fund	821		821	1060	129.1	778.6	95	48.65	agriculture, transport, roads, social protection, education, water and sanitation, capacity building, energy
8	World Bank	513.8	113.8	400	670.8	130.6	670.8	131	258.19	social protection, education, water and sanitation, rural electrification, transport and urban planning, private sector and governance
9	IFAD	70		70	55.48	79.3	55.48	79	6.21	agriculture, rural development, fisheries
10	OPEC Fund	38.1		38.1	38.1	100	38.1	100	9.2	social protection, vocational training
11	Arab Monetary	220		220	198	90	198	90	98.9	loan facilities for balance of payments support
12	UN (Core Resources)	254.8	254.8		254.8	100	150.6	167	154.47	Humanitarian, governance, institutional capacity development, health, agriculture
13	Malaria/HIV Global Fund	32	32		32	100	32	100	32	TA and supplies
14	IMF	370.6		370.6	370.6	100	370.6	100	53.3	credit facilities for balance of payments support
<b>II.</b>	<b>Regional &amp; Intl Finance Institutional</b>	<b>2520.3</b>	<b>400.6</b>	<b>2119.7</b>	<b>2873.08</b>		<b>2430.38</b>		<b>677.98</b>	

		Pledge	Grant	Loan	Allocated		Signed		Disb.	Sector (s)
					Sum	%	Sum	%		
15	United Kingdom	230	230		207	90	207	90	122.4	social protection, governance, education, emergency response
16	Germany	190	190		119.1	62.7	119.1	62.7	109	education, health, water and sanitation, governance, institutional capacity development, social protection
17	United States	174.4	174.4		174.4	100	174.4	100	20.9	health, education, social protection, governance and capacity development
18	Netherlands	166	166		149.4	90	149.4	90	113.2	education, water, health, governance, environment, gender
19	Japan	165.5	165.5		165.5	100	165.5	100	153	basic Education, vocational Training, rural water supply and sanitation and health
20	France	160		140	73	45.6	36	23	2.1	agriculture, energy, governance, culture
21	S. Korea	140	140		115	82.1	15	11	0.2	vocational education and communication
22	European Commission	100	100		100	100	50	50	44.8	governance, food security, health, education, private sector
23	China	42.4		42.4	42.4	100	42.4	100	8.7	infrastructure (roads, hospitals)
24	Italy	16.3	16.3		16.3	100	16.3	100	11.3	coast guards and culture
25	Denmark	9	9		7.7	83.9	9	100	6.3	governance
<b>III</b>	<b>Traditional Donors total</b>	<b>1393.6</b>	<b>1191.2</b>	<b>182.4</b>	<b>1169.8</b>		<b>984.1</b>		<b>591.9</b>	
	<b>Total (I+II+III)</b>	<b>6649.3</b>	<b>3550.2</b>	<b>3029.1</b>	<b>6430.48</b>	<b>0</b>	<b>5059.08</b>	<b>0</b>	<b>1498.43</b>	

\* Bahrain provides capacity development for civil servants in financial and banking services

## Annex 7: Yemen At a Glance

### Yemen, Rep. At a Glance

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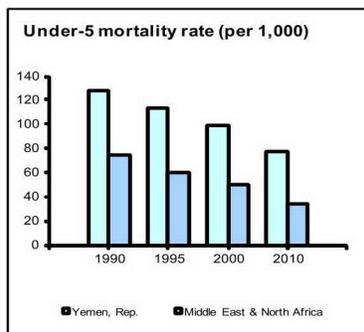
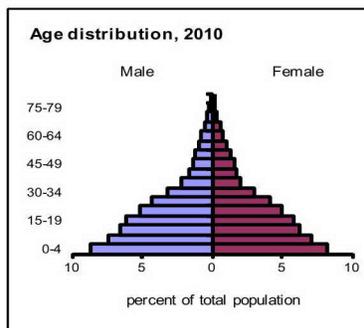
#### Key Development Indicators

(2010)

	Yemen	M. East & North Africa	Lower middle income
Population, mid-year (millions)	24.1	331	2,519
Surface area (thousand sq. km)	528	8,775	23,579
Population growth (%)	3.1	1.7	1.5
Urban population (% of total population)	32	58	39
GNI (Atlas method, US\$ billions)	28.1	1,283	4,078
GNI per capita (Atlas method, US\$)	1,170	3,874	1,619
GNI per capita (PPP, international \$)	2,500	8,068	3,632
GDP growth (%)	7.7	4.3	6.9
GDP per capita growth (%)	4.6	2.5	5.3

(most recent estimate, 2004–2010)

Poverty headcount ratio at \$1.25 a day (PPP, %)	18	3	..
Poverty headcount ratio at \$2.00 a day (PPP, %)	47	14	..
Life expectancy at birth (years)	65	72	65
Infant mortality (per 1,000 live births)	57	27	50
Child malnutrition (% of children under 5)	..	8	25
Adult literacy, male (% of ages 15 and older)	80	82	80
Adult literacy, female (% of ages 15 and older)	45	66	62
Gross primary enrollment, male (% of age group)	96	106	110
Gross primary enrollment, female (% of age group)	78	98	104
Access to an improved water source (% of population)	55	89	87
Access to improved sanitation facilities (% of population)	53	88	47



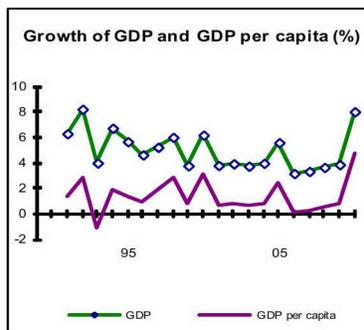
#### Net Aid Flows

(US\$ millions)

	1980	1990	2000	2010
Net ODA and official aid	574	450	311	666
<i>Top 3 donors (in 2010):</i>				
Germany	20	38	32	82
United Kingdom	9	10	5	64
United States	15	41	57	45
Aid (% of GNI)	..	8.0	3.5	2.3
Aid per capita (US\$)	72	38	18	28

#### Long-Term Economic Trends

Consumer prices (annual % change)	..	44.9	8.1	-44.5
GDP implicit deflator (annual % change)	..	12.0	23.3	24.7
Exchange rate (annual average, local per US\$)	4.6	26.2	161.7	219.6
Terms of trade index (2000 = 100)	..	80	100	160



	1980	1990	2000	2010
Population, mid-year (millions)	7.9	11.9	17.7	24.1
GDP (US\$ millions)	..	5,647	9,636	31,270
		<i>(% of GDP)</i>		
Agriculture	..	24.4	13.8	7.6
Industry	..	34.3	46.4	29.2
Manufacturing	..	19.0	5.7	6.0
Services	..	41.3	39.8	63.1
Household final consumption expenditure	..	77.0	60.1	80.7
General gov't final consumption expenditure	..	15.5	13.6	11.7
Gross capital formation	..	12.4	18.9	11.6
Exports of goods and services	..	12.2	41.4	30.3
Imports of goods and services	..	17.2	34.0	34.3
Gross savings	..	38.6	32.8	9.1

1980–90 1990–2000 2000–10  
(average annual growth %)

Population	4.1	3.9	3.1
GDP	..	5.6	4.1
Agriculture	..	5.1	2.7
Industry	..	5.2	2.0
Manufacturing	..	1.8	5.1
Services	..	6.1	6.0
Household final consumption expenditure	..	2.8	7.1
General gov't final consumption expenditure	..	3.8	3.6
Gross capital formation	..	10.0	-0.6
Exports of goods and services	..	22.9	1.8
Imports of goods and services	..	11.9	5.4

Note: Figures in italics are for years other than those specified. .. indicates data are not available.  
Development Economics, Development Data Group (DECDG).

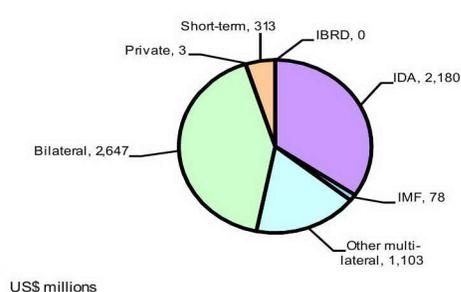
Balance of Payments and Trade	2000	2010
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	3,797	7,718
Total merchandise imports (cif)	2,484	8,701
Net trade in goods and services	714	-1,688
Current account balance	1,337	-1,209
as a % of GDP	13.9	-4.4
Workers' remittances and compensation of employees (receipts)	1,288	1,240
Reserves, including gold	2,822	6,198

**Central Government Finance**

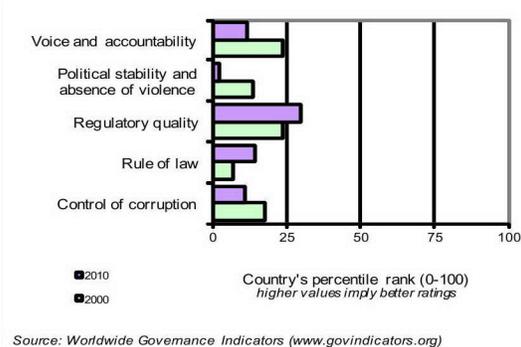
<i>(% of GDP)</i>		
Current revenue (including grants)	37.8	25.8
Tax revenue	7.1	6.5
Current expenditure	24.5	25.2
Overall surplus/deficit	-1.3	-11.6
Highest marginal tax rate (%)		
Individual	..	..
Corporate	..	35

**External Debt and Resource Flows**

<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	5,125	6,324
Total debt service	243	259
Debt relief (HIPC, MDRI)	-	-
Total debt (% of GDP)	53.2	20.2
Total debt service (% of exports)	4.5	2.4
Foreign direct investment (net inflows)	6	-329
Portfolio equity (net inflows)	0	0

**Composition of total external debt, 2010**

Private Sector Development	2000	2011
Time required to start a business (days)	-	12
Cost to start a business (% of GNI per capita)	-	83.8
Time required to register property (days)	-	19
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2010
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	..	..
Bank capital to asset ratio (%)	..	..

**Governance indicators, 2000 and 2010**

Technology and Infrastructure	2000	2010
Paved roads (% of total)	..	8.7
Fixed line and mobile phone subscribers (per 100 people)	2	50
High technology exports (% of manufactured exports)	0.0	0.4

**Environment**

Agricultural land (% of land area)	45	44
Forest area (% of land area)	1.0	1.0
Terrestrial protected areas (% of land area)	0.5	0.5
Freshwater resources per capita (cu. meters)	112	90
Freshwater withdrawal (% of internal resources)	161.4	168.6
CO2 emissions per capita (mt)	0.83	1.0
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	7.9	7.0
Energy use per capita (kg of oil equivalent)	267	324

**World Bank Group portfolio**

	2000	2010
<i>(US\$ millions)</i>		
<b>IBRD</b>		
Total debt outstanding and disbursed	0	0
Disbursements	0	0
Principal repayments	0	0
Interest payments	0	0
<b>IDA</b>		
Total debt outstanding and disbursed	1,216	2,180
Disbursements	65	73
Total debt service	23	61
<b>IFC (fiscal year)</b>		
Total disbursed and outstanding portfolio of which IFC own account	12	149
Disbursements for IFC own account	12	97
Portfolio sales, prepayments and repayments for IFC own account	8	22
Disbursements for IFC own account	0	4
<b>MIGA</b>		
Gross exposure	-	-
New guarantees	-	-

Note: Figures in italics are for years other than those specified.  
 .. indicates data are not available. - indicates observation is not applicable.

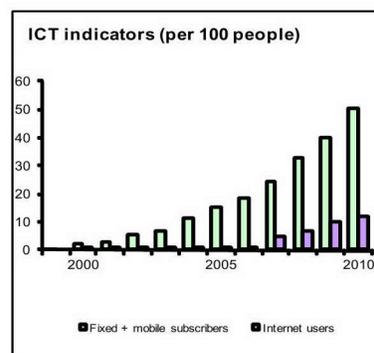
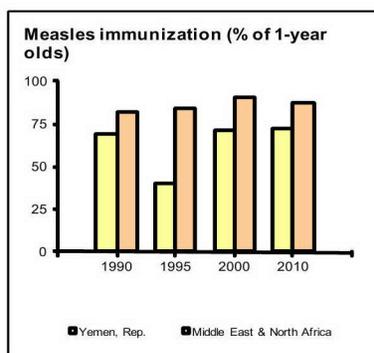
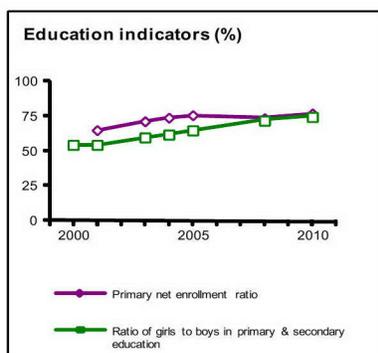
4/5/12

# Millennium Development Goals

Yemen, Rep.

With selected targets to achieve between 1990 and 2015  
(estimate closest to date shown, +/- 2 years)

	Yemen, Rep.			
	1990	1995	2000	2010
<b>Goal 1: halve the rates for extreme poverty and malnutrition</b>				
Poverty headcount ratio at \$1.25 a day (PPP, % of population)	..	..	12.9	17.5
Poverty headcount ratio at national poverty line (% of population)	..	..	40.1	34.8
Share of income or consumption to the poorest quintile (%)	..	..	7.4	7.2
Prevalence of malnutrition (% of children under 5)	29.6	34.2	..	..
<b>Goal 2: ensure that children are able to complete primary schooling</b>				
Primary school enrollment (net, %)	..	..	66	78
Primary completion rate (% of relevant age group)	..	..	56	63
Secondary school enrollment (gross, %)	..	..	43	44
Youth literacy rate (% of people ages 15-24)	..	60	..	84
<b>Goal 3: eliminate gender disparity in education and empower women</b>				
Ratio of girls to boys in primary and secondary education (%)	..	..	55	75
Women employed in the nonagricultural sector (% of nonagricultural employment)	..	6	7	6
Proportion of seats held by women in national parliament (%)	4	1	1	0
<b>Goal 4: reduce under-5 mortality by two-thirds</b>				
Under-5 mortality rate (per 1,000)	128	113	100	77
Infant mortality rate (per 1,000 live births)	90	80	72	57
Measles immunization (proportion of one-year olds immunized, %)	69	40	71	73
<b>Goal 5: reduce maternal mortality by three-fourths</b>				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	540	460	340	210
Births attended by skilled health staff (% of total)	16	22	..	36
Contraceptive prevalence (% of women ages 15-49)	10	21	..	28
<b>Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases</b>				
Prevalence of HIV (% of population ages 15-49)	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	137	137	116	49
Tuberculosis case detection rate (% , all forms)	28	69	67	76
<b>Goal 7: halve the proportion of people without sustainable access to basic needs</b>				
Access to an improved water source (% of population)	67	63	60	55
Access to improved sanitation facilities (% of population)	24	32	39	53
Forest area (% of total land area)	1.0	..	1.0	1.0
Terrestrial protected areas (% of land area)	..	0.0	0.5	0.5
CO2 emissions (metric tons per capita)	0.8	0.7	0.8	1.0
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	8.6	8.5	7.9	7.0
<b>Goal 8: develop a global partnership for development</b>				
Telephone mainlines (per 100 people)	1.0	1.2	2.0	4.3
Mobile phone subscribers (per 100 people)	0.0	0.1	0.2	46.1
Internet users (per 100 people)	0.0	0.0	0.1	12.3
Computer users (per 100 people)	..	..	..	..



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

4/5/12

Development Economics, Development Data Group (DECDG).

**Annex 8: Selected Indicators of Portfolio Performance and Management**  
As of 8/9/2012

<b>Indicator</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Portfolio Assessment</b>				
Number of Projects Under Implementation <sup>a</sup>	22	22	18	19
Average Implementation Period (years) <sup>b</sup>	3.4	3.5	3.6	3.8
Percent of Problem Projects by Number <sup>a, c</sup>	27.3	22.7	55.6	52.6
Percent of Problem Projects by Amount <sup>a, c</sup>	29.1	18.2	52.8	51.3
Percent of Projects at Risk by Number <sup>a, d</sup>	36.4	36.4	72.2	73.7
Percent of Projects at Risk by Amount <sup>a, d</sup>	37.5	41.8	76.2	76.9
Disbursement Ratio (%) <sup>e</sup>	23.7	12.2	8.2	1.4
<b>Portfolio Management</b>				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

<b>Memorandum Item</b>	<b>Since FY80</b>	<b>Last Five FYs</b>
Proj Eval by OED/IEG by Number	119	5
Proj Eval by OED/IEG by Amt (US\$ millions)	1,826.0	141.5
% of OED/IEG Projects Rated U or HU by Number	29.9	40.0
% of OED/IEG Projects Rated U or HU by Amount	23.0	41.3

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- \* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

**Annex 9: Operations Portfolio (IBRD/IDA Grants)**  
As of 9/27/2012

Closed Projects 135

<b>IBRD/IDA *</b>	
Total Disbursed (Active)	266.24
of which has been repaid	0.55
Total Disbursed (Closed)	870.62
of which has been repaid	361.06
Total Disbursed (Active + Closed)	1,136.86
of which has been repaid	361.61
Total Undisbursed (Active)	493.88
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	493.88

**Active Projects**

Project ID	Project Name	Last PSR		Fiscal Year	Original Amount in US\$ Millions			Difference Between Expected and Actual Disbursements <sup>iv</sup>			
		Supervision Rating			IBRD	IDA	GRANT	Cancel.	Undisb.	Orig.	Frm Rev'd
		Development Objectives	Implementation Progress								
P070092	RY TAZI MUNICIPAL DEV & FLOOD PROTEC	MS	MS	2002	100.2			0.40	25.26	-35.96	16.35
P110733	RY Higher Education Quality Improvement	MS	MU	2010	13				11.34	1.66	
P089259	RY Rainfed Agriculture and Livestock	MS	MS	2007	20				9.86	8.53	8.53
P089761	RY Sec. Educ. Dev. and Girls Access	MU	MU	2008	20				17.30	12.98	0.20
P117608	RY SWF Institutional Support Project	MU	MU	2010	10				9.60	1.50	
P085231	RY- Second Rural Access Project	MU	MU	2006	80				43.99	4.03	18.39
P076185	RY-Basic Education Development Program	MS	MS	2005	65				7.70	4.62	4.62
P086886	RY-Fisheries Resource Mgt & Conservation	MS	MS	2006	25			2.65	7.05	8.06	6.55
P094755	RY-Health & Population	MS	MS	2011	35				32.47	-0.50	
P107050	RY-Integrated Urban Development	MU	MU	2010	22				20.82	10.34	
P122594	RY-Labor Intensive Public Works Project	S	S	2012	61				59.51	2.00	
P088435	RY-Port Cities Development II	MU	MU	2010	35				34.37	16.58	
P086865	RY-Power Sector	U	U	2006	50				49.47	43.43	19.56
P117363	RY-Public Finance Modernization Project	S	S	2011	12				9.42		
P092211	RY-Rural Energy Access Project	U	U	2009	25				26.07	16.00	6.97
P113102	RY-Schistosomiasis Control Project	MS	MS	2010	25				17.38	0.57	
P086308	RY-Second Vocational Training Project	U	U	2007	15				14.73	13.92	13.42
P107037	RY-WATER SECTOR SUPPORT	MU	MU	2009	90				69.70	53.40	6.12
P103922	RY:GEF Agrobiodiversity and Adaptation	MS	MS	2010			4		3.42	0.82	
P117949	RY:Social Fund for Development IV	S	S	2010	60				27.82	1.66	
Overall Result					763.2		4	3.05	497.30	161.38	100.73

**Annex 10: Summary of IDA Nonlending Operations**

<b>Proj ID (AAA)</b>		<b>ESW/TA</b>	<b>Fiscal year</b>	<b>Cost (\$'000)</b>
P109978	Yemen Health Sector Review Support	TA	FY09	170
P111647	YEMEN GAC Diagnostic Survey	TA	FY09	29
P111755	Yemen FIU Mentor	TA	FY09	82
P112602	RY - Anti-Corruption	TA	FY09	141
P112603	RY - Public Finance Management	TA	FY09	68
P115713	Yemen SP Strategy Implementation Support	TA	FY09	91
P116046	RY: Improving Administration of the SWF	TA	FY09	36
P112919	RY-Energy Subsidy Reform TA	TA	FY10	195
P114431	RY-Inst Framework for Energy Efficiency	TA	FY10	48
P119537	RY Macro Capacity TA	TA	FY10	192
P117422	RY Public Sector and Governance Program	TA	FY10	312
P110551	GFDRR: RY-Strengthening National System	TA	FY11	1,119
P116900	Yemen Telecom sector reform	TA	FY11	87
P122064	Yemen Saada Comprehensive Needs Assess	TA	FY11	167
P122914	RY-Anti-corruption TA	TA	FY11	37
P117811	Yemen QSDS	TA	FY12	0
P119084	RY Financial Sector Strategy	TA	FY12	63
P129806	RY-Political Economy Stakeholder Mapping	TA	FY12	70
P131490	Yemen AML legislation	TA	FY12	
P107026	RY-Transport Sector Note	ESW	FY09	308
P109074	RY: Financial Sector Reform	ESW	FY09	91
P111812	Yemen Mineral Sector Review	ESW	FY09	196
P113338	RY: Financial Sector Reform Strategy	ESW	FY09	31
P107026	RY-Transport Sector Note	ESW	FY09	308
P102789	ESSD RY Land Tenure study	ESW	FY10	176
P106257	RY-Adaptation to Climate Change	ESW	FY10	401
P106776	Coping strategies in Rural Yemen	ESW	FY10	270
P107708	RY Education Country Status Report	ESW	FY10	281
P124164	DeMPA Assessment - Yemen	ESW	FY11	64
P113257	RY-Investment Climate Update	ESW	FY12	132
P130602	Yemen Social Economic Assessment	ESW	FY12	

**Annex 11: Yemen Trust Funds FY2006-FY2012**  
(Amount in [US\\$ thousands](#), as of April 21, 2012)

Manag. Unit	Fund	Bank Exec. Flag	TF Name	St	Donor Name	Eff. Date	Closing Date	Committed Grant Amt (USD)	Funds Disb to date in USD	Fund Balance in USD
MNSESD	TF071465	Y	Trust Fund for Household Budget Survey 2010 in the Republic of Yemen	A	Multiple	3/8/10	3/15/12	537,008	0	537,008
<b>Total MNSESD</b>								<b>537,008</b>	<b>0</b>	<b>537,008</b>
MNSHD	TF012117	Y	RBF Knowledge and Learning	A	Multiple	4/1/12	3/14/13	125,000	0	125,000
MNSHD	TF053719	Y	Basic Education Development	A	Multiple	11/30/04	12/31/12	2,207	0	2,207
MNSHD	TF053720	Y	Basic Education Dev - Bank-executed	A	Multiple	11/30/04	6/30/12	343,805	317,176	26,629
MNSHD	TF057636	Y	Eduction MDTF - Bank-executed	A	Multiple	12/1/06	6/30/12	1,083,794	678,834	197,398
MNSHD	TF092181	N	Queen of Sheba Safe Motherhood	A	IFC	6/11/08	2/28/14	3,912,190	1,658,056	2,254,134
MNSHD	TF093025	Y	EPDF for Yemen	A	Multiple	9/26/08	8/31/12	1,055,030	951,852	110,361
MNSHD	TF093567	N	Offering Second Chances to At-Risk and Marginalized Youth	A	Japan - MinFin	7/28/09	7/28/13	1,849,400	553,349	1,296,051
MNSHD	TF094124	Y	Offering Second Chances to At-Risk and Marginalized Youth (Bank-executed)	A	Japan - MinFin	7/28/09	7/28/13	90,000	82,709	7,291
MNSHD	TF094223	N	Secondary Educ Dev & Girls Access	A	Neth.	6/6/09	12/31/13	6,615,000	877,906	987,094
MNSHD	TF094846	N	Healthy Mother Project	A	Japan - MinFin	2/7/10	6/30/13	2,850,000	200,000	2,650,000
MNSHD	TF094848	Y	Healthy Mother Project (Bank-Executed)	A	Japan - MinFin	2/7/10	6/30/13	150,000	0	150,000
MNSHD	TF095630	Y	Education for All (EFA) - Fast Track Initiative (FTI) Phase 3 Supervision Costs for Yemen	A	Multiple	10/26/09	9/30/12	209,799	161,480	48,319
MNSHD	TF095790	Y	Social Safety Net Enhancement Project	A	EU	11/9/09	6/30/12	267,201	284,033	5,590
MNSHD	TF097187	Y	(W3 Sup)Queen Sheba Safe Motherhood	A	IFC	6/14/10	6/30/12	342,369	237,886	104,483
MNSHD	TF098417	Y	Rapid Social Response Targeted delivery of early childhood nutrition interventions (BIC)	A	Multiple	10/20/10	9/30/12	215,575	71,470	144,105
<b>Total MNSHD</b>								<b>19,111,371</b>	<b>6,074,751</b>	<b>8,108,662</b>
MNSSD	TF091190	Y	Strengthening National System for Disaster Risk Reduction	A	Multiple	11/1/07	6/30/12	1,064,580	968,344	96,236
MNSSD	TF092841	Y	Model to Develop Domestic Gas Market	A	Norway	9/16/08	7/31/12	500,000	391,011	108,989
MNSSD	TF092960	Y	Assessing Community & HH Resilience to Climate Change in Rainfed Areas	A	Multiple	10/15/08	12/23/12	157,000	57,713	99,287
MNSSD	TF095278	N	Strengthening the Powerless Groups through Family-Community Led Programs	A	Japan - MinFin	3/2/10	6/30/13	2,738,700	264,437	2,474,263
MNSSD	TF095279	Y	Strengthening the Powerless Groups through Family-Community Led Programs (Bank-executed)	A	Japan - MinFin	3/2/10	6/30/13	136,935	83,236	53,699
MNSSD	TF096330	N	Agro-Biodiversity and Climate Adaptation	A	Multiple	8/31/10	8/31/14	4,000,000	550,399	3,449,601
MNSSD	TF097069	Y	Adaptation to the Impacts of Climate Change on Coastal	A	Neth.	8/1/10	1/31/13	500,000	180,220	19,780

Manag. Unit	Fund	Bank Exec. Flag	TF Name	St	Donor Name	Eff. Date	Closing Date	Committed Grant Amt (USD)	Funds Disb to date in USD	Fund Balance in USD
			Communities in the Southern Red Sea And Gulf Of Aden							
MNSSD	TF097544	N	Pilot Program for Climate Resilience Phase I (PPCR I)	A	Multiple	2/10/11	6/30/14	1,500,000	411,010	1,088,990
MNSSD	TF097712	Y	Disaster Risk Reduction in Priority Country-Yemen (GFDRR Track II TA Core)	A	Multiple	8/27/10	9/30/12	171,600	148,121	23,479
MNSSD	TF097751	Y	PPCR Strategic Program Preparation	A	Multiple	8/30/10	6/30/13	412,261	154,851	106,488
MNSSD	TF098754	N	ROUND 30: Piloting Coping Strategies for Rainfed Farmers	A	Japan - MinFin	5/31/12	3/5/15	2,775,700	0	2,775,700
MNSSD	TF099469	N	ROUND 28 - Biogas Digesters Project	A	Japan - MinFin	6/8/12	5/12/16	2,481,720	0	2,481,720
MNSSD	TF099726	Y	Yemen & South Africa Knowledge Sharing on Protected Areas Management and Wildlife Law Enforcement	A	Multiple	7/1/11	6/30/12	125,000	57,013	67,987
MNSSD	TF096519	N	GPOBA: Yemen Water for Urban Centers	A	UK - DFID	9/28/10	6/30/14	5,000,000	0	5,000,000
MNSSD	TF097053	Y	GPOBA (W3 Sup): Water for Urban Centers	A	UK - DFID	5/20/10	6/30/14	251,220	98,369	152,851
MNSSD	TF098282	Y	GPOBA (W1): Water for Urban Centers TA	A	UK - DFID	11/15/10	12/31/12	75,000	0	75,000
<b>Total MNSSD</b>								<b>21,889,716</b>	<b>3,364,725</b>	<b>18,074,070</b>
								<b>41,538,095</b>	<b>9,439,475</b>	<b>26,719,740</b>

**Annex 12: Statement of IFC's Committed and Outstanding Portfolio**

*As of 7/30/2012*

In USD Million

<b>Commitment</b>	<b>Institution</b>	<b>COMMITTED</b>					<b>DISBURSED OUTSTANDING</b>				
<b>Fiscal Year</b>	<b>Short Name</b>	<b>Loan</b>	<b>Equity</b>	<b>QE+ QL</b>	<b>GT/RM</b>	<b>Participant</b>	<b>LN</b>	<b>ET</b>	<b>QE + QL</b>	<b>GT/RM</b>	<b>Participant</b>
2007/ 2008	AYCC	66.20	0	0	0	46.44	66.20	0	0	0	46.44
2003	Ahlia Water	1.36	0	0	0	0	1.36	0	0	0	0.00
2008	Al-Mawarid	4.00	0	0	0	0	4.00	0	0	0	0.00
2007	S Y Healthcare	13.68	0	0	0	0	13.68	0	0	0	0.00
	Marib Agri	0	0	0	0	0	0	0	0	0	0.00
	Yemen Battery	0	0	0	0	0	0	0	0	0	0.00
<b>Total Portfolio</b>		<b>85.24</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>46.44</b>	<b>85.24</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>46.44</b>

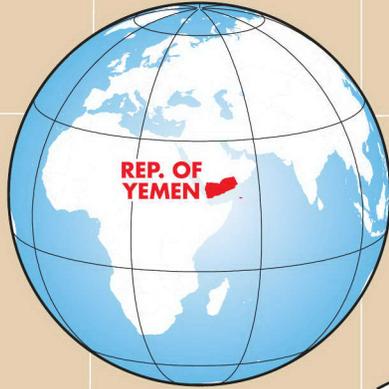
### Annex 13: IFC Operations Current Portfolio

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Original Commitments</b>					
IFC Own Acct (US\$ M)	23.8	0.85	12.3	3.9	-
<b>Original Commitments by Sector (%) IFC Account only</b>					
Finance & Insurance	24.4%	100%	100%	100%	-
Health Care	75.6%	-	-	-	-
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>0%</b>
<b>Original Commitments by Investment Instrument (%) - IFC Account only</b>					
Equity**	0.0%				
Guarantee	24.4%	100.0%	100.0%	100%	0.0%
Loan	75.6%				
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>0%</b>

\*\*includes Quasi-loan & quasi-equity

# REPUBLIC OF YEMEN

- SELECTED CITIES AND TOWNS
- ⊙ GOVERNORATE CAPITALS
- ⊕ NATIONAL CAPITAL
-  RIVERS
-  MAIN ROADS
-  GOVERNORATE BOUNDARIES
-  INTERNATIONAL BOUNDARIES



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