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**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**AND**

**INTERNATIONAL FINANCE CORPORATION**

**COUNTRY ASSISTANCE STRATEGY**

**FOR**

**THE REPUBLIC OF YEMEN**

**FOR THE PERIOD FY 2010-2013**

**April 29, 2009**

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

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(Exchange Rate Effective January 28, 2009)**

**Currency Unit = Yemeni Rial (YR)  
US\$1 = 200.75**

**Fiscal Year  
January 1 –December 31**

**ABBREVIATIONS AND ACRONYMS**

AAA	Analytical and Advisory Activities	IDA	International Development Association
AFMIS	Accounting and Financial Management Information System	IDF	Institutional Development Fund
AHA	Aid Harmonization and Alignment Unit	IFC	International Finance Corporation
APL	Adaptable Program Loan	IMF	International Monetary Fund
AS	Advisory Services	JSDF	Japan Social Development Fund
CAS	Country Assistance Strategy	LIC	Low Income Countries
CAS	Country Assistance Strategy	M&E	Monitoring and Evaluation
CR	Completion Report	MDG	Millennium Development Goals
CASPR	Country Assistance Strategy Progress Report	MIGA	Multilateral Investment Guarantee Agency
CG	Consultative Group	MNA	Middle East North Africa
CGAC	Country Governance and Anti-Corruption	MOPIC	Ministry of Planning and International Cooperation
COCA	Central Organization for Control and Audit	MSME	Micro, Small and Medium Enterprises
CPIA	Country Policy and Institutional Assessment	OBA	Output-Based Aid
CSO	Civil Service Organization	OECD	Organization for Economic Cooperation and Development
DFID	Department for International Development (UK)	OPEC	Organization of the Petroleum Exporting Countries
DPG	Development Policy Grant	PIU	Project Implementation Unit
DPPR	Development Plan for Poverty Reduction	PPP	Public Private Partnership
DSA	Debt Sustainability Analysis	PWP	Public Works Project
EITI	Extractive Industries Transparency Initiative	SDR	Special Drawing Rights
EU	European Commission	SFD	Social Fund for Development
FDI	Foreign Direct Investment	SME	Small and Medium Enterprises
FIAS	Foreign Investment Advisory Service	SNACC	Supreme National Authority for Combating Corruption
GCC	Gulf Cooperation Council	TA	Technical Assistance
GDP	Gross Domestic Product	TB	Tuberculosis
GEF	Global Environment Facility	TF	Trust Fund
GFRP	Global Food Crisis Response	UN	United Nations
GST	General Sales Tax	USAID	United States Agency for International Development
GTZ	German Technical Cooperation	WBI	World Bank Institute
		WTO	World Trade Organization
		YLNG	Yemen Liquefied Natural Gas

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## EXECUTIVE SUMMARY

i. ***The poorest country in the MNA region, Yemen is facing daunting challenges in an uncertain global and regional environment.*** Significant progress has been made over the last few years, but living conditions for most of the 22 million Yemenis remain difficult. Yemen's governance structures are complex and recent events have heightened concerns over security issues. Yemen is unlikely to reach most Millennium Development Goals (MDGs) by 2015, and the situation is particularly dire for women. The Government is implementing a program of economic and governance reforms, but time is of the essence as oil resources are rapidly depleting while the population continues to grow at a fast pace.

ii. ***The impact of the global crisis is already severe.*** The sharp fall in world oil prices, and the consequent shrinking in public expenditure, is depressing economic activity. Moreover, while the financial sector has remained relatively unscathed due to its relative insulation, the impact on the real sector is expected to be significant through declines in FDI, remittances (especially from the Gulf), and external financing. The Government realizes the pressing need for a comprehensive fiscal adjustment, but the risks of a deterioration of the economic situation are high.

iii. ***The Government has set out an ambitious vision for the country's development*** with far greater emphasis on diversifying the economy (through private sector-led activities), enhancing governance, improving social conditions, and managing natural resources than previously articulated in Yemen. The deterioration in the global environment has further heightened both the needs to implement this ambitious agenda and the difficulties in doing so.

iv. ***The Bank Group has a long-standing relationship with Yemen, and implementation of the 2006-2009 CAS is rated moderately satisfactory*** (results were achieved partially or completely for 20 of the 26 performance indicators). The impact of the program is expected to be sustainable in the medium-term, provided continued Government commitment and efforts in the next CAS period. Past experience shows that the Bank Group has been effective at supporting reforms as well as at strengthening overall implementation capacity (in the sectors where there is an active program). Experience also highlights the importance of providing hands-on implementation support in an environment of weak institutional capacity.

v. ***The overall objective of the Bank Group's program proposed in this CAS is to facilitate Yemen's further progress towards the MDGs.*** This objective reflects a consensus view expressed by Government and stakeholders with regard to the challenges the country is facing and the optimal use of Bank Group resources. In a context where the lack of economic and social opportunities is often seen as creating an environment where frustrations can be exploited by violent extremists, successful development efforts are also likely to contribute to strengthening the prospects for the country's (and the sub-region's) medium-term stability.

vi. ***The proposed CAS program foresees a broad-based, yet selective engagement across a variety of sectors.*** The authorities, stakeholders, and other development partners have called on the Bank Group to substantively engage in a number of sectors in order to provide a core program around which others can coalesce. In order to avoid a dispersion and dilution of efforts, however, the Bank Group will apply selectivity: (i) in the choice of thematic areas for engagement (at both sectoral and sub-sectoral levels); (ii) in the choice of instruments for engagement (Technical Assistance, analytical work, financial support through IDA or IFC); and (iii) in the design of individual products (keeping them simple so as to facilitate implementation).

vii. ***The proposed CAS program was designed in close cooperation between IDA and IFC***, as one of the pilots under the recent initiative by the joint IDA-IFC Secretariat. This is translating into an effort to better integrate relevant activities by both institutions, through: (i) the joint design of the results framework; and (ii) the identification of “target strategic themes” (i.e. financial sector, business environment, energy, mining, and health) where mechanisms have been put in place to pursue close cooperation throughout the CAS period.

viii. ***Bank Group assistance under the CAS is organized around four strategic objectives***, which are closely aligned with the Government program:

- (i) Help accelerate and diversify economic growth (macroeconomic stability; private sector development; infrastructure; support to non-oil drivers of growth);
- (ii) Help enhance governance (transparency; public finance management; civil service);
- (iii) Help foster human and social development (cross sectoral issues such as gender, youth, and qat; education and health; community development and social protection); and
- (iv) Help manage natural resource scarcity and natural risks (water resources; natural disasters and climate change).

ix. ***The Bank Group intends to use the full spectrum of available instruments***: managing the existing portfolios (IDA and IFC); providing continued financial support (IDA, Trust Funds, IFC, and possibly MIGA); using the Bank Group’s convening power (to help mobilize, implement, and harmonize aid); providing further analytical and advisory services (IDA and IFC); and scaling up capacity-building and learning activities.

x. ***In particular, the Bank Group will aim to make use of its resources to support the Government in facing the challenges associated with the global crisis***, building on lessons learned during the food crisis and using options available under the IDA Fast-Track Facility and the IFC Crisis Response Initiatives. In the short-term, this includes providing macroeconomic policy advice (underway), identifying possible re-allocations of IDA resources within the existing portfolio to help mitigate the impact of the crisis on the poor, and working with private partners to provide liquidity support through trade finance facilities. As the global situation evolves, the Bank Group may propose substantial adjustments to the proposed program in the CAS Progress Report, which is currently scheduled for FY11 (but could be advanced or delayed if appropriate).

xi. ***The proposed CAS program entails an element of risk which will have to be carefully managed***. Consistent with past experience in Yemen, the proposed approach is based on proactive risk management rather than risk avoidance. Key risks include: fragility of the political and security environment; negative external economic environment and macroeconomic shocks; diminished Government’s commitment or ability to reform; and fiduciary risks.

xii. ***Executive Directors may wish to consider the following issues***:

- (i) Do Executive Directors support the proposed areas of focus (against the backdrop of requests by both Government and stakeholders for a broad-based Bank Group engagement that would help mobilize others and strengthen implementation capacity)?
- (ii) Are Executive Directors satisfied that the proposed risk management approach is appropriate, including with regard to risks deriving from current global economic uncertainties ?
- (iii) Do Executive Directors support the proposed approach to integrate IDA and IFC activities under the CAS framework?



## I. COUNTRY CONTEXT

1. *The poorest country in the MNA region, Yemen is facing daunting challenges in an uncertain global and regional environment.* Significant progress has been made over the last few years, but living conditions for most of the 22 million Yemenis remain difficult. Time is of the essence in making the necessary reforms: oil resources are rapidly depleting while the population continues to grow at a fast pace – and the geopolitical stakes are high. Yet, this will be a difficult process, and will require determined and coordinated efforts by the Government, stakeholders, and international partners.

### A. Political Context

2. *Yemen's political context needs to be analyzed against the backdrop of the country's history.* “Arabia Felix”, Yemen is a key station on both ancient and modern trade and communications routes at the Southern entrance of the Red Sea. A strong sense of national identity led to the 1990 reunification of North and South Yemen and, in spite of the 1994 civil war, still infuses political and social life. Yet, Yemen has also long been one of the most secluded places in the world, with very poor communication between remote valleys in a largely mountainous and arid country. This has had a significant impact on the social fabric of the country and its governance structures.

3. *Overall, Yemen's governance structures remain complex.*

- *The political system is a formal multi-party democratic system.* There is a relatively free press, and an active and vocal opposition. President Saleh was elected in September 2006 for a six-year term in an election which was called by EU observers “an open and genuine contest”, despite shortcomings. Parliamentary election originally scheduled for April / May 2009 were postponed to 2011 through an agreement between the majority and the main opposition parties.
- *The underlying social structure is largely based on a tribal system,* where the power of traditional leaders places limits on State authority. Most Yemenis tend to define their identity and affiliations through this tribal system, and in a country where weapons are commonly available the sheikhs often play a significant role at the local level.
- *Most institutions are relatively weak,* as reflected by the low CPIA (3.3). Insufficiencies are related to capacity issues, corruption, over- or inadequate staffing in the civil service (a legacy of the 1990 reunification when existing civil services were merged without reform), and the persisting need to clarify institutional mandates and structures.
- *The society is going through a transformation process.* New forces are coming into the fore, with the growing role of the private sector and the gradual emergence of civil society. In a mountainous country, where until recently the valleys in which a large part of the population lives were severely isolated, urbanization and modernization are challenging some of the long-entrenched features of the traditional order.

4. *Over the last years, Yemen has had to face a number of security issues,* especially following the 2000 attack on the USS Cole. While an overwhelming majority of the population lives in safe and peaceful environments, the situation remains complex. A (Shiite) insurgency in the

northernmost province of Sa'ada, sporadic attacks against foreign interests (most recently an attack on the US embassy in September 2008), controversies over the Government's efforts to manage the threat posed by terrorist groups, and social unrest linked to persisting poverty – all have contributed to projecting the image of a country afflicted by endemic violence.

5. *In this context, continued efforts will be needed to consolidate political stability and security throughout the country* – two key pre-conditions for effective economic and social development. Although there are diverging views among observers as to the prospects for such efforts to be successful, there is a consensus that particular attention should be paid in the coming period to the following areas:

- *First, political inclusion.* The challenge is to ensure that important constituencies can continue to meaningfully participate in the political process. The holding of free and fair Parliamentary elections, the establishment of a constructive relationship between the majority party and the opposition, and the continued development of adequate mechanisms to channel popular sentiment into the political debate through peaceful means will all be key in that regard.
- *Second, violent extremism.* The issue is whether the Government will be in a position to effectively reduce both the threat of terrorism within the country and the ability of extremist groups to use Yemen as a rear base for international operations. This is likely to require strong Government action, the close involvement of a variety of domestic stakeholders, and cooperation with foreign partners both in the region and worldwide.
- *Third, successful return to peace in Sa'ada.* An agreement was reached with the former rebels in 2008, but recent incidents suggest that significant efforts remain needed to prevent a new round of fighting and further consolidate the situation.
- *And fourth, interplay between the Government's authority and tribal structures.* Observers have continuously watched closely the extent to which the Government chooses to assert its authority or prefers to find a compromise with tribal leaders. The dynamics of institutional strengthening in a complex social environment are likely to remain at the heart of many political governance issues in Yemen.

## **B. Social and poverty context**

6. *Despite some progress, Yemen is unlikely to reach key Millennium Development Goals (MDGs) by 2015.* With GDP per capita standing at about US\$930, over 40 percent of the Yemenis live in poverty (vs. a 2015 target of 19 percent), especially in rural areas. Yemen ranks 153 out of 177 countries on the 2007 Human Development Index. There has been progress with regard to life expectancy (from 42 years in 1970 to 62 in 2005), and a significant, though still insufficient, increase in basic education enrollment (from 3 million in 1996 to 4.3 million in 2007). Yet, much remains to be done, especially in the areas of infant and child mortality (82 and 113 per 1000 live births respectively); maternal mortality (365 per 100,000 live births); malnutrition (46 percent of 5-year old are underweight); and the quality of education. In addition, in spite of significant investments in the last decade, Yemen has not caught up on its infrastructure lag, with access to many rural areas remaining difficult, electricity coverage limited (about 47 percent nation-wide, and about 20 percent in rural areas), and access to safe water insufficient (36 percent). Unemployment is widespread, especially among youth.

7. ***Yemeni women face particularly difficult conditions*** as reflected in almost all social and economic indicators. Traditional rules limit women's rights and opportunities, and early marriages (52 percent of women marry before the age of 15) continue to affect school enrollment, fertility rates, and maternal mortality. Despite progress over the last years, gender parity in education remains low (0.66 for basic, 0.45 for secondary, and 0.35 for university education) and female literacy stands at only 31 percent. Deep-rooted traditions also constrain the ability of women to engage in the broad labor force. Overall, a recent World Economic Forum report on gender issues ("*Global Gender Gap 2007*") ranked Yemen the lowest of 128 countries.

8. ***The rapid depletion of water reserves (aquifers) is a major threat to the country*** as a result of three factors: (i) climate change-induced alterations of rainfalls which are starting to exacerbate the country's aridity; (ii) extension and intensification of agriculture; and (iii) fast growth of urban centers (at 5 percent a year, the fastest in the MNA Region). In large swaths of rural areas, economic prospects and the sustainability of livelihoods are in jeopardy. In some important cities (e.g., Tai'z), running water is already available only a few hours every other week and aquifers of urban centers such as the capital, Sana'a, may well be fully exhausted in the next 20 years. This issue has the potential to wreak havoc on the country.

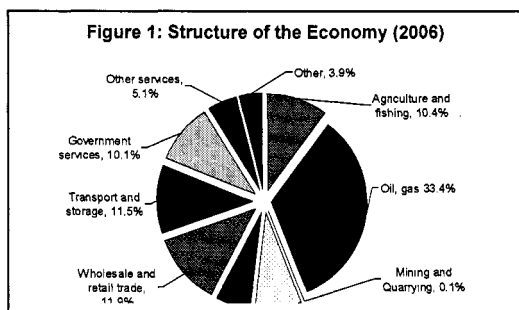
9. ***The widespread use of qat further affects Yemen's social conditions and prospects.*** Qat is a locally-produced plant, the leaves of which are chewed as a stimulant. Consumption in Yemen is widespread and extensive: about 72 percent of men and 33 percent of women are regular or frequent chewers. The impact of excessive qat consumption is multi-fold: at the individual level, poor health and reduced productivity; at the household level, diversion of scarce financial resources to non-productive uses (the average household devotes 10 percent of its income to qat); at the national level, substitution of agricultural products (land planted with qat has increased by 11 times between 1970 and 2005) and accelerated drawing on water resources (qat cultivation consumes one-third of the abstracted groundwater). Yet, qat consumption is deeply rooted in Yemen's culture and social behaviors. Qat also represents one third of agricultural GDP and is the main source of income to 14 percent of the population.

10. ***Overall, Yemen's social challenges are exacerbated by a fast-paced demographic growth.*** Nearly 50 percent of the population is below 15. Despite a 25 percent decline between 1960 and 2003, the total fertility rate remains among the highest in the world, at 6.2 births per woman, i.e. a demographic growth rate of over 3 percent a year. At this pace, Yemen's population could grow from 22 million today to 50 million by 2035 – in an environment of limited and depleting natural resources.

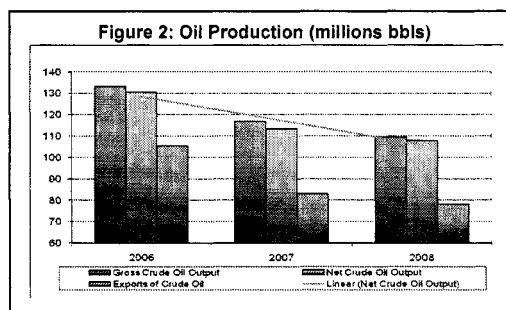
### **C. Economic context**

#### ***Recent developments***

11. ***Over the last decades Yemen's economy has been based on oil,*** with the redistribution of corresponding rents through civil service salaries and a generous subsidy system. Hydrocarbon output (oil and gas) represents about one third of GDP (Figure 1), almost three quarters of Government revenues, and 90 percent of exports. However, Yemen's oil reserves are rapidly depleting (Figure 2): in the absence of new discoveries, and based on current exploitation rates (about 300,000 barrels per day), crude oil reserves are expected to be exhausted in the next 10 to 12 years.



Source: World Bank, 2008.

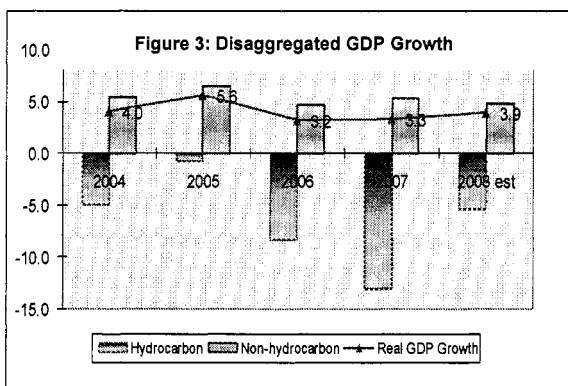


Source: World Bank, 2008.

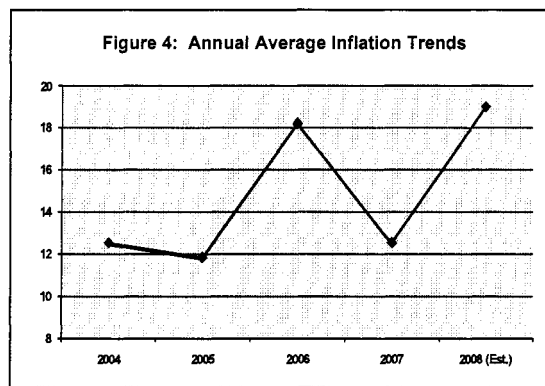
12. *Since 2004, the Government has made efforts to enhance the business environment and facilitate private sector-led economic diversification.* Recent achievements include: improving the regulatory environment (Yemen was top reformer for “starting a business” under *Doing Business 2009*, and its overall ranking improved by 15 places); amending legislations on foreign investment, mining, land registration, and income tax; further liberalizing trade; and developing a dialogue to strengthen regional economic cooperation with the Gulf Cooperation Council (GCC).

13. *In parallel, the Government has taken some steps towards improving governance and fighting corruption.* Key measures include: joining the Extractive Industries Transparency Initiative (EITI); effectively establishing the Supreme National Anti-Corruption Committee (SNACC); taking steps towards eliminating “ghost workers” and “double dippers” from the public service payroll; adopting a new procurement law based on international good practices; and starting to improve public finance management.

14. *Overall, these efforts are starting to pay off, but significant challenges remain.* While national accounts remain weak and significant discrepancies exist across sources of key macroeconomic data, all indicators point toward overall progress. According to the IMF, Yemen recorded an average non-hydrocarbon growth rate of 5.5 percent per annum over 2004-08, which was largely driven by agriculture, urban services, and construction. Overall real GDP growth nevertheless remains lower, averaging about 4 percent a year, due to the sharp contraction of oil output estimated at an average of about 6.5 percent per annum over the same period (Figure 3). Annual average inflation has been volatile and in double digits (Figure 4), partly driven by Yemen’s dependence on imports for basic products. The country was hard hit by the 2008 food crisis, which especially affected the poorest (with overall inflation peaking at 19 percent).

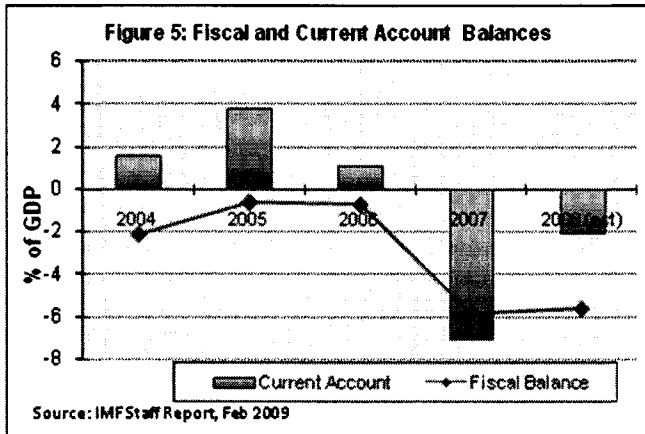


Source: IMF Staff Report, February 2009.



Source: IMF Staff Report, February 2009.

15. *Fiscal sustainability is the foremost macroeconomic issue*, as the reduction of oil revenues is not sufficiently compensated by increased revenues from other sources (tax revenues remain very low at around 7 percent of GDP). Government spending is driven by a large public sector

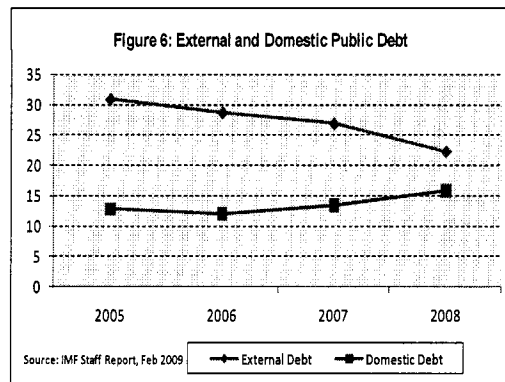


wage bill and unsustainably high fuel subsidies (around 14.5 percent of GDP in 2008), which together account for 72 percent of current expenditure. The fiscal deficit ballooned to 5.8 percent of GDP in 2007 (Figure 5) due to a sharp fall in oil revenues and rising current expenditure. The fiscal deficit is estimated to remain in the range of 5 to 6 percent of GDP in 2008 in the context of declining oil prices, continued rigid expenditures, and limited improvements in tax and non-

oil revenues. Towards the end of 2008, a large supplementary budget was approved (as in previous years) to allow for additional spending on fuel subsidies and an increase in wages, pensions, and social welfare transfers.

16. *The external position remains satisfactory, but significant vulnerabilities remain.* The Government has been maintaining a “managed float” exchange rate system, and monetary policy has focused on exchange rate stability and control of excess liquidity in the banking system. The rial has remained steady against the US dollar, which has helped mitigate imported inflation. The current account balance moved into a large deficit in 2007 mainly due to FDI-financed imports for the Yemen Liquefied Natural Gas (YLNG) plant. While record high oil prices in early 2008 have helped reduce the current account deficit to around 2 percent of GDP in 2008 (Figure 5 above), the external sector will remain vulnerable to the more recent declines in oil prices. On a positive note, gross official reserves are estimated to remain at the 2007 levels of around US\$7 billion in 2008, providing a substantial cushion of about 13 months of imports.

17. *Although external debt has steadily declined, its sustainability continues to be at risk* due to Yemen’s vulnerability to oil prices, and to sustained difficulties in implementing fiscal and subsidy reforms. Yemen’s external debt has declined steadily to an estimated 22 percent of GDP in 2008, but domestic debt (all short-term and expensive) is on the rise – estimated at nearly 16 percent of GDP in 2008 (Figure 6). Unless the authorities implement a comprehensive program of fiscal adjustment and structural reforms, Yemen could see its total public debt rise from 38 percent of GDP to over 65 percent of GDP in the medium-term, primarily due to a more than doubling of domestic debt. The most recent debt sustainability analysis (DSA) indicates that even with full implementation of fiscal and structural reforms, one debt indicator (the present value of debt-to-exports) is above the sustainability threshold over the long-term (see Annex 4 for further details).



### ***Short-term prospects and medium-term outlook***

18. ***The impact of the global crisis is already severe.*** The sharp fall in world oil prices, and the consequent shrinking in public expenditure, is depressing economic activity. Moreover, while the financial sector has remained relatively unscathed due to its relative insulation, the impact on the real sector is expected to be significant through declines in FDI, remittances (especially from the Gulf), and external financing. The short-term impact on growth may be partly mitigated (or masked) by the coming on-line of the large natural gas project in 2009 (YLNG) which is expected to boost hydrocarbon growth in 2009 by up to 45 percent, resulting in overall GDP growth of 7.7 percent. Concerted efforts (monetary and exchange rate) will remain necessary to curb annual average inflation to around 14 percent in 2009, in spite of easing pressures due to lower global commodity prices. And while detailed data are not available, the crisis is expected to disproportionately affect the poorest and most vulnerable (a household survey is under preparation and is expected to take place by Spring 2010).

19. ***In this context, the Government realizes the pressing need for comprehensive fiscal adjustment.*** This would entail reducing expenditure (fuel subsidies and the public sector wage bill), which is a politically sensitive endeavor. Fuel subsidies were reduced slightly in August 2008 with the raising of the price of diesel for sales to select industries – a positive but insufficient measure given the size of the overall subsidy. In order to keep the fiscal deficit at least at last year's level (below 6 percent of GDP) in 2009, the authorities need to reduce fuel subsidies substantially by mid-year, implement a nominal freeze on the public sector wage bill, and boost tax revenues. In order to reduce inflation and maintain confidence in the rial, the Central Bank is expected to continue to focus on exchange rate stability in the short-term. The authorities are also currently discussing a public debt law with ceilings for domestic, external, and overall public debt, as well as measures to drastically cut the investment budget. In the medium-term, Yemen needs to develop alternative sources of growth and fiscal revenues.

20. ***At this stage, the scope of possible external shocks is such that detailed projections and scenarios are of limited value and bound to change substantially.*** The baseline macro-economic framework is based on an ambitious reform program for which substantial Government commitment and external support would be needed. This program is focused on: (i) gradually eliminating fuel subsidies by 2011; (ii) reducing the civil service wage bill by around 2 percentage points of GDP by 2013; and (iii) implementing substantial tax reforms, including full implementation of GST as well as an increase in rates, and streamlining income tax. This adjustment scenario is guided by a debt sustainability analysis geared to keeping total public debt below 50 percent of GDP over the medium-term. Based on these adjustment measures, and assuming an average oil price of almost US\$70 per barrel, Yemen's average economic growth would be around 4.5 percent a year during 2010-2012. Annual inflation would decrease, but remain in double digits. The average fiscal deficit would decline to around 3 percent of GDP. The average current account deficit would stabilize at about 1.5 percent of GDP, while gross reserves would decline to around 8.5 months of imports during this period (Table 1).

**Table 1: Selected macroeconomic indicators under a baseline adjustment scenario**

	2004	2005	2006	2007	2008 Est.	2009 Proj.	Avg 2010-12 Proj.
<b>Real Sector (annual % change)</b>							
Real GDP	4.0	5.6	3.2	3.3	3.9	7.7	4.6
Real hydrocarbon GDP	-5.0	-0.8	-8.3	-13.1	-5.4	44.5	1.0
Real non-hydrocarbon GDP	5.4	6.5	4.7	5.3	4.8	4.4	5.1
CPI Inflation (annual avg. including qat)	12.5	11.8	18.2	12.5	19.0	14.0	10.4
<b>Investment (% of GDP)</b>							
Total Investment	20.3	18.5	16.4	17.2	16.9	15.5	17.4
Private Investment	8.2	10.6	9.1	10.0	9.8	9.5	11.0
<b>Government finance (% of GDP)</b>							
Revenue (including grants)	32.0	34.9	38.6	33.2	37.4	24.9	25.2
Hydrocarbon	22.6	26.2	28.9	22.6	27.5	14.4	13.1
Non-hydrocarbon	8.7	8.3	9.3	10.3	9.5	9.7	11.6
Grants	0.7	0.4	0.4	0.3	0.4	0.8	0.5
Total expenditure and net lending	34.2	36.8	37.4	40.3	43.0	30.6	28.4
Overall deficit (cash basis)	-1.7	-1.8	1.2	-7.2	-5.6	-5.7	-3.2
Non-Oil primary balance	-22.1	-24.7	-27.2	-26.1	-30.9	-17.6	36.1
<b>Gross Public Sector Debt (% of GDP)</b>							
External debt	38.5	30.9	28.7	26.9	22.3	21.8	18.2
Domestic debt		12.9	12.1	13.5	15.9	19.3	18.0
<b>External Sector(% of GDP)</b>							
Gross reserves (months of imports)	15.0	11.6	10.0	10.2	13.3	10.3	8.5
Current account balance (% of GDP)	1.6	3.8	1.1	-7.0	-2.0	-2.4	-1.5
<b>Memorandum items:</b>							
Crude oil Production (1000 barrels per day)	396.0	393.0	357.0	310.0	293.0	424.0	445.7
Average oil export price(US\$ barrel)	36.6	51.2	62.8	72.3	96.0	52.8	68.9

Sources: World Bank and IMF Staff Estimates, February 2009.

21. *The above scenarios hinge on the severity and duration of the global economic downturn, which will become more apparent later in the year. Early stress tests indicate that Yemen will be affected in the following manner by a continued decline in oil prices, a weakening of regional and global growth, and limited access to external financing:*

- *A continued fall of oil prices would cause fiscal and current account imbalances to rise.* For each US\$10/bbl decline, the overall fiscal and current account balance would deteriorate by almost 1 percentage point of GDP. The fiscal impact could be mitigated by a corresponding decline in fuel subsidies, and pressure on the external account may be partially alleviated if global commodity prices keep falling.
- *Slower regional and global growth would bring lower levels of non-oil FDI, remittances, and possibly aid.* A 50 percent decline in non-oil FDI would likely reduce growth and the current account deficit (each by around 0.5 percent of GDP). A 50 percent fall in remittances would widen the current account deficit by 0.5 percent of GDP, marginally lower real GDP growth, and have an important impact on poverty. A 50 percent fall in aid disbursements would marginally widen the overall fiscal deficit, and increase domestic debt by 1.2 percent of GDP. A combined loss of non-oil FDI, remittances, and donor financing would result in the fiscal and current account deficits deteriorating by 1-1.5 percent of GDP, public sector domestic debt rising by around 2.5-3 percent of GDP, and international reserves dropping by one month of imports.

## II. GOVERNMENT'S VISION AND MEDIUM-TERM PRIORITIES

22. *The Government has set out an ambitious vision for the country's development* with far greater emphasis on diversifying the economy (through private sector-led activities), enhancing governance, improving social conditions, and managing natural resources than previously articulated in Yemen. While this program was developed prior to the onset of the global crisis, and will hence have to be adjusted to factor in the deterioration of the global environment, its overall priorities remain sound to tackle the medium-term challenges the country is facing.

23. *The "Strategic Vision 2025" has been translated into a series of successive national plans*, which have been discussed with Parliament, stakeholders, and international partners. The Third Socio-economic Development Plan for Poverty Reduction (DPPR), currently under implementation (2006 to 2010), is built on 8 pillars which provide a prioritized framework for action: (i) macroeconomic policies and targets; (ii) good governance (iii) development of productive and promising sectors; (iv) water, environment, and basic infrastructure; (v) human development; (vi) Government services; (vii) social safety net, social protection and social security; and (viii) women's empowerment. The DPPR was the subject of a Mid-Term Review in January 2009, which took stock of implementation progress and identified areas for increased efforts. A fourth DPPR is expected to be prepared in the coming year.

24. *The DPPR is complemented by the National Reform Agenda and the Public Investment Program.* The National Reform Agenda sets a broad agenda of priority reforms for the country to accelerate economic growth, improve economic governance, broaden opportunities and participation, and strengthen cooperation with development partners. It focuses in particular on the following issues: (i) judicial reform; (ii) administrative reforms and civil service modernization; (iii) investment and business climate; (iv) anticorruption, transparency, and accountability; and (v) political reforms. The Public Investment Program identifies priority investments in support of the DPPR.

25. *Overall, these plans revolve around a narrow set of overarching goals and provide a sound framework for identifying priorities – yet, as in many other IDA countries, they reflect some of the capacity and data constraints Yemen is facing.* In particular, the priorities remain very broad and the means to achieve some of the intended results are unspecified. The recent Mid-Term Review of the DPPR highlighted these weaknesses and encouraged the Government to strengthen its capacity for implementation of both reforms and investments.

26. *The first overarching goal is to accelerate economic growth through private sector-led diversification.* To that effect, the DPPR aims to attract private investment and develop an export-oriented strategy directed toward the GCC markets and beyond. The current deterioration in the global environment makes the need for such efforts both even more pressing and even more challenging. Action will be required in a number of areas:

- *Macroeconomic policy.* The DPPR underscores the importance of continued efforts to reduce the budget deficit (through an increase in non-oil revenues and a reduction of expenditure), contain inflation, and manage a slow depreciation of the rial against the US\$. This will be especially important in the coming period to mitigate the impact of the global crisis. While the specific targets are ambitious, and based on optimistic assumptions of high oil prices and significantly increased aid flows, the general policy directions are sound. The DPPR also highlights the need to strengthen national accounts, and more generally the country's statistical capacity.



- **Regulatory reforms.** The DPPR aims to encourage private investment through further regulatory reforms aimed at *easing business* (further liberalize foreign trade, facilitate private investment, rationalize tax and customs clearance procedures, encourage competition, and decentralize private sector-related Government services to the appropriate regional levels) and strengthening the poorly-developed *financial sector*. The challenge in these areas will be for the Government to move with sufficient determination to enhance the credibility of the reform program. With regard to *trade*, the Government's efforts are aimed at achieving accession to the World Trade Organization (WTO) and fulfilling all requirements of the Greater Arab Free Trade Zone and the GCC, two objectives which are indeed critical for Yemen to effectively stimulate non-oil exports, but where progress is likely to depend heavily on political considerations.
- **Improvement of infrastructure services.** The DPPR highlights the need for both substantial investments (to pursue the ongoing efforts aimed at expanding the still insufficient systems) and sectoral reforms (to drastically increase efficiency and better manage scarce resources). The specific targets set in the document may be ambitious, but overall the proposed strategic directions are sound. For *electric power*, the objective is to increase access and reliability, through the construction of further generation and transmission capacity, the development of renewable sources of energy (including wind and solar power), the expansion of transmission and distribution networks in rural areas, and most importantly a substantial reform of institutions in the sector, to improve their performance and financial sustainability. For *transport*, the aim is to further expand and upgrade infrastructure systems, while strengthening the institutional and financing arrangements necessary for their effective operation and maintenance. With regard to the *urban* sector, the focus is on enhancing infrastructure and services to improve competitiveness and the ability to attract private investors.
- **Support to traditional sectors.** With regard to *oil*, the Government's aim is to limit the rate of decline in production, and to identify and exploit new reserves throughout the country (and offshore). This approach is sound, but its success critically depends on two factors on which Yemen has little control: international oil prices and the geological odds of a major find. With regard to *agriculture*, the DPPR focuses on increasing productivity through more efficient irrigation, enhanced and better regulated use of fertilizers and pesticides, and strengthened marketing, research, veterinary, and extension services.
- **Development of new sources of growth.** By far the most promising new source of economic growth (and fiscal revenues) is the *natural gas* sector. The DPPR aims to build on the YLNG experience to incite foreign companies to expand their gas exploration and extraction activities, through significant adjustments to the existing regulatory framework. The expanded use of natural gas for domestic power production is also expected to contribute to non-oil growth in the next two to five years. The DPPR aims to achieve high growth in the *manufacturing* sector, but this is constrained by the lack of infrastructure, and especially by the insufficient availability of energy (in addition to regulatory issues). The *fisheries* sector is promising (and has potential for employment generation), with a variety of investment opportunities in fishing, processing, and exporting – but sustained high growth in the sector will require careful management of the fish stock to prevent its depletion, as well as availability of power, processing, and transport infrastructure. Finally, the DPPR identifies two further “promising” sectors, *mining* and *tourism*, but these will need time to realize their full

potential: large-scale mining development is hindered by poor infrastructure, perceptions of a high level of risk, and the lack of readily available geological information; tourism development is hampered by limited infrastructure and insecurity.

27. ***The second overarching goal is to enhance governance.*** The overall governance agenda is very broad and a number of the priorities identified in the DPPR (and the National Reform Agenda) are aimed at dealing with issues which are of a political or social nature, e.g.,: modernize the security services, ensure the respect of human rights, enhance the electoral system, and deliver cultural and religious Government services. A further set of priorities is related to the necessary strengthening of the judiciary through increased independence and enhanced capacity. Priority economic governance reforms are essentially related to three sets of issues:

- ***Transparency.*** The DPPR emphasizes the importance of fighting corruption in all areas, and highlights a number of priority actions to that effect, including effective strengthening of SNACC and the Central Organization for Control and Audit (COCA) to ensure that they are able to identify and effectively prosecute cases of corruption, further progress in the oil sector through the EITI process, and the continuation and full implementation of ongoing reforms of the budget system, financial management, and public procurement. The key to success is the Government's ability to maintain and further strengthen the credibility of these efforts through short-term, high-visibility decisions which can help sustain the momentum for further progress.
- ***Public finance management.*** The DPPR's aim of improving efficiency and transparency has been operationalized in a Public Finance Management Reform Strategy, which was designed by the Government with the support of a group of donors (including the Bank Group). The key components of this strategy are general budget reform (preparation, execution and information systems); controls and accountability; procurement; and skills. The challenge for the authorities will be to rapidly make progress where possible in the short-term, while preparing for an effort that will need to be sustained over the medium-term.
- ***Administrative capacity.*** The DPPR aims to strengthen capacity through the further modernization of the civil service. This would include a rationalization of institutional mandates (to reduce overlaps and clarify accountability), the internal re-engineering of key administrative entities (to increase efficiency), progress towards decentralization, and a continuation of ongoing efforts aimed at gradually reducing the payroll. The challenge will be to set the right pace for such reforms, which are urgently needed but will need to be implemented amidst abundant technical complexities and vested interests.

28. ***The third overarching goal is to improve living conditions and social indicators.*** Over the last period, the Government has successfully focused on expanding access to basic services in a context of rapid demographic growth. The DPPR aims to pursue this effort, while at the same time reforming or even transforming delivery mechanisms to improve effectiveness and quality. The Government is also beginning to underscore the significance of creating synergies among sectors to magnify impact of sector outcomes and influencing the MDG outcomes.

- ***Gender.*** The DPPR aims to further tackle a complex web of economic, social, cultural, and legal obstacles to women's empowerment. In particular, the DPPR aims to increase women's employment in both private and public sectors and their participation in local and parliamentary elections, both as candidates and voters. Yet, the DPPR does not

provide a clear action plan to move from what can be achieved through legal means to the necessary social transformations that can underpin sustainable progress.

- **Qat.** The DPPR highlights the complexity of the qat issue and its link with agricultural growth. It hence recommends to address it in an “objective, informed, and gradual fashion”, with a focus on “striking a balance between its economic, social, health and environmental aspects”. Efforts to date have focused on raising awareness and launching a dialogue with stakeholders.
- **Youth.** The DPPR’s concern with children and youth issues has translated into the adoption of a Bank Group-supported Children and Youth Strategy. This Strategy aims to make progress towards the relevant MDGs through a concerted and integrated effort across sectors, based on an assessment of needs, gaps, challenges, and possible solutions. The Strategy recommendations were further elaborated in form of Action Plans to include specific activities and targets for relevant line ministries as part of their respective sector programs. The success of implementation will depend on the authorities’ effective ability to deploy an integrated program across a broad range of ministries and technical entities.
- **Education.** The challenge in the sector is to continue to absorb a rapidly growing school-age population while improving the quality and relevance of education. For **basic education**, the objective is to further increase enrolment rates (currently at about 74 percent), especially for girls and young women – and to reform curricula, further develop teacher training, and strengthen overall quality management. For **technical education**, the DPPR focuses on strengthening the links with the private sector. For **higher education**, the aim is to develop a system that can respond dynamically to the needs of local and regional markets, through widespread institutional reforms and a diversification of sources of funding. These priorities are sound, but will require sustained efforts over a long period of time.
- **Health and population.** Significant improvements have been achieved over the last years, in large part thanks to a dramatic expansion of health facilities, increased immunization coverage, and improved control of major diseases (malaria, TB). The DPPR aims to build on this foundation to accelerate progress towards the MDGs through a renewed focus on the modalities of service delivery. In the **health** sector, priorities entail improving management and planning capacities, involving local communities, and strengthening quality of services. With regard to **population**, the DPPR calls for a substantial strengthening of reproductive health services in order to reduce the annual population growth rate to 2.75 percent. Progress in this area will require not only technical measures but also societal changes.
- **Social safety nets.** Yemen has developed a multi-tier safety net, including highly successful **community-driven programs** (notably under the Social Fund for Development and the Public Works Program), and the provision of limited cash transfers to the poorest (through the Social Welfare Fund). Yet, the largest share by far of social expenditure is consumed by an expensive and untargeted **subsidy system** (essentially for energy products). The DPPR takes a cautious approach to this politically-sensitive issue, and focuses on the need to strengthen existing programs. Still, the Government is aware that in an increasingly constrained fiscal environment it may not be possible to delay for much longer the necessary reform of the subsidy system, an issue which is likely to take some degree of prominence in the coming period.

29. *The fourth overarching goal is to manage natural resource scarcity and natural risks.* The DPPR highlights the natural constraints to Yemen's development and the need to take forceful action to allow for development efforts to be sustainable. This is expected to be particularly difficult as it requires considerable upfront efforts which in many cases will have only limited immediate benefits – in fact, even in the medium-term, such efforts will at best result only in a partial mitigation of the threats. Particular effort will be needed in several areas:

- *Water resources management.* The DPPR highlights the dual challenge of extending access to water and sanitation services (including irrigation, which consumes the bulk of the resource) while reducing groundwater abstraction to more sustainable levels. To that effect, the DPPR focuses on the need to achieve efficiency gains through technical measures (e.g., improving irrigation productivity) as well as sectoral reforms (e.g., management systems, cost-recovery, and community involvement).
- *Natural disaster response.* Yemen is naturally prone to such events which can be devastating at the level of entire provinces, as demonstrated by the October 2008 floods in the Eastern governorates. While the DPPR does not explicitly emphasize the need for both preparation and mitigation, such objectives are consistent with its general principles.
- *Climate change adaptation.* Climate change is expected to amplify some of the long-standing natural constraints to Yemen's development, in particular through lower overall rainfall (and increased occurrence of dramatic floods) and the rising of sea levels. The authorities are aware of the challenges ahead and have demonstrated a strong ownership of the climate change agenda, which is expected to affect a number of the DPPR priorities.

### III. REVIEW OF PAST BANK GROUP ASSISTANCE

30. *The Bank Group has a long-standing relationship with Yemen.* The former Yemen Arab Republic and People's Democratic Republic of Yemen joined IDA in 1971. Since then, IDA has approved 143 projects for Yemen, valued at about US\$2.8 billion. Assistance was substantially increased in the aftermath of the civil war and the Bank Group developed a strong and substantive trust-based relationship with the Yemeni authorities. Since 1995, IDA has approved 47 projects, for a total of US\$1.7 billion and has provided substantial analytical and technical support. IFC restarted its activities in Yemen in 1998 and has substantially increased its program and commitments in the last three years. IFC is also providing a broad array of advisory services, through IFC Advisory Services, several of them in partnership with IDA. This partnership has been underpinned by the continued strengthening of the (co-located) Bank Group offices in Sana'a: the IDA Country Office, where an increasing number of Task Team Leaders and sectoral specialists are based, and the IFC office which was opened in 2005.

31. *Implementation of the 2006-2009 CAS is rated moderately satisfactory* (see attached CASCR for a detailed evaluation). The proposed CAS program was relevant to Yemen's needs and was aligned with the Governments' priorities, as expressed in the DPPR and the National Reform Agenda. Results were achieved partially or completely for 20 of the 26 performance indicators. Overall, the impact of the program is expected to be sustainable in the medium-term, even though its eventual impact will closely depend on the Government's continued commitment and efforts in the next CAS period.

32. *Specific achievements under each pillar include:*

- ***Diversifying growth through better governance and better delivery of public services.*** The Bank Group financial, analytical, and Technical Assistance helped achieve notable results across a broad range of sectors, including business regulatory environment (simplified business start-up procedures and tax system), infrastructure (expanding rural energy and roads access), agriculture and fisheries, as well as enhanced urban development for business. Support to higher education and skills development was moderately unsatisfactory.
- ***Accelerating human development through more efficient service delivery and improved safety nets.*** The Bank Group continued to focus on supporting Government's efforts to expand access to basic services. Progress was made, especially in sectors such as education (primary school enrolment), health (including safe-motherhood), water (in both rural and urban areas), and children and youth (even though some of the original CAS indicators appear in hindsight to have been over-ambitious). The Bank Group provided substantial and effective support to community-driven development through the Social Fund for Development and the Public Works Program. The Bank Group also initiated efforts in the areas of safety nets and gender where much remains to be done.
- ***Improving fiscal sustainability through improved public expenditure management.*** Support provided by the Bank Group was key in facilitating the design, adoption, and implementation of important reforms including with regard to transparency (joining EITI, establishing SNACC), procurement (passing a new procurement law and associated regulations), public financial management (adopting a modern budget system), and administrative reforms (identifying "ghost workers" on the civil service payroll). The phasing out of fuel subsidies, however, was postponed in the context of a complex social situation and a global increase of food prices.
- ***Increasing resource sustainability through improved management of water resources and reduced population pressure.*** Bank Group financial and Technical Assistance supported progress to improve efficiency in managing scarce water resources, through enhanced irrigation, groundwater management, and soil conservation. Results on population-related indicators were limited, however, reflecting in part the complexity and social sensitivity of this issue.

33. *This has been achieved through a combination of instruments, including:*

- ***A substantive IDA program of Analytical and Advisory Activities (AAA).*** AAA was aimed to share global knowledge, to advise the authorities on the preparation of key reforms, and to provide the analytic underpinning for lending operations. It included analytical work across a broad range of sectors (with 39 pieces of AAA delivered over the period vs. 36 planned in the CAS), as well as Technical Assistance by IDA. Overall, the program was satisfactory and implemented with sufficient flexibility to respond to Yemen's emerging needs (e.g., on anti-corruption, safety nets, climate change).
- ***Significant IFC Technical Assistance.*** In close coordination with IDA, and in partnership with other donors (including DFID and the Netherlands), IFC's Advisory Services has provided substantial assistance focused on business regulatory reform and

investment climate improvement, mining policy reform, SME development, financial markets (especially in the areas of leasing, corporate governance, and SMEs), and public private partnerships (PPPs).

- **IDA financial assistance.** During the CAS period, IDA provided financing under 16 new projects (including seven additional financings), for a total commitment of US\$478 million. The use of additional financing proved an effective way to scale up the impact of successful operations and to gradually reduce portfolio fragmentation. A substantial part of the IDA program was also focused on responding to emerging priorities and addressing emergencies (avian flu, food crisis, floods).
- **Implementation of the ongoing IDA portfolio.** The current IDA portfolio includes 21 projects, for a total commitment of US\$1,026 billion, of which US\$684 million undisbursed. Overall, in spite of a challenging environment, performance, including fiduciary performance, remains satisfactory (with only two projects currently rated less than moderately satisfactory). Progress is significant if considered over the medium-term: the share of unsatisfactory projects fell from 50 percent in FY95 to 6 percent in FY09, and the disbursement ratio rose from 10 percent to 23 percent. Yet, the pace of implementation remains slow, reflecting capacity constraints which translate into late effectiveness and slow procurement.
- **Trust Funds.** Yemen is a relatively large recipient of Bank Group-managed Trust Funds, with a portfolio of over \$80 million in net grant amount. Trust Fund activities are well integrated in the Bank Group program (both financial and advisory). Trust Fund financing has proven especially instrumental: (i) to provide a rapid response to emergencies (e.g., GFRP Food Crisis Response, GFDRR for flood emergencies); (ii) to scale up the impact of successful operations (e.g., Education For All – Fast Track Initiative); (iii) to expand the Bank Group’s ability to provide advisory services, including in sensitive areas (e.g., EITI); and (iv) to pilot activities for an eventual streamlining (e.g., Output-Based Aid (OBA), pilot programs to improve water supply mechanisms, JSDF program for Cultural Industries Development for Poor Communities).
- **IFC investments.** IFC has provided increasing support over the CAS period, with a focus on the financial sector, SME development, education and health, manufacturing, and agribusiness. IFC’s portfolio has grown to US\$150 million, up from only US\$16 million in FY2005, thus supporting private sector development.
- **MIGA does not have any outstanding guarantee in Yemen.** In coordination with IDA and IFC, MIGA has however provided advisory services on the overall investment promotion arrangements in Yemen.

34. **The Bank Group’s engagement has also had significant indirect results** thanks to a strong dialogue with the authorities as well as with stakeholders and partners. The Bank played a major convening role in donor coordination, in particular through the co-chairing of the Consultative Group (CG) meetings and the design of multi-donor programs. As in other low-income countries, renewed donor engagement sent a strong signal to the private sector about potential investment opportunities, and IFC helped Yemen attract sophisticated new investors, in addition to its own project financing.

## *Lessons learned*

35. *The lessons learned through the implementation of the CAS program point to a series of recommendations*, which have been discussed extensively within the country team and are incorporated in the proposed strategy.

- ***Bank Group assistance has proven effective in supporting specific reforms.*** The quality of the dialogue established with both the authorities and stakeholders has made it possible to promote and influence the design of important reforms. The Government is highly appreciative of the Bank Group's efforts to share global knowledge and adjust it to the country's situation.
- ***In a context of limited institutional capacity, implementation remains challenging although with significant variations across sectors.*** Overall, the pace of disbursements is broadly in line with MNA and IDA averages, and risks (including fiduciary risks) are well managed – but continued efforts are needed to further strengthen and accelerate implementation. Emerging good practices in that regard include: (i) simplifying project designs and streamlining implementation arrangements; (ii) focusing on results based on a realistic assessment of capacity constraints; (iii) using decentralized implementation arrangements where appropriate; and (iv) promoting rapid results approaches (such as the “100-day initiative” which has been very successful in the health sector).
- ***The Government sees Bank Group involvement in a given sector as an effective way to strengthen overall implementation capacity in this sector,*** and hence to help mobilize donors and facilitate execution of their pledges. This has typically been achieved through the design of multi-donor sectoral investment programs (e.g., energy, water, education, community development, etc.), as well as capacity building activities.
- ***Synergies within the Bank Group have proven effective to provide enhanced support*** at both program and project levels. CAS results have been underpinned in large part by the close cooperation and synergies developed within the Bank Group. One of the strengths of the Bank Group's program in Yemen has been to conceive, design and implement activities as complementary parts of an overall effort. The Government has expressed its satisfaction with the efforts made to further maximize these synergies through integrated packages of knowledge, advisory services, Technical Assistance and financing.
- ***The link between CAS objectives and instruments was insufficient in some sectors.*** In hindsight, specific objectives were over-ambitious in view of the Bank Group interventions in the corresponding area. The timing of interventions (e.g., project approval late in the CAS period) was not always factored in the definition of outcome indicators. This resulted in a performance that was lower than expectations in several cases, even where notable progress was achieved on the ground. The proposed results matrix for the new CAS will need to improve the correlation between outcome indicators and instruments.
- ***In some sectors, there is a trade-off between the short-term focus on results and the medium-term need to strengthen capacity.*** The use of Project Implementation Units (PIUs) or cross-sectoral entities, such as the Social Fund for Development (SFD), to channel resources has proven an efficient way to achieve results on the ground. Yet, there is a risk that such mechanisms undermine the broader capacity-building agenda.

Parallel efforts need to be made to strengthen capacity within sectoral ministries, with a view to preparing for an eventual transfer of responsibilities, as may be adequate.

- ***Monitoring and evaluation (M&E) remains weak***, in an environment where reliable statistical data are often lacking. Further efforts are needed to enhance the design of outcome indicators and the corresponding collection methods. This will require providing technical and financial assistance in support of statistical systems as well as improving the choice of outcome indicators for upcoming operations.

#### IV. A NEW PARTNERSHIP, FY2010–13

##### **A. Objective and expected results**

36. ***The overall objective of the Bank Group's program proposed in the CAS is to facilitate Yemen's further progress towards the Millennium Development Goals.*** This overall objective reflects a consensus view expressed by Government, civil society, academia, the private sector, and parliamentarians, with regard to the key challenges the country is facing and the possible optimal use of Bank Group resources in support of Yemen's development agenda. It should be noted that in a context where the lack of economic and social opportunities is often seen as creating an environment where frustrations can be exploited by violent extremists, successful development efforts are also likely to contribute to strengthening the prospects for the country's (and the sub-region's) medium-term stability.

37. ***The CAS is articulated around a results framework*** which is designed to help focus the Bank Group's efforts and the dialogue with the authorities and stakeholders on a clear set of measurable objectives (see Annex 5). Progress against these indicators will be assessed on a continuous basis through regular consultations with the Government, key stakeholders, and donors, to ensure that Bank Group programs are managed for results and focused on making a measurable difference on the ground. However, while it provides explicit strategic direction, the results framework is not expected to be used as a rigid blueprint, but to leave scope for appropriate adjustments in order to respond to evolving priorities and needs.

38. ***In an uncertain global environment, the Bank Group will aim to make best use of its resources to support the Government in facing the challenges associated with the global crisis.*** This effort will build on lessons learned during the Bank Group response to the food crisis (within the context of the GFRP) and emphasize responsiveness and flexibility. The Bank Group intends in particular to provide just-in-time analytical advice and Technical Assistance to the authorities, and to make use of available options under the IDA Fast-Track Facility and the IFC Crisis Response Initiatives. In the short-term, this includes providing policy recommendations on macroeconomic management (underway), identifying possible re-allocations of IDA resources within the existing portfolio to help mitigate the impact of the crisis on the poor, and working with private partners to provide liquidity support through trade finance facilities.

39. ***As the global economic situation evolves, the Bank Group may propose substantial adjustments to the proposed program in the CAS Progress Report***, which is currently scheduled for FY11. The current assistance program is based on information available at the time of its design, and does constitute an adequate response to Government requests and stakeholders concerns in that context. Yet, the global crisis may affect in Yemen in ways as yet not identified,



in which case the Bank Group may have to dramatically shift its assistance program. The CAS Progress Report (which could be advanced or delayed if appropriate) would provide the strategic framework for such revisions.

## **B. Key principles**

40. *The proposed CAS program is derived from the Government program*, as articulated in the DPPR and the National Reform Agenda. The actions proposed under the CAS are closely aligned with the priorities identified by the authorities and stakeholders.

41. *The proposed CAS program foresees a broad-based, yet selective engagement across a variety of sectors*. The Bank Group is seen by the authorities and many stakeholders as an honest and trusted partner – a solid reform proponent with the ability to translate global knowledge into priorities which reflect country circumstances. It is also perceived as a large financier to both the public and the private sector. In this context, the authorities, stakeholders, and other development partners have called on the Bank Group to substantively engage in a number of sectors in order to provide a core program around which others can coalesce. In order to avoid a dispersion and dilution of efforts, however, the Bank Group will apply selectivity: (i) in the choice of thematic areas for engagement (at both sectoral and sub-sectoral levels); (ii) in the choice of instruments for engagement (Technical Assistance, analytical work, financial support through IDA or IFC); and (iii) in the design of individual products (keeping them simple so as to facilitate implementation).

42. *The proposed CAS program was designed in close cooperation between IDA and IFC*, as one of the pilots under the recent initiative by the joint IDA-IFC Secretariat. This is translating into an effort to optimize the integration and complementarity of activities by both institutions, through the joint design of the results framework. In addition, several “target strategic themes” (i.e. financial sector, business environment, energy, mining, and health) have been identified where mechanisms have been put in place to ensure a close cooperation during implementation of the proposed CAS program (see Annex 7).

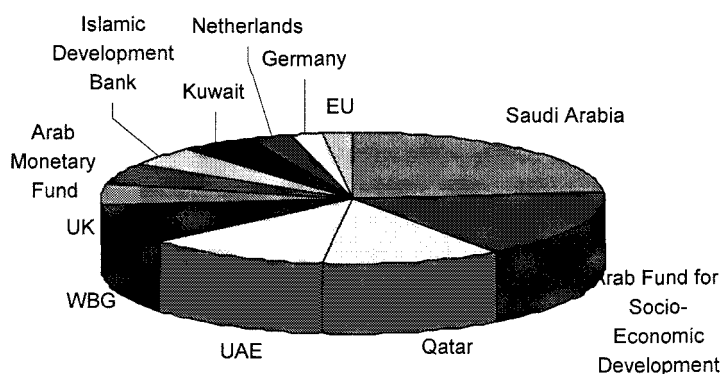
43. *Finally, the CAS is prepared in the broader context of the Bank Group’s strategic focus on the Arab World*. While Yemen is one of the few Low-Income Countries (LIC) in the Arab World, and as such has to address simultaneously a broad range of issues, most of the key challenges it is facing (and most of the areas in which the Bank Group intends to provide support) reflect those identified in the broader Arab World Initiative, including: (i) supporting economic reform and integration with the global economy, including transport and infrastructure; (ii) helping to enhance education quality to improve skills in the labor force; (iii) supporting social integration through work in areas such as gender, health, and social safety nets; and (iv) supporting reforms in the management of water resources.

## **C. Development partners**

44. *Bank Group assistance will be provided against the backdrop of a significant international effort*. Until the early 2000s, the level of aid to Yemen was lower than that provided to other IDA countries (with fewer donors and a largely project-based assistance): financial assistance fell from about US\$400 million in 1990 to less than US\$100 million in 1995, following the 1991 Gulf War and the 1994 civil war. Following the launch of the reform program in 2004, however, Yemen has been able to successfully rebuild its relationship with development partners, and a number of donors have stepped up their engagement.

45. *At the 2006 meeting of the Consultative Group (CG), Yemen received about \$5.3 billion in new pledges* from 39 bi- and multi-lateral donors. GCC countries and GCC-based entities are providing almost two thirds of the total (Figure 7). Financial assistance by the Bank Group accounts to about 8 percent of the total pledges (compared to about 50 percent of all commitments in the pre-CG period). The Government and donors are working closely together to ensure an effective implementation of the pledges – and are reviewing progress through formal meetings, held annually. Overall, implementation is often constrained by capacity issues, but progress is encouraging and disbursements have increased significantly.

**Figure 7: 2006-2010 CG Pledges<sup>1</sup>**



46. *In this context, the Bank Group has developed a close cooperation with a number of Yemen’s development partners.* Most new IDA projects are jointly financed by a number of partners who are committed to using a similar design and harmonized implementation arrangements, including (i) development agencies from France, Germany, Italy, the Netherlands, the United Kingdom, and the United States; (ii) the European Commission; (iii) United Nations agencies; and (iv) regional development entities such as the Islamic Development Bank or the OPEC Fund. The World Bank Group is also working closely with the IMF on the macroeconomic dialogue. The United Kingdom’s Department for International Development (DFID) has provided Trust Fund resources to establish key technical positions in the World Bank Country Office (which are now financed from IDA’s administrative budget) and is financing a three-year IFC-managed technical assistance program of US\$14 million. A close dialogue has also been established with the GCC Secretariat and bilateral agencies from the sub-region. Overall, cooperation with both “traditional” and “non-traditional” donors is solid.

<sup>1</sup> Ministry of Planning and International Cooperation – AHA Unit - December 5, 2006 -

### Box 1: Examples of Aid Coordination and Harmonization in Yemen

Efforts towards aid coordination and harmonization have taken many forms in Yemen, as a reflection of a multiplicity of factors (e.g., needs, institutional strength, availability of donors, personal dynamics).

Typical arrangements include:

**Education.** Joint programs for basic and secondary education expansion and development underway, with joint design and joint supervision missions by cofinancing partners. All cofinanciers are applying the same procurement, financial management and monitoring arrangements (including DFID, Germany - KFW & GTZ - and the Netherlands).

**Energy.** Cofinancing of Bank-designed projects by other donors, including AFD, the Islamic Development Bank (IsDB), Germany, USAID, USTDA and DFID.

**Agriculture and Fisheries.** Cofinancing of Bank-designed projects by other donors, including the European Commission and IFAD

**Water.** Adoption of a Sector Program, supported by UNDP, EC, DFID, Germany, Japan, the Netherlands and other donors. Co-financing of Water Sector Support Project (WSSP) by Germany and the Netherlands.

**Community development.** Broad support by a coalition of donors to the Social Development Fund and the Public Works Program (including IFD, IsDB, OPEC Fund, Saudi Fund for Development, UNCDP, UNDP, UNESCO, AF, DFID, EC, IFAD, GTZ, KFW, Netherlands, Government of Oman, Italian government, US Food Aid). Joint supervision missions.

**Transport sector.** Use of a PIU set up to implement IDA-financed project by other donors.

**Governance.** Joint support by a group of donors (including UNDP-POGAR, IMF, DFID, EU, GTZ, The Netherlands, USAID) to help design the National Anti-Corruption Act and the Public Finance Management Action Plan.

**Business environment.** Joint support by a group of donors (including IDA, IFC, DFID, Netherlands) to help design reforms.

47. *Yemen is as a pilot country for implementation of the OECD Principles for Good International Engagement in Fragile States.* Yemen is committed to working with development partners to increase aid effectiveness through the implementation of the Paris Declaration and has set up an Aid Harmonisation and Alignment Unit (AHA) within the Ministry of Planning and International Cooperation (MOPIC) to coordinate such efforts. A recent OECD report suggests that some progress has been made towards harmonization, and yet that further efforts are needed to meet the Paris Declaration targets for 2010.<sup>2</sup> This report has also identified priorities for further action (see Table 2).

48. *The Bank Group's main contribution will hence be closely linked to its continued and further strengthened effectiveness in being the "glue" of external support programs.* In practical terms, during the CAS period the Bank Group will further focus on: (i) helping to mobilize donors; (ii) supporting the Government in designing sound sector-wide and thematic strategies; (iii) building multi-donor investment programs; (iv) helping to strengthen implementation capacity through its own projects for a broader use by other donors; (v) assisting in improving core Government systems; (vi) demonstrating new implementation approaches that, if successful, can be mainstreamed by the Government and other development partners; and (vii) helping to further advance the aid harmonization agenda in line with the Paris Declaration.

<sup>2</sup> "2008 Survey on Monitoring the Paris Declaration Making Aid More Effective by 2010", OECD. <http://www.oecd.org/dataoecd/47/60/42224622.pdf>

**Table 2: Paris Declaration Challenges and Priority Actions**

DIMENSIONS	2007	CHALLENGES	PRIORITY ACTIONS
Ownership	Low	Weak strategic link between national strategy and budget	Adopt a medium-term expenditure framework to better link plans to budgets
Alignment	Low	Limited use of country systems and reliance on parallel project implementation units (PIUs)	Fully implement the public financial management action plan
Harmonisation	Low	Limited use of programme-based approaches (PBAs)	Extend use of sector approaches, building on progress in education and water sectors
Managing for results	Moderate	No clear responsibility for country-level monitoring and evaluation system	Implement new monitoring and evaluation system for national development strategy
Mutual accountability	Moderate	No mutual assessments have taken place	Commit to National Aid Policy and establish mechanisms for country-mutual assessment

#### **D. Strategic elements of the Bank Group program**

49. *Bank Group assistance under the CAS is organized around four strategic objectives*, which are closely aligned with the DPPR focal areas and are inter-related (so that sustainable progress in one area depends on progress in the others): (i) help accelerate and diversify economic growth; (ii) help enhance governance; (iii) help foster human and social development; and (iv) help manage natural resource scarcity and natural risks. Each of these objectives is expected to be supported through a combination of instruments (financial, analytical, and advisory support), with complementary actions from across the Bank Group. Accountability for delivering results will be joint (IDA and IFC) except in those areas where support is provided by one institution only.

#### ***Overall***

50. *In addition to the activities identified under each strategic objective, the Bank Group will support the Government in updating its development strategy*, based on recent developments and newly-available information. During the CAS period, the Bank Group will provide Technical Assistance to help in the review of “Vision 2025”, to support preparation of the Fourth Socio-Economic Development Plan for Poverty Reduction, and to help strengthen the country’s monitoring and evaluation (M&E) capacities.

***Proposed instruments:*** (i) IDA Technical Assistance; (ii) IDA analytical work (Country Social Analysis).

#### ***Strategic Objective 1: Help accelerate and diversify economic growth***

51. *In the context of the global crisis, the effective diversification of the economy will require sustained efforts in a number of areas – yet the Bank Group resources remain limited.*

Drawing from the experience acquired under the previous CAS, the Bank Group will engage selectively using the full range of its instruments. Selectivity will be applied in each sector or thematic area (rather than across areas) and the Bank Group will in particular focus on: (i) providing analytical and technical advice in areas where it is seen as the prime source of support for critical reforms; and (ii) providing financing where it can help to mobilize and catalyze significant additional resources from both public and private financiers.

52. ***Maintain macroeconomic stability over the medium-term*** (Thematic Area 1.1). The Government has indicated its appreciation of the support in this area provided by the Bank Group over the last CAS period (in coordination with the IMF and other key donors). Against the backdrop of the global crisis, the Bank Group intends to provide very substantial assistance in this area, the focus of which will be adjusted throughout the CAS period to respond to evolving needs. Possible areas of focus include: (i) macroeconomic risks analysis and identification of policy responses; (ii) design of medium-term macro-economic scenarios (including to manage the decline in oil revenues); (iii) strengthening of national accounts; and (iv) analysis of poverty trends to inform policy making.

***Proposed instruments:*** (i) implementation support for the ongoing IDA Institutional Reform Grant (\$27 million undisbursed); (ii) IDA analytical work (Country Economic Memorandum, Poverty Assessment); and (iii) IDA technical assistance (macroeconomic policy, poverty monitoring, statistics).

53. ***Strengthen the foundations for private sector development*** (Thematic Area 1.2). Over the last period, the Bank Group has engaged selectively in this area, through both IDA and IFC, with significant results. The Bank Group will build on this track record and pursue an approach of focused engagement in support of key reforms, with a focus on: (i) improving key aspects of the regulatory environment (along the line of the *Doing Business* reports); (ii) strengthening selected areas of financial sector management (e.g., assisting banks in risk management and corporate governance, helping develop a regulatory framework for leasing and housing finance); (iii) expanding access to credit for the formal private sector, either directly (e.g., for micro and small and medium enterprises (MSMEs) and women entrepreneurs) or by supporting the development of finance institutions (e.g., microfinance and leasing institutions); and (iv) accompanying the Government's efforts to tighten economic links between Yemen and the GCC, with a view to facilitating both trade and investment.

***Proposed instruments:*** (i) IDA analytical work (Investment Climate Update, Financial Sector Strategy, Trade and GCC); (ii) IDA Technical Assistance (regulatory environment, regional trade and investments); (iii) IFC Technical Assistance (financial sector and business environment); and (iv) IFC investments, including in trade finance, banking, and regional investments.

54. ***Enhance infrastructure services*** (Thematic Area 1.3). Within each key infrastructure sector, the Bank Group will focus on those areas where it can build on an existing track record of solid implementation performance and resource mobilization. This includes support to: (i) further expand the rural road network and establish adequate institutional and financial arrangements for road maintenance; (ii) expand rural electrification, improve the operational and financial performance of the power sector, and develop alternative sources of energy (e.g., natural gas, solar, and wind); (iii) develop urban services to enhance competitiveness in key cities (Sana'a, port cities); and (iv) explore opportunities for Public Private Partnerships (PPPs) especially for power and ports.

**Proposed instruments:** (i) implementation support for ongoing IDA projects, i.e., Rural Access Project, Power Sector Project, Rural Energy Access Project, and Port Cities Development Project (with a total \$45 million undisbursed); (ii) IDA grants for transport (additional financing for the Rural Access Project for \$40 million), alternative energy (Mocha Wind Park Project for \$20 million), and urban competitiveness (Port Cities Development Project II for \$35 million, Integrated Urban Development Project for \$30 million); (iii) IDA analytical work (Energy Sector Reform, Urban Development Strategy); (iv) IDA technical assistance (energy pricing, road sector management); (v) IFC Technical Assistance (PPP support); and (vi) possible IFC investment (power PPP, ports PPP).

55. **Support selected drivers of non-oil growth** (Thematic Area 1.4). The Government has identified a number of priority sectors to spur diversification, in a deteriorated global environment. The Bank Group will engage selectively with a view to maximizing the impact of its assistance and will hence focus on those activities that are most likely to yield sizable and sustainable non-oil growth in the short- to medium-term. This includes: (i) increasing agricultural productivity in rain-fed areas (e.g., extension services, quality standards, supply chains, access to markets); (ii) promoting the sustainability of fishing resources management; (iii) encouraging private investment in the natural gas sector (incentives for exploiting oil-associated natural gas and for new investors, facilitation of mid- and downstream investments including power plants) as well as in mining and tourism (regulatory improvements, support to private operators); and (iv) exploring avenues to facilitating skills development and the school-to-work transition into these sectors.

**Proposed instruments:** (i) implementation support for the ongoing IDA Rain-fed Agriculture and Livestock Project and the Fisheries Resource Management Project (with a total \$24 million undisbursed); (ii) IDA grant for an Agriculture Development Project (\$30 million); (iii) IDA analytical work (Pathways out of Rural Poverty, Agriculture Development Strategy, Natural Gas Sector Strategy, Skills Development); (iv) IDA Technical Assistance (gas regulatory framework, management of midstream gas projects, mining, skills development); (v) IFC Technical Assistance (agribusiness, mining, tourism, and SME support); and (vi) IFC investments (through IFC Ventures) in financial institutions for on-lending to MSMEs, and in strategic high growth sectors.

### ***Strategic Objective 2: Help enhance governance***

56. **The issue of governance cuts across the entire CAS, from the efficiency of service delivery to the rules that govern economic activities.** The Bank Group program will integrate governance across sectors, in line with the recommendations of the recent Country Governance and Anti-Corruption Assessment (CGAC) and building on the ongoing experience in the water sector. The Bank Group has also been asked to help tackle specific overall governance issues, but given the capacity, political, and social constraints, selectivity is key. Efforts will hence focus on three areas where the Bank Group has been encouraged to take the lead by the Government and a group of donors involved in supporting governance reforms.

57. **Further strengthen transparency** (Thematic Area 2.1). In coordination with other donors (including USAID and GTZ), the Bank Group is currently providing Technical Assistance to the authorities, including to SNACC. During the CAS period, the Bank Group will build on this partnership and provide Technical Assistance to help: (i) further develop SNACC and COCA capacity; (ii) finalize and implement the National Strategy and Action Plan to Combat

Corruption; (iii) support civil society organizations to promote demand for good governance; and (iv) further implement the EITI process.

**Proposed instruments:** IDA Technical Assistance (anti-corruption, civil society, EITI).

58. **Improve effectiveness and efficiency of public finance management** (Thematic Area 2.2). Over the last years, the Bank Group helped implement the Public Finance Management Reform Action Plan which was adopted by the Government and a group of donors (including DFID, the Netherlands, and UNDP). During the CAS period, the Bank Group will further intensify this effort with a focus on: (i) budget preparation and execution processes (including the adoption of a Medium-Term Expenditure Framework, MTEF); (ii) implementation of the recent procurement law; (iii) continued implementation of the Accounting and Financial Management Information System (AFMIS) and expansion of its coverage; and (iv) improvement in financial management (commitment control mechanisms, monitoring of expenditure, forecasting and cash flow management systems, fiscal decentralization, public access to information).

**Proposed instruments:** (i) IDA grant for a Public Finance Modernization Project (\$10 million); (ii) IDA analytical work (Public Expenditure Review, Country Procurement Assessment Update); (iii) IDA Technical Assistance (procurement reform, public finance management); (iv) IFC Technical Assistance (customs and tax administration).

59. **Further support civil service reform** (Thematic Area 2.3). In coordination with other donors, the Bank Group is currently providing financial and Technical Assistance in this area albeit with mixed results. The Bank Group will pursue this effort with a focus on: (i) consolidating the removal of “ghost workers” and “double dippers” from the civil service payroll; and (ii) re-engineering pilot institutions.

**Proposed instruments:** (i) implementation support for the ongoing IDA Civil Service Modernization Project (\$22 million undisbursed) and the Support to Ministry of Legal Affairs IDF; (ii) IDA Technical Assistance (civil service reform, support to ministry of legal affairs).

### **Strategic Objective 3: Help foster human and social development**

60. **Improving living conditions in Yemen will require taking sustained action on a number of fronts, through a combination of sectoral and cross-sectoral approaches.** In an environment of limited resources, and building on existing programs and partnerships, priorities for Bank Group engagement will include: (i) encouraging and supporting national debates on deep-rooted problems, such as those related to gender, youth, and qat; (ii) promoting cross-sectoral interventions where appropriate and possible; (iii) building or further consolidating multi-donor umbrella programs to facilitate coordinated approaches in areas where substantial financial assistance is needed; (iv) providing analytical and Technical Assistance in support of critical reforms; and (v) facilitating the engagement of the private sector in the social sectors.

61. **Promote debate and cross-sectoral approaches on three issues that are at the root of Yemen’s development constraints: gender, youth, and qat** (Thematic Area 3.1). There is a broad consensus that effective action in these areas is of critical importance for Yemen to make sustainable social and economic progress; that this will require a concerted effort across sectors; and that success will only be possible if reforms are driven by Yemeni stakeholders (rather than external partners). In each of these three areas, the Bank Group will hence focus on: (i) ensuring that all projects and activities prepared and implemented during the CAS period duly reflect the

need to make progress on these issues; (ii) contributing to the national debate by analyzing and documenting critical aspects of these issues (e.g., gender equality, especially in the legal / regulatory sphere; youth and employment; social, medical, and environmental effects of qat consumption) and by sharing relevant international experience; and (iii) strengthening capacity of relevant advocacy and implementation-oriented Civil Service Organizations (CSOs). In addition, the Bank Group will: (iv) help promote female and youth entrepreneurship; (v) support implementation of the children and youth strategy; and (vi) pilot innovative ways to prevent or limit qat consumption by children.

**Proposed instruments:** (i) IDA analytical work (Gender Assessment Update, Youth and Employment, Qat and Water); (ii) IDA Technical Assistance (national gender dialogue, implementation of the Children and Youth Strategy, qat dialogue); (iii) IFC Technical Assistance (Business Edge Training for women and youth); and (iv) IFC investments for SME support targeting women.

**62. Further strengthen delivery of education and health services** (Thematic Area 3.2). The Bank Group will build on existing programs and partnerships with a view to: (i) strengthening (in the education sector) or further developing (in the health sector) integrated multi-donor programs; and (ii) supporting private sector provision of education and health services. In education, the sectoral focus will be placed on access (especially in rural areas and for girls), quality, and efficiency in the use of public resources across all levels of education (basic, vocational, higher). In health, the sectoral focus will be on strengthening capacity and efficiency for the delivery of a basic package of health services, improving delivery of reproductive health services, and reducing the incidence of schistosomiasis.

**Proposed instruments:** (i) implementation support for the ongoing IDA Basic Education Development Project, Secondary Education and Girls Access Project, Second Vocational Education and Training Project, and Health Reform Support Project (with a total \$39 million undisbursed); (ii) IDA grants for a Basic Education Project (\$40 million), a Higher Education Project (\$10 million), a Health and Population Project (\$30 million) and a Schistosomiasis Project (\$20 million); (iii) IDA analytical work (Education Country Status Report; Health, Nutrition, and Population Strategy); (iv) IDA Technical Assistance (education, capacity building to the National Population Council); (v) IFC Technical Assistance (PPP initiatives); and (vi) possible IFC investments (private health service providers, private education and vocational training).

**63. Implement community-level development actions and enhance the social protection system** (Thematic Area 3.3). The Bank Group is supporting two entities which have a strong track record of resources mobilization and implementation performance: the Social Fund for Development (SFD, whose main focus is on village-level infrastructure and social development) and the Public Works Program (PWP, whose main focus is on small infrastructure and environment). The Bank Group has also initiated a dialogue on the gradual replacement of general consumption subsidies by targeted cash transfers to the most vulnerable. During the CAS period, the Bank Group will: (i) help further scale-up SFD and PWP activities, further tighten their linkages with sectoral ministries, initiate strategic consultations on the mainstreaming of these activities, and use these instruments to promote cross-sectoral approaches in support of specific MDGs (e.g., nutrition, maternal health); and (ii) help design a strategy for subsidy and social protection reform (including macroeconomic, energy, social protection, and communications aspects) and strengthen the necessary capacity for implementation (e.g., targeting system, Social Welfare Fund, labor market policies).



**Proposed instruments:** (i) implementation support for the ongoing IDA Social Development Fund Project (including the additional grant from the Global Food Crisis Response Program and the Public Works Project (for a total of \$36 million undisbursed); (ii) IDA grants for follow-up Social Development Fund Project (\$50 million) and Public Works Project (\$40 million), and for a Subsidy Reform Development Policy Grant (\$30 million); (ii) IDA Technical Assistance (social policy/subsidy reform).

***Strategic Objective 4: Help manage natural resources scarcity and natural risks***

64. ***The challenge in dealing effectively with scarcity and risk is to take forceful preventive action*** – especially to slow down the depletion of water resources, to mitigate the impact of natural disasters, and to foster adaptation to climate change.

65. ***Slow down the depletion of water resources*** (Thematic Area 4.1). The Bank Group has been working with a core group of donors who are partnering in support of the National Water Sector Support and Investment Program. During the CAS period, the Bank Group will consolidate and further expand this work, with a focus on: (i) reduction of groundwater abstraction to more sustainable levels; (ii) expansion of water and sanitation coverage in rural as well as peri-urban areas; (iii) enhancement of irrigation efficiency and productivity (more crop per drop); and (iv) capacity building, including through the implementation of the well-articulated sectoral anti-corruption action plan.

**Proposed instruments:** (i) implementation support for the ongoing IDA Rural Water Supply and Sanitation Project, Urban Water Supply and Sanitation Project, Groundwater and Soil Conservation Project, and Water Sector Support Project (for a total \$196 million undisbursed); (ii) IDA grant for a Water Sector Support Project additional financing (\$90 million); (iii) IDA analytical work (Water Strategy Update); and (iv) possible IFC investments in MSME water service providers through IFC Ventures and on-lending mechanisms.

66. ***Mitigate the impact of natural disasters and invest in climate change adaptation*** (Thematic Area 4.2). Over the last years, the Bank Group provided 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 Group will further pursue this effort, with a focus on: (i) strengthening the capacity of relevant Government agencies to establish an advanced alert system where possible and to manage natural disasters and their aftermath; (ii) providing exceptional assistance, if and as may be possible, to support recovery efforts; and (iii) support the implementation of priority elements of the climate change strategy (and help enhance cross-sectoral approaches).

**Proposed instruments:** (i) implementation support for the ongoing IDA Flood Protection and Emergency Reconstruction Project (\$50 million undisbursed); (ii) possible IDA-managed Trust Fund resources for climate change; (ii) IDA-managed GEF resources for an Agrobiodiversity and Adaptation to Climate Change Project (\$4 million) and a Solar Energy Technology Project; (iii) IDA Technical Assistance (capacity for disaster management, climate change mitigation); and (iv) IFC Technical Assistance (environmental and social sustainability).

## **E. Implementing Bank Group assistance**

67. *Overall, the Bank Group intends to use the full spectrum of available instruments:* financial, analytical, and advisory support, from IDA, IFC, and possibly MIGA. Annexes 1 and 2 present a summary list of instruments (by category) which are expected to support CAS implementation.

68. *Managing the existing portfolios.* Supervision of ongoing activities will remain the first and foremost priority for both IDA and IFC. With about US\$685 million undisbursed for IDA, and about US\$150 million in commitments for IFC, the ongoing program is significant and its effective implementation is critical to getting results in the CAS period (projects already underway are the ones that are most likely to translate into actual results on the ground in the coming years). This will require hands-on implementation support at both design and implementation stages. It will also require continued attention to fiduciary issues (e.g., tightened mechanisms for implementation, relatively low threshold for procurement prior reviews, and stringent financial management arrangements).

69. *Providing continued financial support.* Such financial support is expected to be provided through a combination of IDA resources, Trust Funds, IFC instruments, and possibly MIGA guarantees.

- *IDA resources.* IDA resources are expected to be provided throughout the IDA 15 cycle (FY09-FY11). The amount would be adjusted annually on the basis of several factors, including implementation performance and Country Policies and Institutional Assessment (CPIA) and the terms of the assistance (grants, credits or a mix of the two) would be determined annually based on the country's debt sustainability.<sup>3</sup> The overall size of the IDA envelope during the CAS period is assumed to be about SDR 300 million, i.e. an average annual allocation of about SDR 75 million (about \$120 million at current exchange rates). IDA is intending to make use of a variety of instruments subject to the following considerations: (i) focus resources on a relatively small number of large operations which can have a significant development impact on the ground (and will not require a disproportionate share of IDA's administrative budget for supervision); (ii) minimize implicit commitments for the post-CAS period (when the IDA allocation is unknown), such as those resulting from the use of Adaptive Program Loans (APLs); (iii) scale up success through additional financing for well-performing operations; (iv) explore innovative instruments such as IBRD enclave or guarantee as may be appropriate (e.g. in the mining sector); and (v) make full use of the flexibility allowed under the new Country Financing Parameters (approved in October 2005). IDA is also planning to provide financial assistance in support of the subsidies reform through a Development Policy Grant (DPG) – based on the satisfactory experience (including on the fiduciary front) under the current Institutional Reform Development Policy Grant. Finally, IDA will use flexibility in the selection, focus, and design of financial instruments to allow for

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<sup>3</sup> The CAS covers the period FY10-FY13, which includes the remaining two years of the IDA15 period (FY10-11), and the first two years of IDA16. Estimates of IDA resources available for FY10-13 are indicative only and are subject to change. Actual annual allocations will be determined annually on the basis of several factors including: (i) total IDA resources available (in particular, FY12 and FY13 indicative allocations assume that the total amount of resources available under IDA 16 will be similar to IDA15); (ii) Yemen's CPIA performance relative to the performance of other IDA countries; and (iii) the terms of IDA's assistance to Yemen (grants or credits) and to other IDA countries. IDA allocations are made in SDRs and the US\$ equivalent amounts are dependent upon the prevailing exchange rate.

adjustment to developments on the ground if warranted (e.g. in support of the subsidies reform).

- **Trust Funds.** IDA intends to further seek and deploy Trust Fund resources during the CAS period. Priority will be given to using such resources in a manner that helps IDA to: (i) enhance its responsiveness and flexibility in helping the Government face emerging challenges; (ii) pilot innovative mechanisms; (iii) provide substantive Technical Assistance; and (iv) scale up successful operations. The Bank Group will pay continued attention to ensuring the effective integration of these activities in the program developed under the CAS.
- **IFC investments.** The level and areas of IFC financial support will depend to a large extent on the actual demand for equity or debt financing by strong sponsors, both local and international. Yet, IFC is committed to reach out and proactively work with potential investors to further scale up its investment activities, and especially to foster further South-South investments into Yemen. The global IFC Ventures project (implemented in select IDA countries) has allocated US\$6 million for risk capital investments in Yemen, targeting 25-50 firms with an investment size under US\$500,000, as well as US\$2.4 million to cover advisory services expenditures in Yemen. In the coming CAS period, IFC will place a particular focus on areas such as financial sector, infrastructure (including PPPs), health and education, and support to SMEs in high-growth sectors.
- **MIGA guarantees.** Yemen's authorities and stakeholders are keen on stepping up their engagement with MIGA, with a view to developing a solid pipeline of guarantees which would complement IDA and IFC support.

70. **Using the Bank Group's convening power.** The CAS proposes that the Bank Group continues to play a leading role in efforts aimed at donor mobilization and harmonization. The Bank Group's role will in particular include the continued co-chairmanship of annual donor meetings (to follow up on commitments made during the 2006 CG meeting) and an active participation in the various donor groups (including sectoral and thematic groups) which regularly meet in Sana'a. Moreover, the Bank Group will pursue its efforts to design projects in such a way that they can easily become vehicles for multi-donor financing, and to strengthen Government technical capacity to implement other donors' contributions, as may be possible and appropriate.

71. **Providing further analytical and advisory services.** The Bank Group (both IDA and IFC) will continue to invest in high-quality analytical and advisory services, with a particular focus on sharing global knowledge and helping the Government to analyze key challenges the country is facing and to design specific measures to address them. This will require hands-on assistance and capacity building, attention to tailoring recommendations to the country's circumstances, close synergies between IDA and IFC, and effective dissemination of Bank Group's knowledge products. As part of the monitoring of CAS implementation, task teams will also be required to systematically document how specific analytical products contribute to achieving CAS outcomes.

72. **Scaling up capacity-building and learning activities.** During the CAS period, the Bank Group (both IDA and IFC) will place a special emphasis on providing such support across all thematic areas, with a focus on: (i) informing and supporting policy making; (ii) facilitating an accelerated implementation of Government and donor-financed investments; and (iii) strengthening capacity within the private sector and related institutions. This will be achieved through a combination of instruments, including both specific Technical Assistance as well as

imbedded support under IDA-financed projects and IFC-supported investments – and a further scaling up of WBI programs.

73. ***Formalizing arrangements for the integration of IDA and IFC programs.*** Such arrangements are expected to remain light and flexible, but to allow for close monitoring of the actual complementarity of activities between both institutions. This includes both a commitment to hold semi-annual reviews of progress by the joint management of both institutions (at Director level) and close collaboration between relevant IDA and IFC teams throughout the CAS period in implementing activities under the five “target strategic themes” (financial sector, business environment, energy, mining, and health).

74. ***Furthering decentralization.*** Effective implementation and management of the Bank Group program requires a strong presence in the field. The IDA and IFC Country Offices are expected to play a key role in this respect. Security permitting, both IDA and IFC intend to strengthen these offices through decentralization of both professional staff and responsibilities.

#### **F. Results-Based Monitoring and Evaluation**

75. ***Monitoring progress towards the CAS outcomes is expected to be complex,*** in an environment where country systems remain too weak for effective detailed poverty, economic, and human development monitoring. Consequently, the selection of outcome indicators has focused on those that can be relatively easily monitored through systems that are already in place or that will be in place in the near future. This is expected to be complemented by project-level data gathering to monitor progress at the level of each IDA- or IFC-supported operation. In parallel, the Bank Group will pursue its efforts to gradually strengthen Yemen’s statistical capacities and will work with the newly-created Monitoring and Evaluation Unit at the Ministry of Planning and International Cooperation to help prepare the monitoring and evaluation framework for private sector development reforms. Overall, it is expected that using the CAS as a management tool will help staff at all levels to closely monitor progress in the outcomes that are sought, and will also serve as an incentive to design simpler, more results-oriented projects that reflect actual implementation capacity.

### **V. MANAGING RISKS**

76. ***The proposed CAS program entails an element of risk, especially given the uncertain global environment today, which will have to be carefully managed.*** Consistent with past experience in Yemen, the proposed approach is based on pro-active risk management rather than risk avoidance. For each key risk, such approach includes three elements: (i) warning mechanisms, to detect problems at an early stage; (ii) response mechanisms, to mitigate the immediate impact; and (iii) risk reduction mechanisms, to gradually reduce the likelihood and potential impact of such risks over time.

77. ***Fragility of the political and security environment.*** Implementation of the Bank Group program could be hampered by: (i) deteriorating security conditions in parts or the whole of the country; or (ii) social unrest and political agitation.

- **Warning.** These risks are in areas which are outside the Bank Group’s mandate, and their early identification typically requires access to intelligence and capacity for political analysis. Staff will work closely with key bilaterals and specialized UN entities to monitor political and security developments, and to assess their possible impact on the proposed CAS program.
- **Response.** The proposed contingency response to a country-wide deterioration of the security situation is to maintain a significant Bank Group engagement, although with an incremental and targeted scaling down of specific activities as the situation may require (rather than immediate withdrawing). The proposed contingency response to a localized deterioration of the security situation is the suspension of activities in the relevant areas.
- **Risk reduction.** The Bank Group will contribute to risk reduction through its programs aimed at improving the economic, social, and governance environments.

78. **Negative external economic environment and macroeconomic shocks.** The successful implementation of the Bank Group program would be jeopardized by a severe and long drawn out global slowdown of economic growth, especially if it were to affect in a durable and significant way oil prices and economic prospects in GCC countries.

- **Warning.** The Bank Group will closely and continuously monitor economic developments in Yemen and in the region, and assess their possible impact on the proposed CAS program.
- **Response.** The proposed contingency response will consist of sustained Bank Group engagement through a combination of analytical work (to inform strategic decisions the Government may need to take), Technical Assistance (to assist in the implementation of specific measures), and possibly financial resources (to help mitigate the short-term impact of a shock). The Bank Group could also adjust the scope and focus of its assistance program if needed, which would be formalized through the CAS Progress Report.
- **Risk reduction.** In a global context of economic crisis, there is little that the Bank Group could do through its Yemen program to dramatically reduce the risk. Action will need to be taken at a global, or at least regional, level. Bank Group programs in Yemen may contribute to a limited extent to this endeavor, including by supporting economic diversification (and reduced reliance on oil revenues) and strengthening social protection in Yemen.

79. **Diminished Government’s commitment or ability to reform.** Further reform efforts will be key to the effective implementation of the program supported under the CAS – and yet may be difficult in the face of a difficult external context and possible popular opposition. Capacity constraints may further hamper the Government’s ability to design and implement critical reforms.

- **Warning.** The Bank Group will work closely with other development partners and stakeholders to continuously assess the implementation of the reform program, against the backdrop of economic and social developments. Such assessment will in particular focus on progress in implementing the National Reform Agenda (and its successor programs) and policy reforms supported under specific projects.

- **Response.** This will aim to support and strengthen the Government in its reform efforts – through an intensification of the policy dialogue and an adjustment of planned interventions, as well as through the provision of targeted Technical Assistance to mitigate capacity constraints where needed.
- **Risk reduction.** This includes the provision of hands-on support to the Government’s reform efforts to address capacity issues (e.g., through Technical Assistance). It also includes maintaining a trust-based policy dialogue with the authorities and engaging in a sustained dialogue with key stakeholders (such as private sector and civil society) to help build or strengthen the constituency for reforms as appropriate.

80. **Fiduciary risks.** The main risk is related to the misuse of resources made available under Bank Group-financed projects. A secondary risk is that “ring-fenced” fiduciary arrangements result in undermining institutional capacity development efforts.

- **Warning.** The Bank Group will continue to closely monitor fiduciary aspects of project implementation through regular reviews and external audits.
- **Response.** With regard to corruption under Bank Group-financed operations, management will use applicable legal remedies. With regard to the tension between “ring-fencing” projects and capacity building activities, the Bank Group will take a case-by-case approach to define appropriate arrangements (e.g. gradual transfer of responsibilities, substantive involvement of sectoral entities in non-fiduciary aspects of implementation, sector-wide approaches).
- **Risk reduction.** The Bank Group will support the Government’s efforts to improve governance, within the overall context of its Governance and Anti-Corruption work, and in particular to strengthen capacity for procurement and financial management, as described under the second strategic element of the CAS. The Bank Group is also engaged in an effort aimed at strengthening audit firms in Yemen.

## Annex 1: Proposed IDA Program

## IDA Financing

<b>FY</b>	<b>Indicative Program*</b>	<b>US\$ million**</b>
FY10	Port Cities Development Project II	35
	Mocha Wind Park Project	20
	Higher Education Project II	10
	Schistosomiasis Project	20
	Social Development Fund Project IV	55
	<i>Total</i>	<i>140</i>
FY11	Public Finance Modernization Project	10
	Integrated Urban Development Project	30
	Health and Population Project	30
	Subsidy Reform DPG	30
	<i>Total</i>	<i>100</i>
FY12	Basic Education Development Project (additional financing)	40
	Public Works Project IV	40
	Rural Access Project (additional financing)	40
	<i>Total</i>	<i>120</i>
FY13	Water Sector Support Project (additional financing)	90
	Agriculture Development Project	30
	<i>Total</i>	<i>120</i>
<b>Possible operations for outer years</b>		
	Financial Sector DPL	30
	Natural Gas Project	15
	Ibb Flood Protection Project	30
	Power Sector Project	40
	Social Welfare Fund Project	10

*\*Indicative average annual allocation: SDR 75 million, i.e. \$120 million. Amounts for FY11, FY12, and FY13 are indicative only and will be adjusted on the basis of IDA allocations.*

*\*Projects (including "outer years" operations) may be advanced or delayed during CAS implementation based on a re-prioritization of needs which would reflect development on the grounds and/or changes in the external environment.*

### IDA Analytical Work

<b>FY</b>	<b>Indicative Program</b>
FY10	Public Expenditure Review
	Investment Climate Update
	Financial Sector Strategy
	Pathways Out of Rural Poverty
	Urban Development Strategy
	Education Country Status Report
FY11	Trade and GCC
	Agriculture Development Strategy
	Natural Gas Sector Strategy
	School to Work Transition Strategy
	Gender Assessment Update
	Qat and Water Analysis
FY12	Country Economic Monitoring Memorandum/ Development Policy Review
	Energy Sector Reform
	Country Procurement Assessment Update
	Health, Nutrition and Population Strategy
FY13	Poverty Assessment
	Country Social Analysis
	Water Strategy Update



### IDA Technical Assistance

Support to Vision 2025 Update and preparation of the Fourth DPPR
Macroeconomic policy
Poverty monitoring
Support in discussions with GCC
Business environment (FIAS)
Financial sector
Road Sector Management
Energy pricing
Options for sustainable water supply to Taiz
Natural gas regulatory framework
Management of midstream natural gas projects
Mining sector
Transparency
Public finance management
Procurement reform
Civil service reform
Support to Ministry of Legal Affairs
Decentralization
Support to children and youth action plan
Support to the gender national dialogue
Capacity building to the National Population Council
Education
Social policy reform
Support to the qat national dialogue
Capacity for disaster management
Climate change mitigation

### IDA Implementation Support

Project	Closing FY	Project Amount (US\$ million)	Undisbursed (US\$ million)*
Civil Service Modernization	2010	44.00	21.59
Institutional Reform Credit (DPG)	2010	50.93	26.99
Health Reform Support Project (HRSP)*		27.53	3.77
Basic Education Development Program	2010	65.00	36.69
Social Fund For Development III*		75.00	5.75
Second Vocational Training Project	2013	15.00	15.97
Secondary Education. Dev. and Girls Access Project	2015	20.00	19.05
GPOBA W3 - Yemen Health	2012	6.23	6.18
Rural Water Supply & Sanitation *		40.00	15.63
Urban Water Supply & Sanitation APL *		130.00	50.28
Sana'a Basin Water Management*		24.00	12.07
Port Cities Development Program	2010	23.40	7.51
Taiz Municipal Dev & Flood Protection	2010	65.20	14.94
Groundwater & Soil Conservation Project	2011	70.00	40.08
Third Public Works	2011	74.84	29.47
Second Rural Access	2010	40.00	20.69
Power Sector	2011	50.00	52.07
Fisheries Res. Management & Conservation	2011	25.00	23.99
Rainfed Agriculture And Livestock	2012	20.00	16.39

*As of February 22, 2009.*

*\* Project set to close in 2009 – possibly extended*

## Annex 2: Proposed IFC Activities

### Advisory/TA activities in the following areas:

- ***Business enabling environment (IDA/IFC):***
  - Framework for investment regulation and attraction
  - Doing Business Reform Agenda
  - Tax administration simplification
  - Start-Up simplification national rollout
  - Customs and logistics reform
  - Free zone reform
- ***Access to finance:***
  - Credit information
  - Leasing
  - Microfinance
  - Housing finance
  - SME banking
  - Corporate governance
  - Secured Lending Framework
- ***Public private partnerships in:***
  - Power
  - Ports
  - Health
- ***Industry reforms and support:***
  - Management training (Business Edge)
  - Industry specific assistance (IDA/IFC)
- ***Environmental and social sustainability:***
  - Mining industry stakeholder framework
  - Environmental sustainability
- ***Monitoring and evaluation***

### Investment activities in the following areas:

- Financial sector (including banking, trade finance, SME finance, microfinance, leasing)
- Direct investments in SMEs through IFC Ventures Project, and in other strategic sectors, including possibly agribusiness
- Private education/vocational training sector
- Private health providers
- Private investments in infrastructure (e.g., concessioned ports, PPP in power generation)

## Annex 3: Yemen Active Trust Funds Portfolio

Fund	TF Name	Grant Amt (USD)	Funds Disb to date in USD	FY Disb.	Effective Date	Closing Date
TF058064	Strengthening The Integrated National Program For The Prevention And Control Of Avian And Human Influenza	57,260	53,881	(1,514)	4/8/2007	3/31/2009
TF090786	GEF PPG - Republic Of: Preparation Of Adaptation To Climate Change Using Agrobiodiversity Resources In Rainfed Highlands In Project	200,000	100,000	-	9/1/2007	4/30/2009
TF092774	Promoting Sustainable Urban-Peri Urban Agriculture (UPA), Support Activities In Response To Food Crisis In	50,000	-	-	8/18/2008	5/28/2009
TF057553	DFID Support For Public Sector Management	760,000	562,460	129,512	10/2/2006	5/31/2009
TF057554	DFID Support For Macroeconomic Management	760,000	593,865	115,197	10/2/2006	5/31/2009
TF057555	DFID Support For Water	760,000	266,874	90,326	10/2/2006	5/31/2009
TF054230	JSDF-: Community Water Management Project	1,078,200	804,480	161,762	6/1/2005	6/30/2009
TF054231	JSDF-: Community Water Management Project (Bank-Exe TF To Cover Incremental Bank Costs Of TF054230)	50,000	44,272	-	5/9/2005	6/30/2009
TF057349	- Land Tenure For Social And Economic Inclusion	150,000	93,755	12,125	9/1/2006	6/30/2009
TF090647	Port Cities Development Program II (PCDP II)	550,000	150,000	-	7/11/2007	6/30/2009
TF091448	Gender Action Plan. Mna 3- Gender And Transport In	13,000	5,800	5,800	3/1/2008	6/30/2009
TF091473	Gavi TF For Hnp Strategy Implementation -	75,000	66,910	9,800	1/17/2008	6/30/2009
TF091774	HRBF	75,000	70,006	4,131	1/28/2008	6/30/2009
TF092841	Model To Develop The Domestic Gas Market Infrastructure	500,000	-	-	9/16/2008	9/18/2009
TF092824	Integrated Urban Development Project (IUDP)	950,000	150,000	150,000	9/24/2008	10/28/2009
TF057636	Education Mdf Bank-Executed Trust Fund	1,083,794	276,339	8,265	12/1/2006	12/31/2009
TF092343	Food Price Crisis Response (Addl Financing For SFD III Project)	10,000,000	2,000,000	2,000,000	7/1/2008	12/31/2009
TF053720	Basic Education Development - Bank Exec. Portion Of The Grant	343,805	190,075	35,452	11/30/2004	6/30/2010
TF053721	Basic Education Development - Recp. Exec. Part Of The Grant	47,102,146	30,529,658	3,452,400	4/9/2005	6/30/2010
TF090447	IDF Grant For Monitoring And Evaluation Of The PRSP And Reform Programs	250,000	50,000	-	10/23/2007	10/23/2010
TF090648	Adaptation To Climate Change Using Agrobiodiversity Resources In The Rainfed Highlands Of	780,000	150,000	-	9/1/2007	7/10/2011
TF092960	Assessing Community And Household Resilience To Climate Change In Rainfed Areas Of	157,000	2,020	2,020	10/15/2008	12/23/2011
<b>Total</b>		65,745,205	36,160,396	6,175,276		

**Annex 4: Debt Sustainability Analysis**

1. **Debt ratios are presently relatively low by international standards**, and hence Yemen does not meet the highly indebted poor countries (HIPC) criteria for debt relief. External debt has declined steadily to an estimated 22 percent of GDP in 2008, but domestic debt (all short-term and expensive) is on the rise – estimated at nearly 16 percent of GDP in 2008. Net public debt (domestic and external) is also on the rise after three years of continuous decline, reaching 35.2 percent of GDP in 2007. This is a potentially large ratio primarily due to the Government's low capacity to mobilize revenues (non-hydrocarbon revenue was only 10 percent of GDP in 2007, of which tax revenue was only 7 percent).

2. **Yemen is at a high risk of external debt distress in view of the medium-term fiscal outlook**, characterized by dwindling oil production and volatility in oil prices. The January 2009 Debt Sustainability Analysis (DSA) done jointly by IDA and IMF highlights that even in the context of comprehensive fiscal and structural reforms (i.e., an adjustment scenario), the present value (PV) of debt-to-exports ratio is projected to rise above the 100 percent threshold by 2018, while the PV of debt-to-GDP ratio is projected to approach the 30 percent threshold by 2028. Although other indicators (notably debt service to revenue ratio) remain below their respective thresholds, DSA projections indicate that the outlook will worsen as debt accumulates and resources available to service it decline as a result of the drying up of oil exports around 2021.

3. **External debt sustainability could be further weakened by adverse shocks**, especially a depreciation in the exchange rate, lower export growth, and less favorable financing terms. For instance, standard DSA stress tests indicate that a one-time 30 percent devaluation of the rial in 2009 would bring the PV of debt above 40 percent of GDP and almost 200 percent of fiscal revenue by 2028. Similarly, if export growth remains one standard deviation below its historical average in 2009 and 2010, the PV of debt would peak at 245 percent of exports by 2025 and exceed 130 percent of fiscal revenue by 2028; external debt service would rise above 10 percent of exports. The PV of debt would peak above 240 percent of exports in 2025, if interest rates on new external borrowing were 2 percent higher than in the adjustment scenario.

4. **Yemen's external debt would become rapidly unsustainable in the context of a non-adjustment scenario**. All thresholds would be breached quite rapidly, even when assuming external financing available on comparatively favorable (though not fully concessional) terms. Moreover, all thresholds will be exceeded by a considerable margin over the medium-term. Under such a non-adjustment scenario, Yemen will have little room for absorbing the shocks associated with a depletion of oil production by 2021.

4. **The DSA assumes that the Government responds to falling oil production and lower oil prices through a concerted and sustained commitment** to: (i) fiscal adjustment (by enhancing revenue mobilization and containing recurrent expenditure); (ii) increased exchange rate flexibility; (iii) continuation of current efforts to contain inflation; and (iv) structural reforms to improve the business environment and encourage investment.

5. **All of Yemen's external debt is owed to official creditors, mostly on concessional terms**. External debt was US\$5.8 billion (26.9 percent of GDP) at end-2007, of which over half was owed to multilateral creditors (including US\$2.1 billion to the World Bank, US\$0.6 billion to the Arab Fund for Social and Economic Development, and US\$170 million to the IMF). The other half was owed to bi-lateral creditors (US\$1.2 billion to Russia, US\$0.3 billion to Saudi Arabia and US\$240 million to Japan). Yemen has already benefited from a series of rescheduling

arrangements under the Paris Club in 1996, 1997, and 2001. Domestic debt consists mainly of Treasury bills held by domestic banks and non-bank investors.

**6. The international community is committed to supporting Yemen through grants and concessional loans** in the medium- and long-term. In the context of an unsustainable external debt situation in the long term, it is critical that the Government undertakes early action on key reforms to strengthen public finances, improve debt management, and boost prospects for investment and growth. Such efforts by the Government would likely help mobilize greater external financing from donors over the years— another element critical for ensuring debt sustainability in Yemen.

## Annex 5: Results Framework for the Yemen CAS FY2010-2013

National Priorities	Constraints on which the CAS expects to focus	Outcomes to Which the CAS Expects to Contribute	Milestones and Progress Indicators	Bank Group Interventions and Partners <sup>4</sup>
<b>STRATEGIC OBJECTIVE I: HELP ACCELERATE AND DIVERSIFY GROWTH</b>				
<b>1.1 Maintain macroeconomic stability over the medium term</b>				
<p><b>Ensure a stable macroeconomic environment to promote growth and reduce poverty</b></p> <p>DPPR p. 25</p>	<ul style="list-style-type: none"> <li>Limited capacity for macroeconomic risk analysis</li> <li>Limited data for macro-economic monitoring, especially real sector performance and jobs</li> </ul>	<p><b>Strengthened analytical underpinning for economic policy making:</b></p> <ul style="list-style-type: none"> <li>Medium-term macroeconomic scenarios developed to manage declining oil revenues and mitigate the impact of the global crisis</li> <li>Enhanced national accounts</li> <li>Up-to-date poverty data and trends</li> </ul>	<ul style="list-style-type: none"> <li>Macro-economic advice provided on a regular basis to adjust to global economic developments</li> <li>Household survey completed</li> </ul>	<p>SPN: Institutional Reform Development Policy Grant</p> <p><b>New IDA:</b> N/A</p> <p><b>IDA AAA:</b> Country Economic Memorandum, Poverty Assessment, Macroeconomic Policy TA, Poverty Monitoring TA</p> <p><b>TFs:</b> N/A</p> <p><b>Key Partners:</b> IMF</p>
<p><b>1.2 Strengthen the foundations for private sector development</b></p> <p><b>Improve the investment climate and mobilize the private sector</b></p> <p>DPPR p. 20</p>	<ul style="list-style-type: none"> <li>Poor ranking under Doing Business</li> <li>High entry and operating costs reducing competitiveness</li> <li>Limited development of the financial sector and limited supervision capacity</li> </ul>	<p><b>Improved business climate:</b></p> <ul style="list-style-type: none"> <li>Number of days to start a business decreased from 32 to about 7-10</li> <li>Amendments related to simplification of tax code and investment law submitted for approval</li> <li>Strategy to strengthen the financial sector adopted</li> </ul>	<ul style="list-style-type: none"> <li>National rollout of business start-up simplification completed</li> <li>Recommendations to consolidate tax laws at national and sub-national level completed</li> </ul>	<p>SPN: Institutional Reform Development Policy Grant</p> <p><b>New IDA:</b> Rural Access Roads II (Additional)</p> <p><b>IDA AAA:</b> Investment Climate Update and TA, Financial Sector Strategy, Financial Sector TA, Trade and GCC Study, GCC Integration Dialogue TA</p> <p><b>TFs:</b> N/A</p> <p><b>IFC AS:</b> business enabling environment, business registration, credit reporting infrastructure, Central Bank credit registry, tax administration simplification</p> <p><b>IFC INV:</b> trade finance and banking sector</p> <p><b>Key Partners:</b> DFID, GCC, bilateral GCC donors, IsDB, Netherlands</p>

<sup>4</sup> SPN: Supervision of IDA ongoing 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	Constraints on which the CAS expects to focus	Outcomes to Which the CAS Expects to Contribute	Milestones and Progress Indicators	Bank Group Interventions and Partners <sup>4</sup>
<p><b>1.3 Enhance infrastructure services</b></p> <p><b>Invest in infrastructure, and strengthen implementation and management arrangements</b></p> <p>DPPR p. 63</p>	<ul style="list-style-type: none"> <li>Transport: insufficient network of rural roads and inadequate road maintenance system</li> <li>Energy: low quality of electricity supply; lowest electrification rate in the region; underutilization of renewable energy sources</li> <li>Overall: lack of private investment</li> </ul>	<p><b>Improved access for the rural poor :</b></p> <ul style="list-style-type: none"> <li>250,000 rural residents in project areas gained all-season road access to governorate center</li> <li>Satisfactory performance of road management fund</li> </ul> <p><b>Improved energy sector efficiency:</b></p> <ul style="list-style-type: none"> <li>Electricity access in rural areas increased from 20% to 25%</li> <li>Share of wind energy in total national energy production increased from 0% to about 5%</li> </ul> <p><b>Development of infrastructure PPPs:</b></p> <ul style="list-style-type: none"> <li>1 PPP infrastructure project brought to tender</li> </ul>	<ul style="list-style-type: none"> <li>At least 200 km of intermediate rural access roads paved to acceptable standard</li> <li>Pilot contracts for performance-based road maintenance signed</li> <li>Transmission and distribution losses brought down to 20%</li> <li>6 Rural Electrification Service Providers formally established</li> <li>60 MW wind energy capacity in place</li> <li>Policy framework for PPPs in infrastructure designed and corresponding institutional capacity needs assessed</li> </ul>	<p><b>SPN:</b> Rural Access II, Power Sector, Port Cities Development I</p> <p><b>New IDA:</b> Rural Access II, Rural Energy Access, Mocha Wind Park, Port Cities Development II, Integrated Urban Development</p> <p><b>AAA:</b> Energy Sector Reform ESW, Energy pricing TA, Urban Development Strategy, Road Sector Management</p> <p><b>TFs:</b> Gender and Transport in Yemen (GAP), Integrated Urban Development (PHRD), Port Cities Development II (PHRD), Solar Energy Technology (GEF)</p> <p><b>IFC AS:</b> PPP policy framework in infrastructure, structuring of first pilot PPP transactions</p> <p><b>IFC INV:</b> Possible PPP projects</p> <p><b>Key Partners:</b> AFD, Arab Fund, AUDI, DFID, EC, GCC, Germany, IFAD, IsDB, Italy, JICA, Netherlands, Oman, Saudi Fund, UNDP, USAID, USTDA</p>
<p><b>1.4 Support selected drivers of non-oil growth</b></p> <p><b>Promote productive growth in non-oil sectors</b></p> <p>DPPR p. 42</p>	<ul style="list-style-type: none"> <li>Low agricultural productivity</li> <li>Threats to sustainability of fisheries resources due to inadequate management and enforcement of existing regulations</li> <li>Insufficient regulatory incentives for gas exploitation</li> <li>Limited support available for investments in high</li> </ul>	<p><b>Stronger competitiveness in key sectors:</b></p> <ul style="list-style-type: none"> <li>Improved agricultural productivity in target areas as measured by yield of key products (<i>baseline and targets established under the Rainfed Agriculture and Livestock project</i>)</li> <li>Increased fisheries resource sustainability as measured by average fish size and weight of key species (<i>baseline and targets established under the fisheries development</i>)</li> </ul>	<ul style="list-style-type: none"> <li>Rural farm producer groups, associations, or networks in place and functioning</li> <li>Fisheries Authorities in coastal governorates operational</li> <li>Design of measures to improve the natural gas regulatory framework completed</li> <li>Investments made in 2 financial institutions for on-lending to MSMEs in focus sectors</li> <li>Training provided to MSMEs on</li> </ul>	<p><b>SPN:</b> Rainfed Agriculture and Livestock, Fisheries Resource Management</p> <p><b>New IDA:</b> Agricultural Development</p> <p><b>IDA AAA:</b> Pathways out of Rural Poverty, Skills Development and School to Work Transition, Agriculture Development Strategy, Natural Gas Sector Strategy, Natural Gas Regulatory Framework TA, Natural Gas Mid-Stream Project Management TA, Mineral Sector Review, Mining TA</p> <p><b>TFs:</b> Private Sector in Infrastructure</p>



National Priorities	Constraints on which the CAS expects to focus	Outcomes to Which the CAS Expects to Contribute	Milestones and Progress Indicators	Bank Group Interventions and Partners <sup>4</sup>
	<p>growth sectors</p>	<p><i>project</i></p> <ul style="list-style-type: none"> <li>Enhanced incentives framework for private investment in the sector (including for oil producers to capture and exploit associated natural gas) submitted for approval</li> <li>Increased access to finance for MSMEs: 20-30 MSMEs gained access to risk capital</li> </ul>	<p>financing options, requirements &amp; methodologies</p>	<p>(Norway), Model to Develop the Domestic Gas Market (NTFPSI), M&amp;E of Mining Benefit Streams (IDF), Avian Influenza Preparedness and Control (AHITF)</p> <p><b>IFC AS:</b> policy framework and training for MSMEs</p> <p><b>IFC INV:</b> on-lending to SMEs in high growth sectors</p> <p><b>Key Partners:</b> DFID, EU, GTZ, IFAD, Netherlands, domestic private sector</p>
<b>STRATEGIC OBJECTIVE II: HELP ENHANCE GOVERNANCE</b>				
<b>2.1 Further strengthen transparency</b>				
<p><b>Strengthen transparency and accountability principles</b></p> <p>NRA p. 2</p>	<ul style="list-style-type: none"> <li>Incomplete legal, organizational, and institutional framework to combat corruption</li> <li>Publication of oil revenue data undertaken with limited formal participation by civil society</li> </ul>	<p><b>Accelerated implementation of anti-corruption reforms:</b></p> <ul style="list-style-type: none"> <li>SNACC capacity and performance in deterring corruption assessed as satisfactory by external reviewers</li> <li>EITI implementation assessed as satisfactory by external reviewers</li> </ul>	<ul style="list-style-type: none"> <li>National Strategy and Action Plan to Combat Corruption finalized</li> <li>Investigation mechanism established under SNACC</li> <li>First EITI reporting and reconciliation exercise designed and implemented effectively</li> </ul>	<p><b>SPN:</b> N/A - New IDA:N/A</p> <p><b>IDA AAA:</b> Transparency TA</p> <p><b>TFs:</b> EITI MDT</p> <p><b>Key Partners:</b> GTZ, UNDP-POGAR, USAID</p>
<b>2.2 Improve the effectiveness and efficiency of public finance management</b>				
<p><b>Strengthen public finance management</b></p> <p>DPPR p. 21</p>	<ul style="list-style-type: none"> <li>Budgets not effectively linked to DPPR through MTEF</li> <li>Inadequate cash management system, weaknesses in commitment control, and high levels of public arrears</li> <li>Insufficient reliance on competition for public procurement</li> </ul>	<p><b>Enhanced public financial Management :</b></p> <ul style="list-style-type: none"> <li>Implementation of Public Finance Management Action Plan</li> <li>Generalized application of the Procurement Law</li> </ul>	<ul style="list-style-type: none"> <li>MTEF developed</li> <li>Use of AFMIS system gradually expanded</li> <li>Systems for cash flow management and commitment control (including arrears monitoring) established</li> <li>Improved institutional capacity for implementation of procurement law including adequate staffing of High Tender Board</li> <li>Establishment and effective functioning of Higher Authority on</li> </ul>	<p><b>SPN:</b> N/A</p> <p><b>New IDA:</b> Public Finance Modernization Project</p> <p><b>IDA AAA:</b> Public Expenditure Review, Country Procurement Assessment Update, PEFA Assessment, Public Finance Management TA, Procurement Reform Support TA</p> <p><b>TFs:</b> N/A</p> <p><b>Key Partners:</b> DFID, GTZ, Netherlands, UNDP, USAID</p>

National Priorities	Constraints on which the CAS expects to focus	Outcomes to Which the CAS Expects to Contribute	Milestones and Progress Indicators	Bank Group Interventions and Partners <sup>4</sup>
<p><b>2.3 Further support civil service reform</b></p> <p><b>Modernize the civil service and State administration</b></p> <p>DPPR p. 37</p>	<ul style="list-style-type: none"> <li>• Payroll and civil service database insufficiently linked (with a risk of ghost workers and double dippers)</li> <li>• Ineffective business processes in ministries and government agencies</li> </ul>	<p><b>Rationalized public service:</b></p> <ul style="list-style-type: none"> <li>• Civil service payroll reflecting civil service census</li> <li>• Lessons from pilot re-engineering collected and applied in remaining agencies</li> </ul>	<p>Tender Control</p> <ul style="list-style-type: none"> <li>• Computerized link established between payroll and civil service database</li> <li>• Re-engineering of pilot institutions completed</li> </ul>	<p>SPN: Civil Service Modernization</p> <p><b>New IDA:</b> N/A</p> <p><b>IDA AAA:</b> Civil Service Reform TA, TFs: Support to Ministry of Legal Affairs IDF</p> <p><b>Key Partners:</b> DFID, EU, IMF, UNDP</p>
<b>STRATEGIC OBJECTIVE III: HELP FOSTER HUMAN AND SOCIAL DEVELOPMENT</b>				
<p><b>3.1 Promote debate and cross-sectoral approaches on gender, youth, and qat</b></p> <p><b>Support women and young people, and address the qat phenomenon in an objective and gradual fashion</b></p> <p>DPPR pp. 48, 97, 112</p>	<ul style="list-style-type: none"> <li>• Limited education &amp; employment opportunities for women</li> <li>• Lack of economic opportunities and risk of disenfranchisement for youth in a context of rapid demographic growth</li> <li>• Widespread consumption of qat</li> </ul>	<p><b>Informed public debate:</b></p> <ul style="list-style-type: none"> <li>• Consensus reached on specific measures needed to improve women's economic opportunities</li> <li>• Children and Youth Strategy and Action Plan reflected in design and implementation of sectoral Ministries programs</li> <li>• Improved public awareness of the social, medial and environmental effects of qat consumption</li> </ul>	<ul style="list-style-type: none"> <li>• Dissemination of analytical work on gender issues</li> <li>• Dissemination of analytical work on links between qat, water and health outcomes</li> <li>• Strengthened monitoring systems for youth &amp; gender targets</li> </ul>	<p>SPN: N/A - New IDA: N/A</p> <p><b>IDA AAA:</b> Support to the Gender Dialogue TA, Gender Assessment Update, Youth TA, Qat Study, Qat Dialogue TA</p> <p><b>TFs:</b> Employment Among Marginalized Youth (Japanese TF Pilot), Strengthening Powerless Groups (JSDF); Supporting Women and Youth through Urban-Peri Urban Agriculture (JSDF)</p> <p><b>IFC AS:</b> Business Edge Training for SME support targeting women and youth</p> <p><b>Key Partners:</b> EC, GTZ, Japan, Netherlands, UNDP, UNICEF, NGOs</p>
<p><b>3.2 Strengthen delivery of education and health services</b></p> <p><b>Improve basic services such as education and healthcare</b></p> <p>DPPR p. 21</p>	<ul style="list-style-type: none"> <li>• Insufficient access to education (especially in rural areas and for girls) and poor quality and relevance of education</li> <li>• Lack of access to quality basic health services,</li> </ul>	<p><b>Improved access to services:</b></p> <ul style="list-style-type: none"> <li>• Basic education gross enrollment rate increased from 74% to 80% (with ratio of girls in total basic education enrollment increased from 41% to 45%)</li> <li>• Launch of health and nutrition</li> </ul>	<ul style="list-style-type: none"> <li>• 620 primary classrooms constructed/rehabilitated and 60 secondary schools upgraded and equipped</li> <li>• 50,000 teachers at basic education level, and 2,000 at secondary level trained</li> </ul>	<p>SPN: Basic Education Development, Secondary Education Development and Girls' Access, Vocational Education and Training II, Health Reform Support, Safe Motherhood (GPOBA)</p> <p><b>New IDA:</b> Basic Education, Higher Education II, Health and Population,</p>

National Priorities	Constraints on which the CAS expects to focus	Outcomes to Which the CAS Expects to Contribute	Milestones and Progress Indicators	Bank Group Interventions and Partners <sup>4</sup>
<p>Expand the umbrella of social protection and services for poor communities</p> <p>DPPR p. 21</p>	<ul style="list-style-type: none"> <li>including reproductive health</li> <li>Significant prevalence of schistosomiasis</li> <li>Mismatch between higher education/ skills development program and labor market demand</li> </ul>	<p>services outreach model based on integration in basic health services</p> <ul style="list-style-type: none"> <li>Reduced nationwide schistosomiasis prevalence by 10%</li> </ul> <p><b>Increased involvement of potential employers for higher education/skills development:</b></p> <ul style="list-style-type: none"> <li>Employers involved in updating priority programs in key universities</li> <li>Restructured Skills Development Fund under private sector leadership</li> </ul>	<ul style="list-style-type: none"> <li>Recommendations on integration of reproductive health and nutrition within outreach services adopted</li> <li>Adoption of a national plan to update and renew priority programs</li> <li>Restructuring of Skills Development Fund Management implemented</li> </ul>	<p>Schistosomiasis</p> <p><b>IDA AAA:</b> Education Country Status Report, Education TA, Capacity building to the National Population Council TA, Health, Nutrition and Population Strategy</p> <p><b>TFs:</b> Education for All FTI Phase III, Healthy Mother (JSDF)</p> <p><b>IFC AS:</b> PPP for health services delivery</p> <p><b>IFC INV:</b> possible investments in private education and/or vocational training, and health services</p> <p><b>Key Partners:</b> DFID, EC, KFW, GTZ, JICA, Netherlands, UNFPA, UNICEF, USAID, WHO</p>
<p><b>3.3 Implement community-level development actions and enhance the social protection system</b></p>				
<p>Expand the umbrella of social protection and services for poor communities</p> <p>DPPR p. 21</p>	<ul style="list-style-type: none"> <li>Unsustainably large and untargeted fuel subsidies</li> <li>Limited institutional capacity in SWF</li> <li>High rates of poverty in both rural and urban areas</li> </ul>	<p><b>Underpinnings of subsidy reform in place:</b></p> <ul style="list-style-type: none"> <li>Action plan for reform submitted for approval</li> <li>Improved SWF capacity as measured by improved timeliness of payments and reduced inefficiencies</li> </ul> <p><b>Scaled-up impact of community development:</b></p> <ul style="list-style-type: none"> <li>40% of SFD resources directly benefiting lowest three income deciles</li> <li>40,000 person-months of employment created through Public Works Program</li> </ul>	<ul style="list-style-type: none"> <li>Scenarios for subsidy reform strategy designed</li> <li>Key SWF procedures developed (targeting, payments, etc.)</li> <li>1,000 classrooms built each year through SFD projects</li> <li>160 schools, 30 health centers, 50 water supply schemes, and 60 water harvesting schemes</li> </ul>	<p><b>SPN:</b> Social Development Fund III, Public Works III</p> <p><b>New IDA:</b> Social Development Fund IV, Public Works IV, Subsidy Reform DPG</p> <p><b>IDA AAA:</b> Social Policy and Subsidy Reform TA</p> <p><b>TFs:</b> GFRP Grant, Food Grant (EC), Promoting Socioeconomic Inclusion (JSDF), Second Chances for At-Risk Youth (JSDF)</p> <p><b>Key Partners:</b> AFD, DFID, EC, EU, GTZ, IFAD, IsDB, Italy, KFW, Netherlands, Oman, OPEC Fund, Saudi Fund, UNCDF, UNDP, UNESCO, US</p>
<p><b>STRATEGIC OBJECTIVE IV: HELP MANAGE NATURAL RESOURCES SCARCITY AND NATURAL RISKS</b></p>				
<p><b>4.1 Slow down the depletion of water resources</b></p>				
<p><b>Achieve</b></p>	<ul style="list-style-type: none"> <li>Rapidly depleting water</li> </ul>	<p><b>Better managing water</b></p>	<ul style="list-style-type: none"> <li>Small and medium spate</li> </ul>	<p><b>SPN:</b> Rural Water Supply and Sanitation,</p>

National Priorities	Constraints on which the CAS expects to focus	Outcomes to Which the CAS Expects to Contribute	Milestones and Progress Indicators	Bank Group Interventions and Partners <sup>4</sup>
<p><b>integrated management of water resources and provide safe water and appropriate sanitation services for all regions</b></p> <ul style="list-style-type: none"> <li>• DPPR pp. 64; 66</li> </ul>	<p>resources</p> <ul style="list-style-type: none"> <li>• Inadequate access to safe water and sanitation services in urban and rural areas</li> </ul>	<p><b>resources:</b></p> <ul style="list-style-type: none"> <li>• Annual water savings through improved irrigation efficiency increased from 40 to 76 million cubic meters</li> <li>• Rural access to water supply and sanitation services extended to an additional 270,000 and 15,000 people respectively</li> </ul>	<p>irrigation schemes improved on about 15,000 ha</p> <ul style="list-style-type: none"> <li>• 185 new Water User Groups established each year for irrigation and rural water supply and sanitation</li> </ul>	<p>Urban Water Supply and Sanitation, Groundwater and Soil Conservation, Water Sector Support</p> <p><b>New IDA:</b></p> <p>Water Sector Support II</p> <p><b>IDA AAA:</b> Water Strategy Update</p> <p><b>TFs:</b> BNWPP, DFID, GPOBA, GW Mate, PPIAF</p> <p><b>IFC INV:</b> Possible investments in MSME water service providers</p> <p><b>Key Partners:</b> DFID, EC, GTZ, KfW, Japan, JICA, Netherlands, UNDP</p>
<p><b>4.2 Mitigate the impact of natural disasters and invest in climate change adaptation</b></p>				
<p><b>Increase resilience to natural disasters and climate change</b></p>	<ul style="list-style-type: none"> <li>• Lack of an integrated approach to face climate change</li> <li>• Lack of coherent institutional framework and procedures for disaster risk reduction, preparedness &amp; response</li> </ul>	<p><b>Enhanced risk management capacity:</b></p> <ul style="list-style-type: none"> <li>• Climate Change Mitigation and Adaptation Strategy submitted for approval</li> <li>• Advanced warning systems in place in areas at high risk of national disasters</li> </ul>	<ul style="list-style-type: none"> <li>• Climate Change Mitigation and Adaptation Strategy finalized</li> <li>• Institutional framework and strategy developed for mainstreaming hazard risk management in relevant government agencies</li> </ul>	<p><b>SPN:</b> Flood Protection and Emergency Reconstruction</p> <p><b>New IDA:</b> N/A</p> <p><b>IDA AAA:</b> Capacity for Disaster Management TA, Climate Change Mitigation TA, GFDRR TA</p> <p><b>TFs:</b> Agrobiodiversity and Adaptation to Climate Change (GEF), Climate Change, Strategic Environment Assessment for Coastal Zone Management (BNPP)</p> <p><b>IFC AS:</b> Environmental and Social Sustainability TA.</p> <p><b>Key Partners:</b> UNDP</p>

## Annex 6: FY06-08 Country Assistance Strategy Completion Report

Country: YEMEN  
 Date of CAS: May 17, 2006  
 Date of Progress Report(s): None required  
 Period Covered by CAS Completion Report: FY2006-2009

CAS Completion Report Completed by: Fabrice Houdart, with contributions from Yemen Core Team Members: Maher F. Abu-Taleb, Afrah Alawi Al-Ahmadi, Pierre Audinet, Alexander E. Bakalian, Anush Bezhanyan, Jean-Charles Crochet, Giulio De Tommaso, Xavier Devictor, Rapti Goonesekere (IFC), Chandrasekar Govindarajalu, Amanda Green (Consultant), Mira Hong, Ali Khamis, Yoshiharu Kobayashi, Andrew Makokha, Somin Mukherji, Sameh Naguib Wahba, Shinsaku Nomura, Rory O'Sullivan, Karine Pezzani, Anwar Ravat (IFC), Guido Rurangwa, Andrew Stone.

### I. INTRODUCTION

1. **This CAS Completion Report evaluates the effectiveness of the FY2006-2009 Country Assistance Strategy (CAS) for the Republic of Yemen.** The CAS, which covered only the activities of the International Development Association (IDA), was dated May 17, 2006, and discussed by the World Bank Executive Board in June 2006. This CASCR constitutes a self-evaluation by the Bank's country team of the alignment of the CAS with Yemen's longer-term strategic goals, the extent to which expected outcomes were achieved, and the Bank's performance in contributing to those achievements. The lessons learned from this experience have been taken into account in the design of the CAS for FY2010-2013.

2. **This assessment is based on discussions within the country team and with government counterparts, as well as a variety of reference documents.**<sup>5</sup> The country team has also benefited from a series of external evaluations of the country program, including the Independent Evaluation Group's (IEG) Country Assistance Evaluation of August 2006 (Report No. 36527), an Independent Procurement Review (IPR), and Project Assessments by the Quality Assurance Group (QAG).

### II. YEMEN'S LONGER TERM STRATEGIC GOALS

3. **The 2006 CAS focused on supporting the main objectives of the Government's medium-term strategy,** embodied in the Third Socio-Economic Development Plan for Poverty Reduction (DPPR 2006-10)<sup>6</sup> and subsequent National Reform Agenda for 2008-2010. Yemen's DPPR, which also serves as its Second Poverty Reduction Strategy Paper (PRSP) for the same period, has defined the country's development dilemma as "a mix of chronic structural challenges pertaining to population growth and dispersal throughout the country, rampant illiteracy and unemployment, major technological and knowledge deficits, and water resource scarcities."<sup>7</sup> The DPPR has also acknowledged the deficiencies of the governance system and the urgent need for economic diversification prompted by the rapid depletion of the country's oil reserves.

<sup>5</sup> Reference documents include the CAS for FY2006-2009, Project Appraisal Documents, Implementation Status and Results Reports, supervision reports (Aide-Memoires and Back-to-Office Reports), recent Economic and Sector Work, Implementation Completion Reports, and the 2008 Country Performance Portfolio Review.

<sup>6</sup> Available at <http://www.yemencg.org/library/en/DPPR.pdf>

<sup>7</sup> Republic of Yemen. 2006. "The Socio-Economic Development Plan for Poverty Reduction (2006-2010)," p. 18.

4. **The priorities set out in the DPPR focus on two inter-related themes: (i) achieving accelerated economic growth and employment generation; and (ii) intensifying poverty reduction efforts.** These themes represent a high degree of continuity from the objectives of the previous PRSP. Within these broad themes, the DPPR is built on eight pillars that provide a prioritized framework for action: (i) macroeconomic policies and targets; (ii) good governance; (iii) development of productive and promising sectors; (iv) water, environment, and basic infrastructure; (v) human development; (vi) Government services; (vii) social safety net, social protection, and social security; and (viii) women's empowerment.

5. **In 2006, the Government developed a National Reform Agenda (NRA) to overcome obstacles to DPPR implementation.** The NRA addressed the major reform areas of anticorruption, rule of law, investment climate, and political participation. Having made good progress on NRA reforms early on, the Government has since sought to accelerate and deepen reforms. The resulting second phase of the NRA for 2008-2010 set out five specific objectives: (i) judicial reform; (ii) administrative reform and civil service modernization; (iii) investment and business climate; (iv) anticorruption, transparency, and accountability; and (v) political reforms. Individual reform activities and relevant donor support will be monitored through a joint Government-donor results-based matrix.

6. **The Government is preparing a mid-term review of DPPR implementation.** The DPPR review will evaluate the performance of the DPPR during the first two years and will function as a revised planning document for the remaining period (i.e. until 2010), taking into account changing circumstances and emerging challenges since the DPPR's inception (such as the more moderate outlook for oil production and the possible impact of the global economic crisis). Special emphasis is likely to be placed on strengthening economic diversification, improving energy efficiency, and strengthening social safety nets. Reform efforts are expected to focus particularly on financial sector development, governance and anticorruption, decentralization, and the investment climate.

### III. YEMEN'S PROGRESS TOWARDS ACHIEVING ITS DEVELOPMENT GOALS<sup>8</sup>

7. **The country's long-term strategic goals, to which the CAS was aligned, remain relevant.** At this stage, however, Yemen's critical development goals of sustaining higher economic growth rates (above 7 percent), halving poverty by 2015,<sup>9</sup> and moving from Low to Medium Human Development by 2025<sup>10</sup> are not likely to be met. The mixed progress toward these long-term objectives is acknowledged by the draft mid-term DPPR review, though it is also noted that the development plan targets set out in the DPPR were highly optimistic and in some cases unrealistic.

8. **Several exogenous factors influenced Yemen's overall performance.** These factors include highly volatile international oil prices, a sharper-than-expected decline in domestic oil production, the spike in international food prices combined with regional drought conditions that drove up the price of some agricultural commodities, persistent geopolitical tensions in the region, continued internal conflicts in the North of Yemen, and devastating floods in the Hadramout and Al-Mahara governorates in October 2008. Oil prices surged from about US\$ 50 per barrel in mid-2005 to a record high of over US\$ 146 per barrel in July 2008. Together with a steep drop in domestic oil production, these high prices increased the weight of fuel subsidies in total public expenditure (from 8.7 percent of GDP in 2007 to 11.5 percent in

<sup>8</sup> **Recent achievements.** This draft CASCR was produced three months before the end of the CAS period. Therefore, some achievements have not been factored into this evaluation because they occurred after the report was completed.

<sup>9</sup> Millennium Development Goal #1: "Reduce by half the proportion of people living on less than a dollar a day."

<sup>10</sup> These rankings are compiled annually by the United Nations Development Programme, using the Human Development Index.

2008). Oil prices have since dropped below US\$ 40 per barrel, leading to a sharp downgrade in expected revenues. The Government has consequently adopted a series of austerity measures to control spending over the remainder of FY2009.<sup>11</sup> Yemen was also heavily affected by the global food crisis because of its limited endowment of water and cultivable land. Moreover, the internal security risks mentioned in the CAS materialized during the period.

9. **Economic performance improved during the CAS period, but not enough to raise the standard of living, reduce unemployment, or generate productive job opportunities to ensure long-term sustainable economic growth.** On average, Yemen's economy grew by about 3.5 percent per year in real terms between 2006 and 2008, slightly below the average annual real GDP growth rate of 3.9 percent observed during the previous CAS. Oil production decreased from 384,000 barrels per day (bpd) in 2006 to an estimated 290,000 bpd in 2009. High oil prices and increasing exports of liquefied natural gas (LNG) partly offset the steep drop in oil production (by more than 12 percent in 2007, but only 3.3 percent in 2008). Hydrocarbon's contribution to GDP remained stable at 33 percent. However, the coming on stream of the Yemen LNG plant in 2009 could boost overall GDP growth considerably, to an average of around 5.6 percent in 2009-10 despite slowing domestic demand. Real non-oil GDP growth was more dynamic at about 5 percent on average during the period, but this remained well below the DPPR's goal of 10.1 percent average non-oil growth over 2005-2010. Greater economic diversification remains an important challenge to ensure job growth and poverty reduction in a climate of high population growth. At about 3 percent per year, Yemen's population is increasing rapidly and, as a result, nominal per-capita income remained at US\$578 in 2007 (GNI, Atlas method).

10. **In an effort to improve Yemen's investment climate, the Government implemented reforms to promote private sector development.** The country launched a one-stop shop for business start-ups and eliminated its minimum capital requirement, which was previously the fourth highest in the world at over 2,000 percent of per-capita income. These measures helped boost Yemen's ranking on starting a business by 128 positions to 50<sup>th</sup> out of 181 countries in the *2009 Doing Business Survey*. Yemen has also made good progress on the overall ease of doing business, moving from 123<sup>rd</sup> in 2008 to 98<sup>th</sup> of in 2008.<sup>12</sup> Indicators are lower, however, for other important elements of the country's investment climate such as credit availability, investor protections, corporate taxes, and trade barriers.

11. **Yemen has made concerted efforts to improve important aspects of governance.** The country's commitment to strengthening transparency and accountability and combating corruption is evidenced by its progress in implementing the NRA. Recent achievements include strengthening judicial independence; establishing an anticorruption authority, the Supreme National Authority to Combat Corruption (SNACC); joining the Extractive Industries Transparency Initiative (EITI); and adopting new land registration and procurement laws. The Government acknowledges, however, that more work is needed to further strengthen public financial management and the rule of law.<sup>13</sup>

12. **On the human development side, good progress was made in reducing urban poverty and increasing school enrollment and rural water access, but overall human development outcomes**

<sup>11</sup> Cabinet Decree No. 467 of 2008 calls for a 50 percent cut in the planned wage and benefit increase and in allocations for "second tier" spending on goods, services, and properties (except for water and power, land and building rental, and food and clothing for members of the armed forces). The Decree also stipulates that biometric identification and retirement provisions in the civil service should be accelerated, and renewed effort focused on revenue collection.

<sup>12</sup> International Finance Corporation and World Bank. 2007. *Doing Business 2008: Comparing Regulation in 178 Economies* (these rankings were later adjusted to reflect changes in methodology and the addition of 3 countries.); 2008. *Doing Business 2009: Comparing Regulation in 181 Economies*.

<sup>13</sup> The World Bank Institute's 2007 Worldwide Governance Indicators rank Yemen in the bottom fifth of the world's countries on "rule of law." When compared to other MENA countries, Yemen ranks second to last after Iraq.

**have lagged.** While urban poverty decreased significantly from 32 percent in 1998 to 21 percent in 2005, rural poverty remained at about 40 percent.<sup>14</sup> Gross primary enrollment increased from 58 percent of the school-age population in 1997/98 to 73 percent in 2008. Access to safe water sources reached 56 percent in urban areas and 34 percent in rural areas in 2007. Progress on health indicators has been slow in the face of a rapidly growing population and limited resources. Yemen ranked 153<sup>rd</sup> out of 177 countries in the 2007 UNDP Human Development Index, and the social safety net remains insufficient to help poor people successfully cope with shocks. Under these conditions, it is unlikely that Yemen will be able to reach most of the MDGs by 2015.

Table 1: Key Indicators of DPPR Progress

Goal	Indicator	Baseline 2006	Target 2010	Actual 2008 <sup>a/</sup>	Progress To Date
Sustain higher economic growth	Real GDP, average growth rate over past five years (%)	4.1	7.1	3.7	Reversal
Diversify the economy	Real non-oil GDP, average growth rate over past five years (%)	5.1	10.1	5.3	Slow
Reduce poverty	Poverty incidence (% below national poverty line)	34.3	19.8	30.0	Slow
Eliminate subsidies	Subsidies (% of GDP)	7.7	0.0	11.5	Reversal
Promote private sector development	Private investment (% of total investment)	59	63	57	Reversal
Increase school enrollment	Basic education enrollment (% net)	68.9	100	70	Slow
Increase girls' school enrollment	Enrollment of girls in basic education (% total enrollment)	38.7	45	41.8	Steady
Reduce maternal mortality	Maternal mortality ratio (national estimate, per 100,000 live births)	365	238	336	Slow
Control population growth	Population growth rate (%)	3.0	2.75	3.0	No progress
Expand access to safe water	Access to improved water source (% of urban population)	60.3	71	56	Reversal
	(% of rural population)	7.4	47	34	Good
Expand access to electricity	Access to electricity (% of population)	30	53	47	Good
Expand road network	Length of asphalt roads (kilometers)	10,982	19,107	12,500	Slow

*a/ Most recent data available per World Bank Implementation Status Reports and other project documents.*

*Sources: Baselines and targets from Government of Yemen DPPR; actuals from Economic Intelligence Unit; World Bank.*

#### IV. OVERALL ASSESSMENT OF ACHIEVEMENTS AND PROGRESS TOWARD CAS OUTCOMES

13. **Consistent with the key focal areas of the DPPR, the CAS for FY2006-2009 encompassed four pillars:** (i) *diversifying growth* through better governance and better delivery of public services; (ii) *improving human development* through more efficient service delivery and improved safety nets; (iii) *increasing fiscal sustainability* through improved public expenditure management; and (iv) *increasing resource sustainability* through improved management of water resources and reduced population pressure. During the CAS period, IDA intended to provide about US\$ 100 million annually in credits to Yemen through a selective program of lending operations complemented by analytical and learning services. Given the relatively limited amount of IDA resources available to Yemen, the World Bank also aimed to contribute to the achievement of CAS outcomes by leveraging the resources of other

<sup>14</sup> Republic of Yemen, United Nations Development Programme, and World Bank. 2007. "Poverty Assessment."



development partners, providing Technical Assistance (TA) to the Government, and working with other donors to mainstream new implementation approaches that can enhance performance in the sectors.

#### **A. Assessment Methodology**

14. **The CAS Results Matrix contained 26 CAS outcomes, defined as country results deemed achievable during the CAS period and which the Bank expected to influence through its interventions.** The matrix also included about twice that number of milestones, or progress markers of CAS implementation. A few of the CAS outcome indicators were imprecise or missing baseline and target values, which has made it difficult to evaluate progress in some areas as compared to their status at the start of the CAS period. Overall, however, the Results Matrix has proved to be a solid framework with which to assess the Bank's contribution to Yemen's development over the CAS period.

15. **This evaluation uses the Results Chain (Appendix 1) contained in the CAS to discuss progress on each key outcome identified within the four strategic pillars.** The CASCR then reviews the overall achievements made under each pillar and the relevance of the lending and non-lending instruments to that pillar, discussing whether, how, and why the assistance program did or did not achieve each of the CAS outcomes. Finally, the document draws lessons from the experience of CAS implementation and provides recommendations for the next CAS.

#### **B. Assessment Summary**

16. **Overall, performance under the CAS for FY2006-2009 is rated *Moderately Satisfactory*.** The challenges facing the Government of Yemen grew considerably over the CAS period, a time when the World Bank resources available to the country remained limited. In this context, *the CAS embodied an appropriately focused strategy* to lay the foundation for sustainable economic growth and help Yemen meet its long-term goals, while supporting the Government in showing immediate, tangible results through the Social Fund for Development and activities under the Public Works Project. The CAS thus reached its objective of better balancing the country's need for short-term growth with the longer-term needs of capacity development and public sector accountability, as recommended in the CASCR for the previous CAS period. The CAS succeeded in reaching many of its planned outcomes in a positive context of strong public commitment to reform, and the impact of the strategy is generally expected to be sustainable in the medium term. Table 2 summarizes the ratings for each strategic pillar and individual CAS outcome. (A detailed CAS Completion Matrix is attached in Appendix 2.)

Table 2: CAS FY2006-2009 Summary Ratings

CAS Strategic Pillars and Ratings	Country Development Goals	Outcome Indicators	Outcome Ratings
<b>Pillar I:</b> Diversifying Growth through Better Governance and Better Delivery of Public Services  <i>Moderately Satisfactory</i>	Increasing non-oil growth as measured by <b>growth rate of non-oil GDP</b> .	(i) Improving Business Regulatory Environment: (a) New Business Registration (b) Tax Policy and Administration (c) Customs and Inspections (d) Land Titling and Registration	Satisfactory
		(ii) Improving Infrastructure: (a) Roads (b) Power	Moderately Satisfactory
		(iii) Improving Skills: (a) Technical Education and Vocational Training (b) Higher Education	Moderately Unsatisfactory
		(iv) Improving Regulatory Framework and Public Investments in Key Sectors: (a) Irrigated Agriculture (b) Rainfed Agriculture and Livestock (c) Fisheries (d) Gas Sector (e) Urban Manufacturing	Moderately Satisfactory
<b>Pillar II:</b> Accelerating Human Development through More Efficient Service Delivery and Improved Safety Nets  <i>Moderately Satisfactory</i>	Improving human development as measured by progress towards achieving relevant MDGs	(i) <b>Improving Access, Equity, and Quality of Basic Education</b>	Moderately Satisfactory
		(ii) <b>Improving Access and Quality of Health</b>	Moderately Satisfactory
		(iii) <b>Improving Safety Net Programs</b>	Moderately Satisfactory
		(iv) <b>Improving Water Supply and Sanitation</b>	Moderately Satisfactory
		(v) <b>Children &amp; Youth</b>	Moderately Satisfactory
		(vi) <b>Gender</b>	Moderately Satisfactory
<b>Pillar III:</b> Improving Fiscal Sustainability through Improved Public Expenditure Management  <i>Satisfactory</i>	Increasing fiscal sustainability as measured by reduced non-oil primary fiscal deficit	(i) Improving Revenue Transparency	Satisfactory
		(ii) (a) Improving Expenditure Management (b) Reduced Fuel Subsidies	Moderately Satisfactory
		(iii) Public Sector Reform (a) Central Government (b) Local Government	Moderately Satisfactory
		(iv) Improving Public Procurement	Satisfactory
		(v) Improving Public Financial Management	Satisfactory
<b>Pillar IV:</b> Increasing Resource Sustainability through Improved Management of Water Resources and Reduced Population Pressure  <i>Moderately Satisfactory</i>	Increasing resource sustainability	(vi) Improved Water Resource Management	Moderately Satisfactory
		(vii) Improved Control Over Population Growth	Unsatisfactory

17. **The next CAS will benefit from careful consideration of the key strengths and weaknesses in implementing the CAS for FY2006-2009.** These strengths and weaknesses are laid out below:

### Strengths

(a) **Trust-based relationship with the Government.** A close collaboration with the authorities, based on mutual trust, has developed over time and facilitated the implementation of the CAS program while

strengthening the World Bank's role in supporting economic policy in Yemen. Additionally, the Bank's strong field presence has enabled the Bank to deliver the CAS program successfully.

(b) **Flexibility.** The Bank has demonstrated its responsiveness to country needs through a readiness to adjust the CAS program and react flexibly to newly emerging priorities such as the Avian Flu, the 2008 food crisis, and the recent devastating Hadramout flood. Moreover, the Bank delivered several TA activities that were not planned in the CAS in response to the client's emerging needs and requests, particularly in the areas of anticorruption and governance, safety nets, mining, financial sector development, the environment, and climate change.

(c) **Use of new instruments.** During the CAS period, seven additional financing operations were approved with the objective of scaling up successful programs while gradually reducing the fragmentation of the portfolio. The Institutional Reform Development Policy Grant (IRDPG) as the first Development Policy Lending (DPL) operation in recent times, served as a tool for continued country dialogue on policy reforms in the areas of economic diversification and improved governance and public financial management. Finally, the World Bank built on ten years of experience with water sector reform in Yemen, and analytical work conducted in 2006 on the country's readiness, to launch a sector-wide approach (SWAp) operation in the water sector under a pooled multi-donor funding framework.

(d) **Convening power.** There is broad recognition that the Bank's strong presence in Yemen has helped to bring the country's development partners together around a common agenda and to attract new donors to Yemen. The Bank's convening role has ranged from holding regular and substantive informal discussions to co-chairing the formal Consultative Group (CG) meeting with the Government. The latest CG meeting, held in London in November 2006 and followed up with meetings in Sana'a in 2007, 2008, and 2009, was sponsored by the GCC and helped bring significant new aid pledges to Yemen from donors, especially including neighboring Gulf countries.

(e) **Donor coordination.** Yemen's development partners have cooperated closely during the CAS period, strengthening the harmonization of aid resources and alignment of donor programs with country priorities. Bank teams worked with bilateral donors (particularly DFID and the Netherlands) and multilateral institutions (particularly the Islamic Development Bank and European Union), mainly through the co-financing of several projects in sanitation, transport, education, and civil service modernization. In the education sector, Bank projects leveraged more than US\$ 48 million in co-financing. The US\$ 90 million IDA grant for the Water Sector Support Project in support of the Water Sector Support Program leveraged about US\$ 340 million in total financing from Government and other donors. The Bank's presence in the power sector also catalyzed significant donor interest in rural electrification and renewable energy, laying the foundation for a strong investment program in rural electrification.<sup>15</sup>

### **Weaknesses**

(a) **Slow implementation.** Looking ahead, particular attention will need to be paid to strengthening the timeliness of program implementation. Delays experienced during the CAS period typically resulted from: (i) late effectiveness; (ii) low readiness of procurement packages at the time of effectiveness; (iii) slow pace of the procurement process itself; (iv) complex design given local implementation capacity; and (v) overoptimistic assessments of Government ownership or changes in the institutional environment.

<sup>15</sup> Preliminary cost estimates for Phase I of the Rural Energy Access Project amount to about US\$ 125 million, of which US\$ 15 million would be devoted to strengthening access to off-grid electricity based on renewable energies such as photovoltaic solar power, wind energy, etc.

Realistic timelines, candid disbursement plans, and implementation in phases might help accelerate implementation (and reduce the number of extensions that are not justified by additional financing).

(b) **Mixed record on monitoring and evaluation (M&E).** IEG's evaluation of the CAS for FY2002-2005 recommended that the Bank be more realistic in assessing the ownership, speed of implementation, and feasible outcomes of planned operations by setting achievable targets with interim indicators by which to measure progress and improve results. The M&E framework included in the CAS for FY2006-2009 did represent a considerable improvement from the previous period; however, limited local capacity—particularly in statistics management—constrained the collection of accurate, detailed data and, thus, the determination of realistic projected and actual outcomes for some projects. Some CAS outcome indicators and milestones were not easily measurable or consistently monitored by the relevant agencies. In addition, the M&E frameworks for individual projects were of uneven quality and not systematically aligned with the CAS outcomes. The long lists of indicators in some M&E frameworks made it difficult to track the essential intermediate indicators through which to evaluate the project's success in achieving its development objectives.

## V. DETAILED REVIEW OF PROGRESS TOWARD CAS OUTCOMES

18. **The following section reviews progress against each individual outcome specified in the CAS for FY2006-2009 and assesses the Bank's contribution to the country's achievements under each of the four strategic pillars.** The country team has assigned ratings to the Bank's performance on each pillar, as well as each associated CAS outcome. Detailed achievements against CAS outcomes and targets are included in the CAS Completion Matrix in Appendix 2.

### A. **Pillar I: Diversifying Growth through Better Governance and Better Delivery of Public Services**

19. **The first pillar included CAS outcomes in four areas:** (i) business regulatory environment; (ii) road and power infrastructure; (iii) skills development; and (iv) regulatory frameworks and public investments in key sectors. The CAS envisioned that this pillar would be supported through eight ongoing projects, nine new loans (eight were delivered along with two additional financing operations), and six non-lending activities (ten were delivered, including two activities conducted by the International Finance Corporation (IFC) and Foreign Investment Advisory Service (FIAS)). Trust funds supported DPPR implementation and monitoring, public sector management, social development, and rural electrification and renewable energy. Table 3 shows the various elements of the CAS program that have supported Pillar I activities.

Table 3: Bank Group Assistance Under Pillar I

Ongoing Lending at Start of CAS	New Activities Delivered During CAS Period			Planned Activities Not Delivered
	Lending	ESW/TA	Trust Funds	
<ul style="list-style-type: none"> <li>• Civil Service Modernization</li> <li>• Port Cities Development Phase I</li> <li>• Higher Education</li> <li>• Southern Governorates Agricultural Privatization</li> <li>• Irrigation Improvement Phase I</li> <li>• Sana'a Basin Water Management</li> <li>• Rural Access Phase I</li> <li>• Social Fund for Development III</li> </ul>	<ul style="list-style-type: none"> <li>• Rural Access Phase II</li> <li>• Power Sector</li> <li>• Fisheries Resource Management &amp; Conservation</li> <li>• Rainfed Agriculture &amp; Livestock</li> <li>• Institutional Reform Development Policy Grant</li> <li>• Vocational Training II</li> <li>• Rural Electrification &amp; Renewable Energy Development</li> <li>• Civil Service Modernization (<b>additional financing</b>)</li> <li>• Social Fund for Development III (<b>additional financing</b>)</li> <li>• Rural Energy Access (<b>FY2009</b>)</li> </ul>	<ul style="list-style-type: none"> <li>• Development Policy Review</li> <li>• Investment Climate Assessment</li> <li>• Gas Incentive Framework Study and TA</li> <li>• IFC Advisory Services</li> <li>• FIAS</li> <li>• Petroleum Governance TA</li> <li>• Land Tenure Study (<b>FY2009</b>)</li> <li>• Transport Sector Note (<b>FY2009; unplanned</b>)</li> <li>• Financial Sector Reform (<b>unplanned</b>)</li> <li>• Mining Study (<b>unplanned</b>)</li> <li>• ESMAP-funded study on electricity, trade, and interconnection</li> </ul>	<ul style="list-style-type: none"> <li>• IDF grant for M&amp;E of PRSP and reform programs</li> <li>• DFID TF for macroeconomic management, public sector governance and water resource management</li> <li>• TFESSD grant on Land Tenure for Social and Economic Inclusion</li> <li>• GEF funding for Rural Electrification and Renewable Energy Development Project</li> </ul>	Investment Climate Update

20. **Overall performance on Pillar I outcomes is rated *moderately satisfactory*.** Significant progress was made against the indicators laid out in the CAS, particularly with regard to targets on improving the business regulatory environment. Progress on skills development outcomes has been slower, however, due to delays in project effectiveness. (Detailed achievements are presented in Appendix 2.) In general, the Pillar I CAS outcomes were relevant and adequately ambitious to support the Government's goal of diversifying Yemen's economy.

21. **Business regulatory environment. *Satisfactory*.** Substantive reform measures planned in the Government's National Reform Agenda and Matrix of Good Governance were achieved.

- The Government (at national and sub-national levels) established simplified *business start-up* procedures to minimize bureaucratic obstacles for private investors. As a result, Yemen was listed as the Top Reformer on starting a business in *Doing Business 2009*. Progress in this area was supported through Bank and IFC policy dialogue and TA on improving the investment climate along with quick-disbursing budget support, backed up by Bank and IFC analytical work on the business enabling environment. The next step in consolidating these reforms will be to translate successes in creating and amending laws and regulations into concrete implementation to support private sector growth.
- On *tax policy and administration*, the Government developed a new corporate income tax law and replaced hidden turnover taxes with a 5 percent sales tax. The total tax burden on companies is lower, but there is room for improvement in actual tax collections. The Bank supported these reforms through dialogue, technical help, and development policy lending triggers to draft the new income tax law, in conjunction with ongoing TA from FIAS and IFC to provide an assessment of tax incentives and support for legal and administrative reform.

- *Customs* tariff rates have fallen. The Government introduced the ASYCUDA customs management system in major entry points, covering 90 percent of imports, but the system is not fully operational. The Bank has provided assistance through ongoing policy dialogue and budget support, though implementation of customs administration re-engineering activities has been subject to some delays. A review of customs procedures and efficiency has been conducted, and additional financing has been approved.
  - Finally, a new *land registration* law was approved by the Cabinet and is expected to be referred to Parliament soon for approval. This step will be followed by the appointment of an independent registrar and the establishment of an organizational structure for the General Authority for Lands, Survey, and Urban Plans. The Bank has worked closely with the Land Policy Task Force, providing TA to strengthen administration of property rights and management of public land assets, including development and presentation of the law.
22. **Road and power infrastructure.** *Moderately Satisfactory.* Significant steps have been taken to expand infrastructure important to rural development, especially rural roads and power.
- In the *roads* sector, good progress has been made toward the goal of reducing travel times and transport costs by 30 percent, and prices of essential commodities by 15 percent, thus reducing isolation for close to one million rural residents. Nearly all (97 percent) households benefiting from the Social Fund for Development report improved access to markets and social services. The Bank's lending assistance has focused on improving rural access roads, while progress on institutional development and road maintenance has been slow due to capacity limitations and the Government's focus on civil works. An overview of transport sector performance, issues, and priority investments is being prepared in FY2009.
  - In the *power* sector, the Government has developed a Rural Electrification Strategy and Renewable Energy Development Plan. However, the public electricity company's financial situation has been deteriorating following initial improvements during the CAS period; this has resulted in part from the high cost of electricity rental arrangements. Bank lending and strategic TA has focused on strengthening power access, distribution, and reliability, though some implementation setbacks have resulted from procurement delays, unsatisfactory consultant performance, and changes in key Government officials. The Bank has also supported community projects and catalyzed the interest of other donors in rural electrification and renewable energy development. As these efforts typically take time to yield results, it will be important for the next CAS to continue paying close attention to supervision of infrastructure activities.
23. **Skills development.** *Moderately Unsatisfactory.* Progress on *vocational training* development has been moderate. Policy dialogue was sustained, contributing to substantial progress in relations between the public and private sectors with respect to skills development and to new initiatives involving employers and the private sector in the operation of training institutions. Bank lending assistance in this area was delayed by capacity constraints and, in particular, by a long and difficult process of parliamentary review of the revised law for the Skills Development Fund. A national *higher education* strategy was finalized and a plan of activities for 2006-2011 was prepared, published, and disseminated. Only two of seven universities completed their strategic plans, however, and these were not linked to faculty budgets. The Bank has informed the policy debate in this sector and contributed significantly to the development of the higher education strategy. Yemen continues to face daunting challenges in the area of skills development, especially in view of rapid population growth and the urgent need for economic diversification. Reforms in this area are complex, and more efforts will be needed in the next CAS to translate strategy development into concrete implementation progress.

24. **Regulatory frameworks and public investments in selected sectors.** *Moderately Satisfactory.* Policy and institutional frameworks improved over the CAS period in irrigated agriculture, livestock and rainfed agriculture, fisheries management, private sector participation in the gas sector, and ports.

- In support of *irrigated agriculture*, the Government has been implementing a series of water sector projects to improve participatory irrigation management through Water User Associations and Water User Groups. These activities have also focused on rehabilitating irrigation infrastructure and increasing agricultural productivity (more crop per drop). Pilot work is underway to test the concept of integrated water management. The creation of a National Irrigation Program at the Ministry of Agriculture and Irrigation has centralized the government's management of irrigation activities and thus improved upon the previous approach, in which these activities were dispersed across fragmented Project Management Units. The Bank's lending assistance has focused on strengthening spate irrigation through infrastructure rehabilitation, participatory approaches, extension services, and capacity building.
- On *rainfed agriculture and livestock* development, the General Seed Multiplication Corporation and contracted farmers produced 75 tons of rainfed cereal seeds that were sold back to 1,646 farmers operating in rainfed areas (covering an area of 4,721 hectares). This outcome has benefited from fruitful collaboration among various agricultural research organizations. Veterinary training programs are underway, and 92 community groups are being formed in 11 districts to develop local income-generating activities that will benefit group members and local communities. New government funding allocations have supported livestock health and production as well as the creation of formal and informal cooperatives among farmers and beneficiaries to strengthen their capacity to identify problems, prioritize needs, and seek financing to help them prepare and implement income-generating projects. Bank lending assistance has focused on enabling poor rural producers in rainfed areas to improve production (through better use of land and seeds), processing, and marketing systems; protect their assets through improved livestock husbandry and health services; and become better organized through improved access to public and private services, markets, and information.
- On *fisheries*, a contract has been signed for Ministry of Fish Wealth restructuring and creation of: (i) Fishermen's Authorities in coastal governorates; (ii) a Fish Research Authority; and (iii) a Fish Port Authority. The aim is to reformulate the ministry as a policy-making and monitoring body while transferring fisheries management to the local authorities and Fisheries Cooperatives in coastal governorates. Bank lending assistance has concentrated on strengthening sustainable fisheries resource management, targeting improvements in ministry capacity, facilities and handling, and cooperatives management; implementation has been delayed, however, due to changes in institutional support.
- In the *hydrocarbons sector*, a constructive debate is underway on gas pricing for domestic use and on the introduction of gas clauses in production sharing contracts to boost natural gas exploration and production. The legal and regulatory framework for private sector participation is gradually improving. Bank TA has focused on natural gas development, in cooperation with IFC. A review of macroeconomic incentives for gas sector investment was completed and TA was launched to help structure investments in natural gas utilization projects.
- Progress on *urban manufacturing* has been supported by the development of updated physical and investment planning in major port cities (Aden, Al-Hodeidah, and Al-Mukallah). Bank engagement has been limited, occurring mainly through strategy preparation activities on national ports and city development.

## B. Pillar II: Accelerating Human Development through More Efficient Service Delivery and Improved Safety Nets

25. The second pillar included CAS outcomes in six areas: (i) access, equity, and quality of basic education; (ii) access and quality of health; (iii) safety net programs; (iv) water supply and sanitation; (v) children and youth; and (vi) gender. The CAS planned to support these objectives through nine ongoing projects, two new projects (four were delivered, including emergency support for food security and two additional financing operations), and 12 non-lending services (13 were conducted, including unplanned activities on rural poverty, targeting cash transfers, and a children and youth action plan to advance achievement of the MDGs). A strong portfolio of trust funds complemented IDA assistance, particularly in the education sector. Table 5 shows the various elements of the CAS program that have supported Pillar II activities.

26. Overall performance on Pillar II outcomes is rated *moderately satisfactory*. Mixed progress was made against the indicators established to measure CAS outcomes in this area. (A detailed analysis of achievements is presented Appendix 2.) The identified CAS outcomes supported and complemented the Government's strategy and thus remained relevant to the country's long-term strategic goals. However, the outcomes sought were either too ambitious to be achieved through the Bank's interventions (as in education, health, and water) or too modest to fully support achievement of Yemen's MDG targets (as in safety nets and gender).

Table 5: Bank Group Assistance Under Pillar II

Ongoing Lending at Start of CAS	Lending	New Activities Delivered During CAS Period ESW/TA	Trust Funds	Planned Activities Not Delivered
<ul style="list-style-type: none"> <li>• Higher Education</li> <li>• Health Reform Support</li> <li>• Basic Education Expansion</li> <li>• Basic Education Development</li> <li>• Child Development</li> <li>• Public Works III</li> <li>• Rural Water Supply &amp; Sanitation</li> <li>• Urban Water Supply &amp; Sanitation Phase I</li> <li>• Social Fund for Development III</li> </ul>	<ul style="list-style-type: none"> <li>• Secondary Education</li> <li>• Development and Girls' Access</li> <li>• Vocational Training II</li> <li>• Rural Access Phase II</li> <li>• Rural Water Supply (additional financing)</li> <li>• Social Fund III (additional financing)</li> <li>• Public Works III (additional financing; unplanned)</li> <li>• Food Security (unplanned)</li> </ul>	<ul style="list-style-type: none"> <li>• Social Protection Workshop</li> <li>• National Disability Study</li> <li>• Country Social Analysis</li> <li>• Poverty Assessment</li> <li>• Health Sector Consultation and Dialogue</li> <li>• TA on Health Sector Review (FY2009)</li> <li>• Children &amp; Youth Strategy</li> <li>• Secondary Education Strategy Note</li> <li>• Urban Poverty Analysis (Taiz)</li> <li>• Qat Awareness Report</li> <li>• Pathways Out of Rural Poverty (FY2009; unplanned)</li> <li>• Cash Transfer Targeting TA (unplanned)</li> <li>• Children &amp; Youth Action Plan (unplanned)</li> </ul>	<ul style="list-style-type: none"> <li>• Multi-Donor Basic Education Trust Funds</li> <li>• JSDF: Socio-economic Inclusion of Marginalized Youth</li> <li>• PHRD: Health Reform Support Project</li> <li>• PHRD: Secondary Education Development and Girls' Access Project</li> <li>• GAVI: Health, Nutrition, Population Strategy</li> <li>• HRBF proposal preparation</li> <li>• Gender Action Plan TF: Gender &amp; Transport</li> <li>• JSDF: Women &amp; Coping Strategies for Climate Change Adaptation Using Agrobiodiversity Resources</li> <li>• Avian Flu TF</li> </ul>	<ul style="list-style-type: none"> <li>• Population II (New Health and Population Project to be delivered in FY2010)</li> <li>• Poverty Reduction Support Credit I (replaced by Water Sector Support FY2009)</li> <li>• Qat TA</li> <li>• Gender Status Update (FY09)</li> <li>• Strategic Communications TA</li> </ul>

27. Access, equity and quality of education. *Moderately Satisfactory*. Overall achievements in the education sector have been significant. Noteworthy reforms in basic education have included the abolition of school fees, improvements in annual work planning, contracting of female teachers in remote parts of the country, tying of teacher posts to the school rather than to the individual, reductions in teacher absenteeism, and capacity building at all levels of education service delivery. Pilot work has been undertaken conditional cash transfers and capitation grants. The Cabinet approved a Secondary Education



Strategy in 2007. The Bank's contributions in the education sector have included support for implementation of a sector-wide approach in education, assistance in fundraising under the Education for All Fast Track Initiative, TA on secondary education strategy development, and lending assistance for basic education development and expanding girls' access to secondary school. In addition, Bank initiatives on public works and social fund development helped support the construction of schools. Despite this important progress, however, the CAS targets were not fully met. It has become clear, in hindsight, that the general outcome indicators laid out in the CAS were overly ambitious. A lack of credible population data and the use of several inconsistent data collection methodologies resulted in inflated educational data from 1999-2004, which in turn led to inflated baselines and targets in the CAS. The Ministry of Education is in the process of recruiting Technical Assistance to strengthen education data collection, reporting, and verification. Quality control mechanisms are being put in place for both retrospective and future data.

28. **Access and quality of health.** *Moderately Satisfactory.* Performance has improved significantly over the previous CAS period following a shift in Government priorities toward broader systemic reforms. Access to health services has improved, but utilization of these services has yet to be assessed. The Bank's lending assistance has focused on increasing access to maternal and child health care, strengthening the effectiveness of public health programs in malaria and health education, and supporting human resource development in the sector. The Bank has provided substantial TA on setting results-based policy options and strategies, analyzing health financing trends, and facilitating donor coordination and aid harmonization in the sector. Finally, Bank initiatives on public works and social fund development helped support the construction of health facilities.

29. **Safety net programs.** *Moderately Satisfactory.* This area of support became increasingly urgent in the context of the food crisis of 2008. The Government is working to put in place a targeted social safety net to mitigate its effects on poverty and livelihoods. Pro-poor targeting has improved under the Social Fund for Development, with 69 percent of resources going to people in the lowest three income deciles. The Bank provided grant funding and lending assistance to support job creation and income generation and delivered emergency assistance in response to the food crisis. Additional financing was approved to scale up support to the Social Fund for Development. The Bank also provided TA on the development of a social protection strategy and just-in-time advice on establishing a cash transfer mechanism to mitigate the impact of price shocks and allow for an eventual reduction of energy subsidies. These activities were supported by a wide range of analytical work on poverty analysis, social development, and disabilities.

30. **Water supply and sanitation.** *Moderately Satisfactory.* Local water and wastewater corporations have been established in 14 cities (well above the 4 targeted in the CAS). Coverage of urban water supply services has thus increased, albeit more slowly than originally planned due to capacity constraints. A new Rural Water Supply and Sanitation Strategy was prepared and, though not yet approved, is in use—leading to improved efficiency of rural water supply management on the part of Water User Associations. Access to water remains constrained in both rural and urban areas, however, owing to rapid population growth combined with the rapid lowering of the groundwater level in a few key aquifers. (See Section D below for a discussion of water resource management progress under Pillar IV). Bank assistance took the form of lending activities in urban and rural water supply and sanitation. Going forward, these efforts will be integrated into the newly created Water Sector Support Project.

31. **Children and youth.** *Moderately Satisfactory.* A Children and Youth Strategy was approved in FY2006, and an associated action plan was adopted in FY2009. The next step is to incorporate the strategy recommendations across line ministries. The Bank provided significant TA to the development of the strategy and action plan.

32. **Gender.** *Moderately Satisfactory.* Girls' enrollment in basic education is improving, with the share of girls in basic education rising from 40.5 percent in the 2004/2005 school year to 41.8 percent in August 2008; however, ambitious CAS targets in this area have not yet been achieved. Women are gaining access to improved income generating activities in the rainfed agriculture sector. The Bank has mainstreamed gender considerations throughout its program of lending and analytical work, paying particular attention to gender equality issues in access to basic education and health services.

### C. Pillar III: Improving Fiscal Sustainability through Improved Public Expenditure Management

33. **The third pillar included CAS Outcomes in five areas:** (i) revenue transparency; (ii) expenditure management; (iii) public sector reform; (iv) public procurement; and (v) public financial management. The CAS envisioned that Bank support for these activities would consist of six ongoing projects, two new loans (of which one was delivered, along with three additional financing operations), and six non-lending activities (twelve were delivered, but the planned Public Expenditure Review was postponed to FY2010). Implementation of these activities was enhanced through several bilateral and multi-donor trust funds. Table 7 shows the various elements of the CAS program that have supported Pillar III activities.

**Table 7: Bank Group Assistance Under Pillar III**

Ongoing Lending at Start of CAS	Lending	New Activities Delivered During CAS Period		Planned Activities Not Delivered
		ESW/TA	Trust Funds	
<ul style="list-style-type: none"> <li>• Irrigation Improvement Phase I</li> <li>• Rural Water Supply &amp; Sanitation</li> <li>• Port Cities Development</li> <li>• Civil Service Modernization</li> <li>• Public Works III</li> <li>• Taiz Municipal Development and Flood Protection</li> </ul>	<ul style="list-style-type: none"> <li>• Institutional Reform Development Policy Grant</li> <li>• Rural Water Supply and Sanitation (additional financing)</li> <li>• Public Works III (additional financing)</li> <li>• Civil Service Modernization (additional financing)</li> </ul>	<ul style="list-style-type: none"> <li>• Development Policy Review</li> <li>• Country Social Analysis</li> <li>• Poverty Assessment</li> <li>• Urban Poverty Analysis (Taiz)</li> <li>• Investment Climate Assessment</li> <li>• Public Expenditure Management and Tracking</li> <li>• Subsidy Reform TA (FY2009; unplanned)</li> <li>• Pathways Out of Rural Poverty (FY2009; unplanned)</li> <li>• PEFA Assessment (FY2009)</li> <li>• Baseline survey on corruption incidence (FY2009; unplanned)</li> <li>• Diagnostic Review of Legal and Regulatory Framework (FY2009; unplanned)</li> <li>• CGAC Assessment (FY2009; unplanned)</li> </ul>	<ul style="list-style-type: none"> <li>• Netherlands TF for Civil Service Modernization</li> <li>• IDF Grant: Monitoring and Evaluation of PRSP and Reform Programs</li> <li>• IDF Grant: M&amp;E for Benefit Streams in Mineral Resources Operations</li> <li>• DFID Support for Public Sector Management</li> <li>• DFID Support for Macro-economic Management</li> <li>• PHRD Grant for Port Cities Development II</li> <li>• EITI multi-donor Trust Fund</li> </ul>	<ul style="list-style-type: none"> <li>• Public Expenditure Review (to be finalized in FY10)</li> </ul>

34. **Overall performance on Pillar III outcomes is rated *satisfactory*.** Working with a reform-minded government, the Bank was successful in achieving its objectives of improving revenue transparency, procurement management, and public financial management. Institutional and administrative reforms established as principal objectives of the DPPR were also tackled. Fuel subsidies were not reduced, however, against the backdrop of external factors such as the hike in oil prices and civil unrest in response to rising costs. (Detailed achievements are presented in Appendix 2.) Despite these important successes, achieving fiscal sustainability remains a major challenge for Yemen, requiring concerted efforts to foster sustained economic growth and diversification. The Pillar III CAS outcomes

were highly relevant to the country's long-term development goals of intensifying economic growth and poverty reduction.

35. **Revenue transparency.** *Satisfactory.* Yemen formally joined EITI and set up a National EITI Council to support EITI implementation. The council comprises representatives from Government, oil and gas companies, and civil society organizations and has taken initial steps to begin implementing EITI requirements. Bank Group support has included policy dialogue, TA, and analytical work on EITI accession and implementation. These efforts have been backed up other donors, particularly the United States Agency for International Development. In addition, Yemen has been selected as a pilot country for the Bank's Country Governance and Anticorruption (CGAC) initiative, which seeks to identify innovative approaches to engage with clients and partners in strengthening a country's particular governance challenges. An initial CGAC assessment was conducted to underpin preparation of a CGAC strategy in FY2009. The Bank is also providing TA to the anticorruption agency, SNACC, and has completed a baseline survey on the incidence of corruption crimes, as well as a Diagnostic Survey of Anticorruption Legal and Regulatory Framework, toward assisting SNACC in the development of a comprehensive national strategy for combating corruption.

36. **Expenditure management.** *Moderately Satisfactory.* Good progress has been made in improving budget comprehensiveness and transparency, in line with the Public Finance Management Strategy. The Government has set up a road map for establishing a Medium-Term Expenditure Framework (MTEF) consistent with the DPPR and taken steps toward implementation. The Capital Budget has been linked successfully to the Public Investment Program (PIP), though development of a three-year MTEF for budget formulation is still at an early stage. In the context of its broader policy dialogue on governance and institutional reform, the Bank has provided TA to support development of an MTEF with budget ceilings that are consistent with MDG requirements. This work has been buttressed by analytical work on public expenditure management and tracking and a multi-donor assessment of public expenditure and financial accountability indicators. Though fuel subsidies became increasingly unsustainable due to rising fuel prices at the start of the CAS, subsidy reforms have not taken place given the high degree of political resistance to this reform and the recent drop in fuel prices. The Government is evaluating options for future reductions in subsidy levels. The Bank is providing comprehensive TA in this area, backed up by macroeconomic monitoring and an analysis of the potential impact of fuel subsidy reductions on poverty and social development. This work has also benefited from the Bank's efforts to support the Government in defining a national social protection strategy (see Pillar II above).

37. **Public sector reform.** *Moderately Satisfactory.* Substantial results were achieved on *central government* reform, including the implementation of an early retirement plan, definition of a national wage strategy, and rollout of a human resources database that includes biometric verification of civil servants and computerized links to the payroll system. Capacity has improved, and the Ministry of Civil Service and Insurance (MoCSI) has embarked on a re-engineering process. The MoCSI has hired all of its high-level staff using competitive and merit-based selection. Progress has been slower on other aspects of restructuring and re-engineering and with respect to other pilots, though diagnostic work has been completed. Bank support has taken the form of lending assistance on civil service modernization and policy dialogue on institutional reform. *Local administration* planning capacity has improved following the completion of four city master plans, construction of local council buildings, and preparation of several city development strategies. The Bank has supported these efforts through lending assistance for municipal development and decentralization initiatives, drawing on analytical work on urban poverty in Yemen's second-largest city of Taiz.

38. **Public procurement.** *Satisfactory.* The Government enacted a new Procurement Law that is consistent with international best practice. The High Tender Board was restructured, and a National Procurement Manual and associated standard bidding documents have been prepared and are being rolled

out to pilot ministries. In the context of the Bank's policy dialogue on institutional reform, significant TA was provided to draft the Procurement Law and facilitate its adoption. The Bank is now supporting the Government in developing the executive by-laws for the Procurement Law.

39. **Public financial management.** *Satisfactory.* The Government of Yemen has adopted a comprehensive public financial management (PFM) reform strategy, approved by the Cabinet in 2005, that includes general budget reform, enhancement of control and financial accountability, reform of the system of bidding and procurement, and improvement of competence and skills. Bank TA has assisted the Government in conducting an assessment of public expenditure and financial accountability, in order to identify strengths and weaknesses of PFM systems and make adjustments to the Government's PFM Reform Action Plan. TA is also helping the Government to prepare Phase 2 of the PFM Action Plan; facilitating an improved alignment between Yemen's development agenda, its PIP, and its recurrent budget; and supporting the PFM Action Plan to which several major donors have agreed. Amendments to the External Audit Law are being proposed to ensure the independence of the Central Organization for Control and Audit (COCA) from the executive. COCA has been selected as a pilot institution for restructuring under the civil service modernization program. An Accounting and Financial Management Information System (AFMIS) was deployed in four central ministries and is being expanded to the remaining Ministry headquarters in Sana'a. Throughout 2008, AFMIS was used in parallel to the manual system in executing the budgets of the largest four Ministries (Education, Health, Finance, and Public Works). AFMIS has also been used to prepare the 2008 final accounts for these four Ministries and the 2009 government budget (including functional as well as economic classifications). Furthermore, the 2009 budget was published on the Ministry of Finance (MoF) website at the same time as it was presented to the Parliament. The Bank has provided support to these activities through TA on PFM, policy dialogue on institutional reform, lending assistance on civil service modernization, and capacity building initiatives to support government staff in conducting more effective internal audits.

#### **D. Pillar IV: Increasing Resource Sustainability through Improved Management of Water Resources and Reduced Population Pressure**

40. **The fourth pillar focused on CAS outcomes in two areas:** (i) water resource management and (ii) control over population growth. Planned CAS support included seven ongoing projects, three new projects (two were delivered, along with three additional financing operations), and seven non-lending activities (all but two were delivered). Water resource management activities have been buttressed by trust funds on coastal zone management, community water management, and water sector support. Table 9 shows the various elements of the CAS program that have supported Pillar IV activities.

41. **Overall performance on Pillar IV outcomes is rated *moderately satisfactory*.** Good progress was made against CAS indicators established to measure achievements in the water sector, but results on population-related indicators were limited. (A detailed analysis of achievements is presented Appendix 2.) Despite unsatisfactory progress on population objectives in the CAS, an overall rating of moderately satisfactory is justified due to the comparative weight of the Bank's planned and actual programming in the water sector and the relatively positive results achieved by those programs. The Pillar IV CAS outcomes were and remain highly relevant to Yemen's longer-term development goals in light of critical issues surrounding the sustainability of water resources, rapid population growth, and low reproductive health status in Yemen. Given these urgent concerns, the CAS was appropriately ambitious in this area. Results were incomplete, however. Approaches to water resource management did not address substantively the role of *qat* in disproportionately consuming scarce water resources. Activities targeting improvement of control over population growth were largely symbolic, and the Population II project was not delivered despite the critical challenges associated with demographic transition.

Table 9: Bank Group Assistance Under Pillar IV

Ongoing Lending at Start of CAS	New Activities Delivered During CAS Period	Planned Activities Not Delivered
	Lending	Trust Funds
<ul style="list-style-type: none"> <li>• Taiz Municipal Development and Flood Protection</li> <li>• Sana'a Basin Water Management Phase I</li> <li>• Irrigation Improvement</li> <li>• Urban Water Supply &amp; Sanitation</li> <li>• Rural Water Supply &amp; Sanitation</li> <li>• Groundwater &amp; Soil Conservation</li> <li>• Health Sector Reform Support</li> </ul>	<ul style="list-style-type: none"> <li>• Rainfed Agriculture and Livestock</li> <li>• Secondary Education Development and Girls' Access</li> <li>• Rural Water Supply &amp; Sanitation (<b>additional financing</b>)</li> <li>• Taiz Municipal Development and Flood Protection (<b>additional financing</b>)</li> <li>• Groundwater &amp; Soil Conservation (<b>additional financing</b>)</li> </ul>	<ul style="list-style-type: none"> <li>• TA: Water Strategy Implementation (FY2006)</li> <li>• Poverty and Social Impact Assessment for Water Reform</li> <li>• Water Sector Strategy Support (FY2007)</li> <li>• Health Sector Consultation and Dialogue</li> <li>• Secondary Education Strategy Note</li> </ul>
		<ul style="list-style-type: none"> <li>• GEF Coastal Zone Management Along the Gulf of Aden</li> <li>• JSDF grant for Community Water Management Project</li> <li>• DFID Support for Water Sector</li> </ul>
		<ul style="list-style-type: none"> <li>• Population II (New Health and Population project to be delivered in FY2010)</li> <li>• Poverty Reduction Support Credit I (replaced by Water Sector Support Project FY2009)</li> <li>• TA on Qat</li> <li>• TA on Strategic Communications</li> </ul>

42. **Improved water resource management.** *Moderately Satisfactory.* Satisfactory progress is being made toward sustainable water use in three spate irrigation schemes. The establishment of Water User Associations in Sana'a Basin and three governorates has led to substantial groundwater savings. Coverage of public water resources has improved in the Sana'a Basin and water abstraction rates have decreased slightly. The Bank has supported these objectives through lending assistance in irrigation, groundwater management, and soil conservation, together with significant TA on water sector strategy development. International assistance in this critical sector has recently shifted from individual operations to a comprehensive multi-donor Water Sector Support Project, which has been negotiated and is expected to be launched in FY2009.

43. **Improved control over population growth.** *Unsatisfactory.* Efforts to control Yemen's rapid population growth rates have focused thus far on indirect interventions such as boosting girls' enrollment in secondary education in order to provide incentives for later marriage; progress has been limited so far. Bank support in this area has consisted of analytical work and TA on secondary education strategy development and lending assistance on secondary education development, with a particular focus on strengthening girls' access to schooling. This lending only became effective toward the end of the CAS period, however, so its contribution has been limited. In the health sector, work has been done to increase the contraceptive prevalence rate, but progress in this area is difficult to measure in a rural and traditionally conservative society. Planned lending on population was not delivered, reflecting in part the complexity and social sensitivity of this issue. As a result, CAS outcomes were not achieved.

## VI. WORLD BANK GROUP DELIVERY AND IMPLEMENTATION PERFORMANCE

### A. Quality of Products and Services

#### IDA Lending: Volume, Instruments, and Costs

44. **Actual IDA credits during FY2006-2009 totaled US\$ 484.8 million.**<sup>16</sup> This allocation was higher than the US\$ 415 million planned in the CAS Base Case Scenario. The factors behind this increased allocation include: (i) a slight improvement in Yemen's Country Policy and Institutional Assessment (CPIA) rating (which is a factor in determining a country's overall IDA allocation); (ii) fluctuations in the exchange rate against the Special Drawing Rights (SDR) in which IDA allocations are denominated; and (iii) the addition of US\$ 35 million in emergency flood assistance approved by the World Bank's Board. IDA funding covered eight out of the 12 projects planned, one investment project that was not initially planned (Water Sector Support, which replaced the planned Poverty Reduction Support Credit), and seven additional financing operations. Of the nine projects implemented, one (Rural Access II) was the second phase of an Adaptable Program Loan (APL). The number of projects in the portfolio remained stable at around 20, which has been the average for Yemen over the last 15 years.

45. **During the CAS period, IDA has made efforts to use a broader range of available lending instruments.** The second phases of APLs that were approved under the previous CAS were not systematically developed when the projects could be integrated into more innovative or broader projects with substantial medium-term policy impact. For example, the Water Sector Support Project (scheduled for approval in FY2009) aims to consolidate the lessons from the five ongoing IDA-funded water projects and several pieces of economic and sector work (ESW), to build on other development partner activities in the sector and integrate sector support within a harmonized platform. The Bank also delivered its first quick-disbursing loan in recent times, the IRDPG, which proved effective in supporting key reforms, especially on governance initiatives such as procurement and land reform. During the CAS period, seven additional financing operations were processed under OP/BP 13.20 on Additional Financing for Investment Lending with the objective of scaling up successful operations while gradually reducing fragmentation of the portfolio. The relatively low preparation costs of these additional financing operations created budget space to increase the number of ESW and TA activities conducted under the CAS.

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<sup>16</sup> Actuals for FY2009 are projections at this stage, amounting to US\$ 160 million of the total amount.

Table 11: List of Approved IDA Projects FY2006-2009

Year	Project	# New Projects	# Additional Financing	IDA Commitment
FY06	Rural Access II	1		40.0
	Power Sector	1		50.0
	Fisheries Resources Management & Conservation	1		25.0
	<b>Total</b>	<b>3</b>	<b>0</b>	<b>115.0</b>
FY07	Vocational Training II	1		15.0
	Rainfed Agriculture and Livestock	1		20.0
	Social Fund for Development III ( <i>additional financing</i> )		1	15.0
	<b>Total</b>	<b>2</b>	<b>1</b>	<b>50.0</b>
FY08	Secondary Education Development and Girls' Access	1		20.0
	Institutional Reform Development Policy Grant (DPL)	1		50.9
	Civil Service Modernization ( <i>additional financing</i> )		1	14.0
	Rural Water Supply ( <i>additional financing</i> )		1	20.0
	Public Works III ( <i>additional financing</i> )		1	29.8
	Taiz Municipal Development & Flood Protection ( <i>additional financing</i> )		1	20.0
	<b>Total</b>	<b>2</b>	<b>4</b>	<b>154.8</b>
FY09*	Groundwater & Soil Conservation ( <i>additional financing</i> )		1	15.0
	Emergency Flood Protection II ( <i>additional financing</i> )		1	35.0
	Rural Energy Access	1		25.0
	Water Sector Support	1		90.0
	<b>Total</b>	<b>2</b>	<b>2</b>	<b>160.0</b>
<b>CAS Total</b>		<b>9</b>	<b>7</b>	<b>484.8</b>

\*Forecast based on FY09 Business Plan

46. **Average cost and time of preparation was relatively high, excluding additional financing operations.** At US\$ 472,000 (US\$ 557,000 with PHRD grants) for FY2006-2008, the high average cost of preparation was driven by the considerable preparation expenses for highly decentralized projects.<sup>17</sup> Human and rural development projects are typically more costly to prepare than projects in other sectors. Limitations in borrower capacity are also a factor. In contrast, preparation costs for additional financing operations in FY2006-2008 averaged US\$ 66,000, as they often built on extensive supervision activities. The average time of preparation—from concept note to approval—was 23.8 months when excluding additional financing and 15.39 months for all Yemen operations (as compared to 13 months Bank-wide and 17.75 months in the Middle East and North Africa (MNA) region. The IRDPG took only nine months to develop from concept note to approval.

### **Supervision**

47. **The Bank devoted greater resources to project supervision, resulting in improved supervision quality.** Average supervision resources grew from US\$ 54,000 in FY03 to US\$ 110,000 in FY08, bringing the average for FY2006-2009 to US\$ 103,000—slightly above MNA's average. As a result, IEG ratings for Bank Performance at Supervision show an increase from 62.5 percent under the previous CAS to 66 percent in the CAS for FY2006-2009 (see below).

<sup>17</sup> Examples include Fisheries Resource Management and Conservation, Vocational Training II, and Rainfed Agriculture and Livestock.

A) Portfolio Performance and Risk Management

48. **Portfolio performance improved significantly over the CAS period.** At the beginning of FY2009, Yemen's portfolio of 19 projects and seven additional financing operations was the second largest in MNA, with infrastructure accounting for more than half of commitments.<sup>18</sup> Concerted efforts to follow up on the recommendations of the 2008 Country Portfolio Performance Review (CPPR) strengthened portfolio risk management, reducing commitments at risk from an average of 12 percent in the CAS for FY1999-2001 and 8 percent in the CAS for FY2002-2005 to 0 percent in the CAS for FY2006-2009. Proactivity remained at 100 percent during the entire period. However, after having decreased significantly under the previous strategy, effectiveness delays began to increase toward the end of the CAS period, reaching an average of nine months for FY2006-2008. No project approved during this period reached the 2005 CPPR's target of limiting effectiveness delays to less than three months. These delays can be explained by the complex parliamentary ratification process in Yemen. The disbursement ratio for projects in Yemen, at 24 percent, is slightly ahead of regional and Bank-wide averages (23 percent and 22 percent, respectively). The portfolio's average age was 4.6 years in October 2008, above the MNA and Bank-wide averages for FY08 of 3.7 and 3.8 years, respectively, due to heavy use of project extensions.

Table 12: Yemen Portfolio History at end FY2008

Portfolio Highlights	FY06	FY07	FY08
Number of Projects in Portfolio	20	21	20
Commitments	747.7	711.0	851.5
New Credits	115	50	159
Number of Entries*	1	3	7
Number of Exits	3	2	1
Unsatisfactory Projects (% of total)			
by number	6	5	0
by amount	6	5	0
Projects at Risk (% of total)			
by number	6	11	0
by amount	4	22	0
Disbursement Ratio	24	26	22

\*Including additional financing

B) Fiduciary Risk Management and Safeguards

49. **Particular attention has been devoted to managing fiduciary risks in IDA-financed projects, but the level of financial management country risk remains high.** Fiduciary risks in Yemen result from the relatively weak institutional capacity (both within project units and in external audit functions), especially in accounting and reporting, budgeting systems, internal controls, and procurement. In procurement, these risks have been mitigated through deployment of procurement staff in the Sana'a office, low thresholds for prior reviews, and frequent post-reviews. The continuous presence of financial management staff in the Bank's Sana'a office has helped to monitor projects, and support project teams in meeting financial management requirements. Furthermore, project teams have developed a close working relationship with the Bank's Department of Institutional Integrity during project preparation to help identify measures to prevent corruption. Nonetheless, a recent financial management assessment of the upcoming Water Sector Support operation found a high level of risk inherent in the country situation and significant project-level financial management risks. Across the portfolio, risks to the financial

<sup>18</sup> Half of these commitments were in the water sector.



management of projects include weak institutional capacity, the limited number of qualified financial management and auditing professionals in the country, and a weak internal control environment. Managing these risks will require close monitoring by the Bank, coupled with activities geared toward strengthening country financial management capacity.

50. **The Bank strengthened its oversight of procurement.** There was one case of misprocurement in one of the water projects, but procurement performance improved in projects that encountered procurement problems during the previous CAS period. These improvements were supported by procurement staff in the field. Oversight also improved as a result of careful diagnostic work carried out by the regional MNA procurement department, including an Independent Procurement Performance Review (IPPR) for the country and Independent Procurement Reviews (IPRs) for individual projects.

51. **No safeguard issue arose during the CAS period.** The Bank conducted a safeguards portfolio review, including a field review of risky projects, and provided TA to the Environmental Protection Authority (EPA) for the review of existing laws, bylaws, and regulations; preparation of sectoral guidelines; and training of EPA staff. At the project level, the review showed that many Category B Project Management Units (PMU) do not systematically identify specific staff responsible for implementation of safeguards mitigation measures. Moreover, safeguards appear to be a high priority only in project preparation, not always during supervision. Going forward, the priorities are to: (i) strengthen national safeguards compliance through improved capacity in line ministries to comply with national laws and improved EPA capacity for monitoring and enforcing compliance; (ii) increase supervision focus on safeguards; and (iii) strengthen monitoring and reporting on safeguards compliance.

### **IEG and QAG Evaluations**

52. **IEG conducted four project exit evaluations.** Given the number of extensions granted through the seven additional financing operations, only four projects closed during the CAS period. Two closed in FY2006 (Southern Governorates Agricultural Privatization and Child Development) and two in FY2007 (Basic Education Expansion Project and Rural Access improvement program), having disbursed a total of US\$ 153 million. Bank and Borrower performance were deemed *satisfactory* for the two projects that closed in FY2007, and the quality of supervision was rated *highly satisfactory*. Borrower performance was rated *unsatisfactory* for the two projects that closed in FY2006 due to low government ownership (particularly for “soft” components such as capacity building), reforms that were exceedingly difficult, and low PMU capacity. Institutional development was considered *modest* or *negligible* for the two projects that exited in FY2006. The Implementation Completion Report for the Southern Governorates Agricultural Privatization project was rated *exemplary*. IEG recommendations included: (i) closer on-the-ground supervision, particularly for “soft” components; (ii) simpler project design adapted to the local context; (iii) staff decentralization to facilitate rapid response to project-related problems and improved donor coordination. It was agreed in the Yemen 2008 CPPR Action Plan that Bank task managers would strengthen efforts to ensure realistic portfolio assessment prior to project exit so as to diminish the gap between projected and actual project outcomes, and avoid triggering a Country Record flag.

53. **The net disconnect between the actual outcome of projects leaving the portfolio and the task team’s supervision assessments of performance prior to exit was highlighted in the 2008 CPPR.** In the last two CAS periods, Bank supervision assessments have been typically more optimistic than the actual outcomes recorded in completion reports and IEG project exit evaluations. Between 1998 and 2007, 29 percent of projects fell short of their development objectives while only one of 20 projects (5 percent) was designated as a “problem project” at any given time and no project was considered “at risk.”<sup>19</sup> During the CAS period, the team devoted particular attention to the candor of Implementation

<sup>19</sup> An “at risk” project has three supervision risk flags.

Status Report (ISR) ratings, but as of November 2008 the portfolio still did not include an unsatisfactory or “at risk” project.

54. **Economic rate of return (ERR) was acceptable.** IEG assessments of the ERR at completion for the Southern Governorates Agricultural Privatization Project and the Rural Access Improvement Program were well over the threshold rate of 12 percent but substantially lower than ERR at appraisal (19 and 19.2 percent, respectively, against 63 and 29.9 percent).

55. **QAG conducted quality assessments on four projects in the CAS portfolio.**<sup>20</sup> The likelihood of reaching project development objectives was rated at least moderately likely for three out of the four projects, with concerns about the Basic Education Development Project (BEDP) based on previous performance indicators, which were based on inflated data and have since been revised. Quality of design was deemed at least moderately satisfactory overall. Where there were concerns about design, these tended to center around project complexity, results frameworks, and M&E. Quality of implementation was deemed at least moderately satisfactory overall, with minor concern expressed over the timeliness of programs that were not fully on schedule. Ratings on quality of supervision were split; one project was rated satisfactory, one moderately satisfactory, and two moderately unsatisfactory. Concerns about supervision related to the quality of oversight of financial management or environmental aspects of projects, continuity of task management and timeliness of management attention, and the candor and realism of Implementation Status Reports (ISRs). This last indicator is the one on which Yemen has historically rated the lowest (72 percent over all Quality of Supervision Assessments as compared to 67 percent for MNA and 70 percent Bank-wide); however, it was rated at least moderately satisfactory for three of the four projects in this latest round of assessments.

#### **Analytical and Advisory Activities (AAA)**

56. **The CAS showed some flexibility on ESW.** Most of the planned studies were delivered, albeit with some delay, and were of high quality. A total of 19 pieces of ESW were planned and 19 were delivered, though the program was adjusted in response to shifting circumstances and client demand. A few core products (PER, CFAA, CPAR) were not delivered. Additional reports were produced in the areas of economic diversification, social safety nets, and subsidy reform. The FY2006 Development Policy Review provided a solid foundation for the Government’s National Reform Agenda. Informal policy notes summarizing the Bank’s views on a broad range of issues and drawing lessons from international experience have also facilitated the policy dialogue. The unplanned studies on GCC integration and mining studies have the ambition to be reference pieces for the Government and the donor community. Both studies will underpin important components of the future CAS, respond to needs expressed by the Government, and were accommodated within the existing program.

57. **The CAS delivered more TA than anticipated.** TA activities were contained to 20. Though well above the 14 originally planned, this increase can be explained in part by the growing focus on governance activities through the Government’s NRA and Yemen’s role as a pilot country for the CGAC initiative. In response to the food crisis of 2008, the Bank provided TA on rural poverty, cash transfer targeting, and subsidy reform. The Bank also provided technical support to the development of a Children and Youth Action Plan following successful work on a strategy in that sector. Planned TA on reducing *qat* consumption and strengthening strategic communications was not delivered.

58. **There is evidence that the Government values the Bank’s intellectual contributions, as does the donor community.** The formal transport sector note, completed in FY2009, led the Government to

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<sup>20</sup> These projects included Public Works III, Basic Education Development, Civil Service Modernization, and Groundwater and Soil Conservation.

convene a meeting of donors in the sector. Other sectors in which AAA recommendations have proved influential include gas, water, higher education and health (Box 1). Analytical work has generally been responsive and relevant to key country issues and disseminated widely, in both English and Arabic, and in an accessible, useful format. In addition, the Bank's country office in Sana'a maintains an external website in both English and Arabic, with access to development news, recent ESW, and project information.

**Box 1: The Influence of World Bank Analytical Work on Water Sector Strategy and Policy in Yemen**

The World Bank's interventions in the water sector have been guided by the sector work that produced the first Country Water Resources Assistance Strategy (CWRAS) in 2005. This strategy provided for five areas of support in line with National Water Sector Strategy and Investment Program (NWSSIP) of 2004: (1) sector restructuring and institutional development; (2) decentralized water resources management through assistance to the National Water Resource Authority (NWRA) and basin and local-level initiatives; (3) water resources management and water use efficiency through irrigation improvement; (4) urban water reform and investment to expand coverage; and (5) rural water and sanitation reform and investment. These approaches were incorporated into the 2006 CAS.

Working together with other donors and under the leadership of the Ministry of Water and Environment and the Ministry of Agriculture and Irrigation, the Bank supported NWSSIP implementation through five water sector operations backed up by strong analytical work, including a Country Social Analysis, a study on a possible sector-wide approach (SWAp) in the water sector, a Poverty and Social Impact Analysis (PSIA) on groundwater, irrigation, and rural water and sanitation sub-sectors, and a PSIA on the urban water and sanitation sector.

Based on this body of ESW, the Government requested that the Bank and development partners move forward with a SWAp to guide and coordinate program implementation in the sector. This move has culminated in the preparation of the Water Sector Support Project (WSSP) co-financed by Germany and the Netherlands.

**Table 13: List of Completed ESWs FY2006-2009**

Year	Project
FY06	Development Policy Review
	Investment Climate Assessment
	Country Social Analysis
	Urban Poverty Analysis (Taiz)
	Secondary Education Strategy Note
FY07	Qat Awareness
	Poverty Assessment
	Social Protection Strategy
	Public Expenditure Mgmt and Tracking
	Gas Incentive Framework Study
FY08	GCC Integration
	Social Protection Strategy
FY09*	Financial Sector Reform
	Yemen Mineral Sector Review
	Public Expenditure Review
	Land Tenure study
	Adaptation to Climate Change
	Pathways out of Rural Poverty
	Transport Sector Note
<b>Total</b>	<b>19</b>

\*Forecast based on FY09 Business Plan

**Table 14: List of Completed TAs FY2006-2009**

Year	Project
FY06	Environmental Health
	Public Financial Management
	Water Strategy Implementation
	Children and Youth Strategy
	Social Protection Workshop
FY07	Aden City Development Strategy
	National Disability Study
	Health Sector Consultation and Dialogue
	Water Sector Strategy Support
	Children and Youth Action Plan
FY08	Implementation
	Petroleum Governance
	Public Finance Management
	Anticorruption
	Clean Development Mechanism TA
FY09*	Cash Transfer Targeting
	National Agenda for Reform
	Health Sector Review Support
	GAC Diagnostic Survey
	Anticorruption
	Public Finance Management
<b>Total</b>	<b>20</b>

\*Forecast based on FY09 Business Plan

### **Trust Funds**

59. **Yemen benefited from a rich and varied trust funds (TF) portfolio, reflecting the Bank's strength in leveraging additional resources from partner organizations.** There are 30 active TFs in the portfolio, with total commitments of about US\$ 82 million in FY2009. Three-quarters of these commitments represented multi-donor co-financing. More than half of Yemen's multi-donor TF allocations (US\$ 58 million) are currently directed to multi-donor TFs in the education sector (basic education and the Education For All Fast Track Initiative). The multi-donor Global Food Crisis Response Program represented the second-largest allocation, after education, at US\$ 10 million. The Netherlands provided a US\$ 5.7 million TF to co-finance the Civil Service Modernization Project, and a US\$ 1 million multi-donor grant was approved to develop the capacity of the Directorate General of Animal Health to better respond to a potential Avian Flu crisis.

60. **Trust funds were strategically integrated into the Yemen country team's business planning process.** Policy and Human Resource Development (PHRD) grants supported the preparation of three lending operations delivered during the period for a total cost of US\$ 1.1 million. Stand-alone activities included funding of US\$ 700,000 from the Public-Private Infrastructure Advisory Facility (PPIAF) for public-private partnership (PPP) models of domestic gas pipeline financing; two Institutional Development Fund Grants; a Global Environment Facility (GEF) rural electrification project; funding of three co-term positions in the Bank country office; and support from the Japan Social Development Fund (JSDF) and the Trust Fund for Environmentally and Socially Sustainable Development (TFESSD). Annual TF disbursements of US\$ 19.2 million in FY2008 were equivalent to roughly one-fifth of annual lending disbursements for IDA projects.

61. **The TF portfolio performed well overall.** Trust-funded activities tended to perform better than the broader portfolio, in part because these trust funds are linked to the portfolio's better-performing projects. In addition, trust-funded activities have benefited from slightly different disbursement procedures and, in many cases, monitoring by multiple donor partners. Recipient-executed trust funds experienced some slow disbursement and implementation delays due to weak local capacity, limited familiarity with Bank procedures, and delays in the procurement process. Such risks were mitigated through close cooperation with the regional TF coordinator to flag slow or non-disbursing trust funds for special attention.

### **Decentralization**

62. **The Country Office in Yemen played a major role in coordinating CAS activities and following up on portfolio performance.** Total staff numbers in the country office remained stable over the CAS period, though the number of field-based technical and professional staff has increased. A DFID trust fund has supported the addition of three international staff in Sana'a, including a macroeconomist, public sector management specialist, and water specialist. The presence of fiduciary staff was strengthened through the deployment of an International Procurement Specialist in Yemen, and implementation support was facilitated by an expanded presence of Task Team Leaders in the field: 42 percent of the 19 projects in the current portfolio are managed from the field. This increased field presence has helped the country team respond in real time to government requests for assistance, as in the case of Technical Assistance on new procurement legislation and the development of the NRA. For the most part, low turnover in task management helped ensure continuity and strengthen implementation. In the area of portfolio management, the Country Manager in Yemen and other country staff are members of a CPPR follow-up committee involving senior officials from MoPIC and MoF.

### **Donor Coordination and Aid Harmonization**

63. **A growing number of donors have become active in Yemen.** Under the previous CAS, Bank support represented about half of Yemen's aid resources. By contrast, at the last CG meeting in 2006, IDA and IFC pledges represented only 8 percent of the total (Table 15).<sup>21</sup> Aid harmonization became increasingly critical in this context. Yemen has pledged to adhere to the Paris Declaration on Aid Effectiveness and regularly monitors performance against indicators of ownership, alignment, harmonization, managing for results, and mutual accountability. Nonetheless, donor coordination has notably improved over the CAS period, particularly in education, water, public financial management, and health.

**Table 15: Donor Assistance in Yemen**

<b>Donor</b>	<b>2006 CG Pledge US\$ million</b>
Saudi Arabia	1,000
Arab Fund for Socio-Economic Development	700
Qatar	500
United Arab Emirates	500
World Bank (IDA)	400
United Kingdom	224
Arab Monetary Fund	220
Islamic Development Bank	200
Kuwait	200
Netherlands	114
Germany	90
European Commission	78

64. **Given its comparatively moderate financial contribution, the World Bank Group's larger role is as the "glue" of external support programs.** In an effort to maximize the effectiveness of its financial assistance, the Bank has focused on: (i) helping to mobilize other donors; (ii) supporting the Government in designing sound sector-wide and thematic strategies; (iii) building sector-wide multi-donor investment programs; (iv) helping to strengthen broader country implementation capacity through its own projects; (v) assisting in improving core Government systems; and (vi) demonstrating new implementation approaches that, if successful, can be mainstreamed by the Government and other development partners. The Bank has also played a major convening role in donor coordination and aid harmonization through its role as co-chair of the CG meeting in November 2006, which brought a host of new donors to the table, particularly from the Arab World. This renewed donor engagement has strengthened the development debate and sent a signal to private investors that attractive new investment opportunities are on the horizon in Yemen.

65. **Under the CAS, the Bank Group has made considerable efforts to build effective partnerships, including among non-traditional development partners.** At the country program level, Yemen has been selected as a pilot country for implementation of the OECD Principles for Good International Engagement in Fragile States, and an Aid Harmonization Assistance Unit has been established in MoPIC to lead the Government's donor coordination effort. At the sector level, the Bank has provided substantial input to the design of projects financed and jointly supervised by a broad group of donors; focus areas include education, social fund and public works programs, and water (in addition to traditional co-financing in roads, civil service reform, and other sectors). The moved toward sector-wide

<sup>21</sup> It is important to note, however, that disbursement rates have not followed this trend in aid allocations; IDA funds still account for about half of net overseas development assistance to the country.

programming in the water sector and the Government-organized meeting of donors in the transport sector illustrates good progress in donor harmonization over the CAS period. Yemen has also made progress in expanding its partnerships beyond the traditional group of donors to include GCC countries and institutions. The Bank has supported this move through its dialogue, as well as in ESW on GCC integration delivered in FY08.

## **B. Building Capacity in Yemen: the Role of World Bank Institute (WBI)**

66. **Acknowledging that weak institutional capacity is the most formidable challenge to Yemen's development, the CAS envisaged a more integrated approach to capacity development with WBI as a full-fledged partner.** WBI's multi-year program for Yemen was closely aligned with the CAS for FY2006-2009. While modest in size, the WBI program offered substantive and relevant capacity building initiatives in a number of key areas, as evidenced by the steady increase in participation of Yemenis in WBI activities.

- **Children and Youth:** In FY2007, at the Government's request, the Bank and WBI provided capacity building and TA to the main agencies tasked with implementing the new Children and Youth Strategy in designing and implementing their action plans.
- **Health:** The Training and Capacity Building Program in Yemen was part of the WBI Flagship Program on Health Sector Reform and Sustainable Finance. Its aim is to build a constituency of health care managers and decision-makers who share a common understanding of the challenges and paradigms of health sector reform, and appreciate the advantages and disadvantages of different reform options. This initiative assisted the Government in its effort to reform health insurance and decentralize the health sector. The program consisted of four training courses on health sector reform and one course on Rapid Results Assessment to strengthen health project implementation.
- **Groundwater Management and Monitoring:** WBI support focused on implementation of the national water strategy, especially on water use regulation; on working with water user groups to re-enforce groundwater withdrawal regulation; and on building PPPs to improve water use efficiency and service delivery.
- **Governance Diagnostics:** Starting from FY2008, WBI has been supporting a major World Bank governance initiative by working with an MNSD Anti-Corruption Technical Assistance Project aimed at supporting the SNACC in developing and implementing a National Anticorruption Strategy and Action Plan. Under this program, WBI is assisting the government in undertaking a Country Governance and Anticorruption Survey to diagnose the scope and nature of corruption and poor governance and the sector and sub-sector level. The survey would focus on the barriers to service access and quality and provide baseline data on corruption and service delivery that would help the government evaluate future progress in its fight against corruption.

## **C. International Finance Corporation**

67. **Collaboration between the Bank and IFC has increased under the CAS period.** IFC opened an office in Sana'a in 2005 (co-located with IDA), and substantially increased its operations during the CAS period, focusing on the financial sector, small and medium enterprise (SME) development, education and health, manufacturing, agribusiness, and infrastructure (including PPP transaction advice, power and transport sectors). Though the CAS for FY2006-2009 was prepared by IDA only, both institutions worked to ensure coherence between their programs and to cooperate in areas of mutual interest.

68. **IFC has helped Yemen attract sophisticated new investors, most notably from Saudi Arabia, in addition to financing projects in key sectors vital for diversified economic growth.** IFC's portfolio has grown to US\$ 150 million, up from only US\$ 16 million in FY2005. IFC's commitments have risen steadily in Yemen, from US\$ 35 million in FY2006 to US\$ 91 million in FY2007. In FY2008, IFC committed US\$ 24 million through three projects. Recent IFC commitments in Yemen include the Maghrabi Hospital (US\$ 10 million), University of Science and Technology (US\$ 8 million), Saudi German Hospital (US\$ 20 million), the Trade Finance Facility Line with Saba Islamic Bank (US\$ 5.8 million), and Arabian Yemen Cement Company (US\$ 70 million). All investments have contributed to employment generation and socio-economic development, in line with the DPPR objectives.

69. **In close coordination—and often direct collaboration—with World Bank teams, IFC's Advisory Services have provided substantial assistance to Yemen in partnership with other donors, including DFID and the Netherlands.** In addition to the advisory services described under Pillars I and III above, IFC is engaged in the following areas:

- **Business enabling environment and investment climate:** (i) business start-up simplification (registration and licensing); (ii) tax simplification along with FIAS (design of a new income tax law, assistance for its implementation, simplified tax reporting and auditing, development of an SME tax system); (iii) investment policy and promotion (including to optimize the use of existing free zone and industrial estates in Yemen); (iv) mining policy reform (legal, fiscal, institutional, and administrative reform)
- **SME development:** management training through Business Edge; since 2005, IFC's five accredited Business Edge providers have sold 17,600 training seats to 5,700 unique trainees
- **Financial markets:** (i) support to “regional champion” banks from GCC to invest in the banking sector in Yemen and establish new benchmarks and international best practices; (ii) assistance in developing the legal and regulatory environment for financial leasing; (iii) advisory services to banks on corporate governance, risk management, SMEs, etc.; (iv) support to the establishment of Yemen's first commercial microfinance institution and leasing company
- **Public-private partnerships:** (i) transaction advisory services (including concession design, marketing of the investment, and structuring and evaluation of bids) for an Independent Power Project (IPP); and (ii) support to MoPIC in establishing a PPP unit

70. **In January 2009, IFC signed a cooperation agreement with the Government of Yemen and DFID to support a three-year advisory program worth US\$ 14 million.** The program will help further expand IFC's advisory activities in the areas of business enabling environment, financial markets, SME development, PPPs, and sustainability.

71. **Yemen is also included in a global effort, IFC SME Ventures, which is designed to promote the SME sector in select IDA countries through integrated investment and advisory services.** IFC will contribute the initial US\$ 6 million to establish an investment fund that will provide risk capital to SMEs. IFC has also allocated approximately US\$ 2.5 million for associated advisory services to support the SME sector.

#### **D. Multilateral Investment Guarantee Agency (MIGA)**

72. MIGA has not been active in Yemen, and no activities were under preparation during the CAS period.

## VII. LESSONS LEARNED AND RECOMMENDATIONS FOR CAS DESIGN

73. **Despite real challenges, reform can happen—and is happening—in Yemen.** The country's high levels of poverty, limited resources (particularly the scarcity of water), and rapidly growing population pose critical challenges to sustainable development. Though not defined as a fragile state, the volatility of natural resource revenues, weak institutional capacity, and vulnerability to sporadic security problems point to the need for long-term, integrated attention to the interlinkages between governance, poverty, and security. Nonetheless, it is important to recognize that reforms and project implementation are possible in Yemen and are indeed achieving results and maintaining fiduciary safeguards. As noted in the 2008 CPPR, Yemen's disbursement rates, project sustainability, and financial management have improved significantly in recent years; this sends an important message to donors that it is possible to achieve satisfactory project implementation in the country. Given the serious challenges ahead, and the positive forward momentum (as captured by improvements in the country's CPIA ratings), Bank Group support to Yemen should be scaled up under the next CAS.

74. **A valuable relationship of mutual trust has developed between the Bank Group and the Government of Yemen.** The quality of dialogue established with the authorities and other stakeholders has made it possible for the Bank Group to promote and influence the design of important reforms. The next CAS will need to continue nurturing this open, trust-based dialogue through innovative programming, alignment with country strategies and systems, and institutional support within the Bank for time-intensive but rewarding dialogue initiatives.

75. **The Bank Group's convening role is increasingly important in an environment where aid resources are growing and administrative capacity remains limited.** Under the next CAS, the Bank Group will need to continue to mobilize Yemen's development partners in support of common goals (including through the CG process), to design multi-donor sectoral investment programs, and to strengthen the Government's capacity to implement projects financed by other partners. In addition, the Bank's ability to share global knowledge and help the Government adjust and apply this knowledge country's unique circumstances is highly regarded as one of the Bank's key comparative advantages. Analytical and advisory work will thus need to remain at the center of the Bank Group's program.

76. **Synergies within the Bank Group have proven effective in providing enhanced support at both program and project levels.** The CAS will need to further maximize these synergies through truly integrated packages of knowledge products, advisory services, Technical Assistance, and financing. It is proposed that the next CAS be developed jointly between the World Bank and IFC in order to highlight the critical importance of economic diversification and private sector investment to Yemen's long-term development agenda.

77. **Implementation remains challenging – although the situation varies significantly across sectors.** Overall, the pace of disbursements is broadly in line with MNA and IDA averages, but implementation could be further strengthened and accelerated – in particular through: (i) making continued efforts to simplify project designs and streamline implementation arrangements; (ii) further strengthening the focus on results based on a realistic assessment of capacity constraints; (iii) enhancing the use of decentralized implementation arrangements where appropriate; and (iv) generalizing best practices such as the Rapid Results Approach/"100-day initiative" which has been very successful in the health sector.

78. **In some sectors, there is a trade-off between the short-term focus on results and the medium-term need to strengthen capacity.** The use of Project Implementation Units (PIUs) or cross-sectoral entities, such as the Social Fund for Development (SFD), to channel resources has proven an

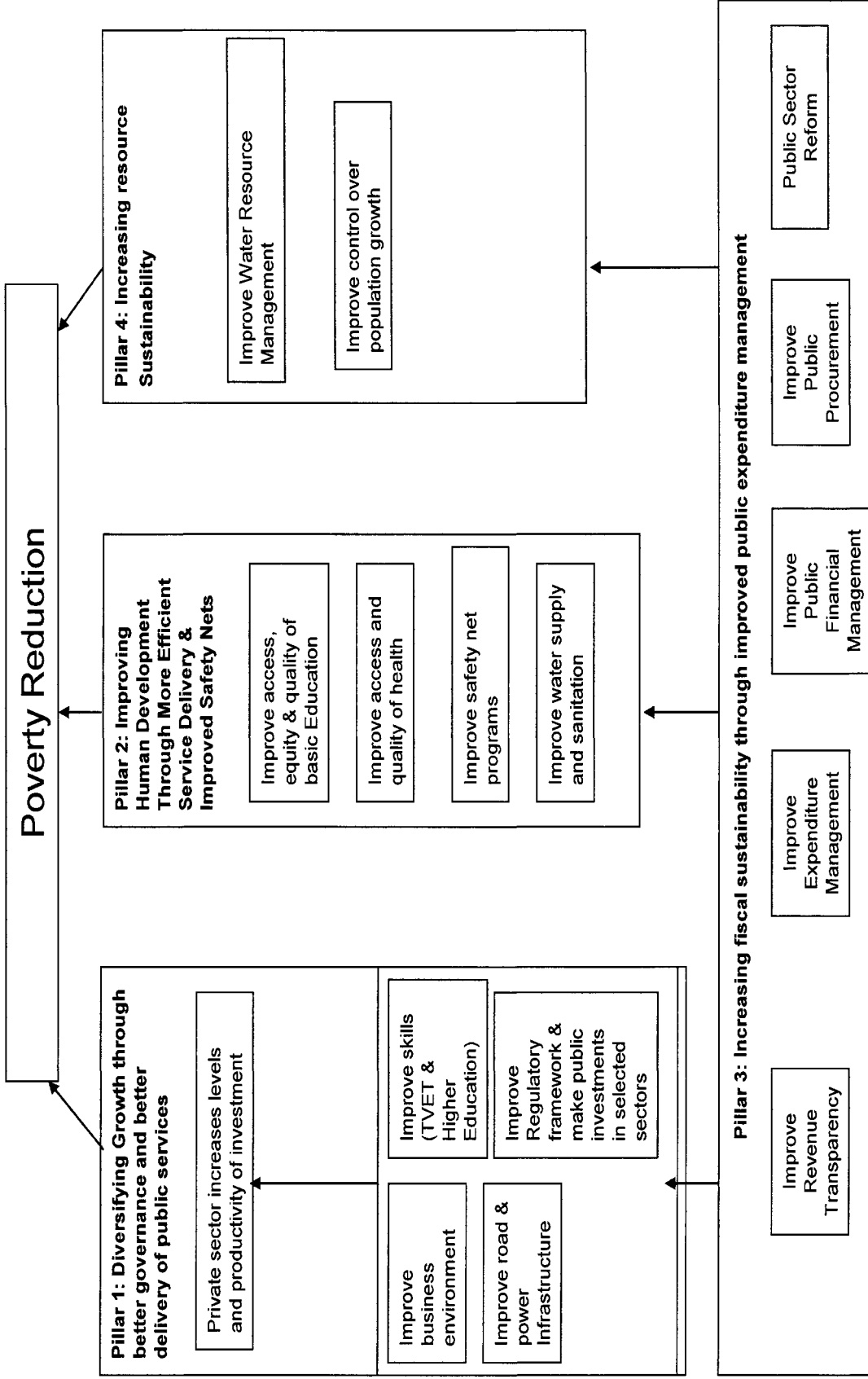


efficient way to achieve results on the ground. Yet, there is a risk that such mechanisms undermine the broader capacity-building agenda. Parallel efforts need to be made to strengthen capacity within sectoral ministries, with a view to preparing for an eventual transfer of responsibilities, as may be adequate.

79. **Monitoring and evaluation (M&E) remains weak**, in an environment where reliable statistical data are often lacking. Further efforts are needed to enhance the design of outcome indicators and the corresponding collection methods.

Appendix 1: CAS FY2006-2009 Results Chain

# YEMEN CAS RESULTS CHAIN



## APPENDIX 2

## YEMEN FY2006-2009 CAS Completion Matrix

CAS Outcomes/ Indicators	Milestones	Status at Completion (as of January 2009)	Lessons Learned/ Considerations for New CAS
<b>Pillar 1: Diversifying Growth through Better Governance and Better Delivery of Public Services</b>			
<p><b>Country Development Goal:</b> Increasing non-oil growth as measured by growth rate of non-oil GDP  <i>Non-oil GDP growth of 5 percent on average over CAS period, as compared to 4.9 percent in previous three years</i></p>			
<b>(i) Improving Business Regulatory Environment: New Business Registration</b>			
Reduction of minimum capital requirements to regional average and time to register to less than 30 days	<ul style="list-style-type: none"> <li>Revise laws and regulations to reduce cost and time required to establish a new business</li> <li>Implement streamlined systems procedures and revise regulations if necessary by December 2007</li> </ul>	<ul style="list-style-type: none"> <li>Yemen named Top Performer on starting a business in <i>Doing Business 2009</i>, moving up 128 positions: minimum capital requirement eliminated and registration time reduced to 13 days (<i>completed</i>)</li> </ul>	Good progress supported by successful cooperation between IDA and IFC.
<b>(i) Improving Business Regulatory Environment: Tax Policy and Administration</b>			
Increase in revenues reported for tax purposes from 45% (in last ICA)	<ul style="list-style-type: none"> <li>Amended tax code and introduction of new Tax Code Procedures Act in conformity with international norms</li> <li>Conduct comprehensive review of corporate tax policy and incentives</li> </ul>	<ul style="list-style-type: none"> <li>Hidden turnover taxes replaced by 5% sales tax; total corporate tax burden reduced from 170% to 48% of gross profit (<i>ongoing</i>)</li> <li>Corporate tax incentives reviewed; new corporate income tax law adopted in line with international norms (<i>completed</i>)</li> </ul>	Corporate income tax reform turned out to be quite sensitive politically. Many incumbent firms benefited from existing distortions and corruption, hence resisted reform. Perceptions of past unfairness also bred suspicion about reform motives, requiring careful consultation and consensus building.
<b>(i) Improving Business Regulatory Environment: Customs and Inspections</b>			
Increased efficiency (4 days customs clearance and 50% reduction in number of days of inspections)	<ul style="list-style-type: none"> <li>Government policy on standards and frequency of inspections</li> <li>Implementation of customs reform program</li> </ul>	<ul style="list-style-type: none"> <li>Unweighted tariff rate has fallen and number of tariff bands reduced from 4 to 3 (<i>completed</i>)</li> <li>ASYCUDA expanded to almost all entry points, covering 90% of imports (<i>ongoing</i>)</li> <li>Customs procedures and efficiency Reviewed (<i>completed</i>)</li> <li>Procedures being simplified in context of customs reengineering (<i>ongoing</i>)</li> </ul>	DPL on institutional reform and governance has boosted dialogue and progress on existing investment operations.
<b>(i) Improving Business Regulatory Environment: Land Titling and Registration</b>			

CAS Outcomes/ Indicators	Milestones	Status at Completion (as of January 2009)	Lessons Learned/ Considerations for New CAS
<p>Improved property rights for land as measured by 20% increase in land registration capture rate and 20% decrease in land related court cases in two pilot cities</p>	<ul style="list-style-type: none"> <li>Revise land registration law to better define process and make it legally conclusive</li> <li>Strengthen administration of land allocation and registration starting with urban areas</li> <li>Initiate systematic land titling in pilot areas</li> <li>Improve legal framework to facilitate greater use of land as collateral</li> </ul>	<ul style="list-style-type: none"> <li>New land registration law approved in September 2007, including environmental safeguard measures (<i>ongoing</i>)</li> </ul>	<p>Land registration was another politically sensitive area. Agreement on provisions of a new land law required technical inputs and repeated consultation of key parties to build consensus around a best-practice solution.</p>
<p><b>(ii) (a) Improving Road Infrastructure</b> Improved rural access as measured by reduced isolation for 1 million persons in rural areas</p>	<ul style="list-style-type: none"> <li>Improved policy framework and institutions in road construction and maintenance through: introduction of output based contracts for road maintenance (950 km of primary and secondary roads); plan prepared for development of road sector contractors and consultants; establishment of modern road management system</li> <li>Public investments in rural roads</li> </ul>	<ul style="list-style-type: none"> <li>Good progress toward achieving objectives of reducing travel time and transport costs by 30 percent and prices of essential commodities by 15 percent—most rural roads constructed in recent years under IDA or other donors' funding have achieved these objectives (<i>ongoing</i>)</li> <li>97 percent of households benefiting from the Social Fund for Development report improved access to markets and social services (<i>ongoing</i>)</li> <li>Public investment in rural roads increased by roughly 50% since 2006 (<i>completed</i>)</li> </ul>	<p>A special effort is needed to promote, train and support the local contracting industry.</p>
<p><b>(ii) (b) Improving Power Infrastructure</b> More reliable power supply on main grid as measured by higher customer satisfaction, smaller fluctuations and reduced supply failures  Improved electrification rates for rural areas  Demonstrated use of renewable energy</p>	<ul style="list-style-type: none"> <li>Improved legal and regulatory framework through: (i) regulatory arrangements to be established after new Electricity Law approved by Parliament; (ii) National Rural Electrification Strategy by end 2006; and (iii) Renewable Energy Strategy (in 2006) and Action Plan (in 2007).</li> <li>Investments in model service delivery systems in rural electrification to start thereafter</li> <li>Pilot/demonstration schemes on wind energy and PV based Solar Home Systems</li> <li>Public investments in grid power supply</li> </ul>	<ul style="list-style-type: none"> <li>Rural electrification rates remain at around 20%, but key investments are now underway</li> <li>Electricity Law approved (<i>achieved</i>) and awaiting ratification (<i>expected February 2009</i>)</li> <li>Rural Electrification Strategy and Renewable Energy Strategy developed by Government (<i>achieved</i>); expected to be adopted soon</li> <li>No investments yet but Electricity Law, followed by Rural Energy Access Decree, will facilitate creation of a Rural Electrification Authority and pilot Rural Electric Service provider (<i>ongoing</i>)</li> <li>Proposed Rural Energy Access Project will include investments in renewable energy;</li> </ul>	<p>Work catalyzed significant donor interest in rural electrification and renewable energy development.</p>

CAS Outcomes/ Indicators	Milestones	Status at Completion (as of January 2009)	Lessons Learned/ Considerations for New CAS
<p><b>(iii) (a) Improving Skills through Technical Education and Vocational Training</b></p> <p>Employer-responsive training programs in public training institutes</p> <p>Strengthened private sector capacity to identify, finance and meet in-service training needs (baseline and targets to be established under Second Vocational Training Project)</p>	<p><b>Financial and economic analysis of the sector conducted</b></p> <ul style="list-style-type: none"> <li>Skills Development Fund (SDF) with operational autonomy under private sector leadership</li> <li>Increased involvement of employers in new pre- and in-service training programs</li> </ul>	<p>separate 60 MW Wind Energy demonstration scheme also under preparation (<i>ongoing</i>)</p> <ul style="list-style-type: none"> <li>Public sector investments being made to increase grid power supply (<i>achieved</i>)</li> <li>Employer involvement was close to zero at start of CAS period; principles and processes for their involvement now in place, and some initiatives undertaken; project effectiveness will facilitate faster progress (<i>partially achieved</i>)</li> <li>Sector analysis delayed pending availability of funds, but can be financed once project becomes effective (<i>not achieved</i>)</li> <li>New legal and operational framework for SDF under private sector leadership was developed and approved with private and public sector consensus (<i>achieved</i>)</li> </ul>	<p>Passage of new legislation, when this is an essential basis for project implementation, should be a condition of negotiations.</p>
<p><b>(iii) (b) Improving Skills through Higher Education</b></p> <p>Higher education reform strategy developed with changes in finance, governance and quality assurance mechanisms fully articulated</p>	<p><b>Approval of a strategic plan and multi-year development program</b></p> <ul style="list-style-type: none"> <li>Development plans and linked program budgets for Sana'a and Aden universities</li> </ul>	<ul style="list-style-type: none"> <li>National Strategy for Higher Education Development and plan of activities for 2006-2011 approved and disseminated (<i>completed</i>)</li> <li>All 7 universities engaged in developing plans; two were completed, one to acceptable standard; plans not linked to program budgets due to non-implementation of pilot reforms (<i>partially completed</i>)</li> </ul>	<p>Need for more attention to: (i) implementation readiness, including political commitment &amp; project management capacity, prior to effectiveness; and (ii) realism in project scope and in expected pace of defining/ implementing difficult reforms.</p> <p>Need to improve capacity and mechanisms to coordinate development assistance within Ministry.</p>
<p><b>(iv) (a) Improving Regulatory Framework and Public Investments in Key Sectors: Irrigated Agriculture</b></p> <p>Increased productivity of irrigated agriculture</p>	<p><b>Effective Participatory Irrigation Management associations for spate irrigation</b></p> <ul style="list-style-type: none"> <li>Effective Participatory Irrigation Management associations for spate irrigation</li> </ul>	<ul style="list-style-type: none"> <li>National Irrigation Program created at the MoA; WUFs and WUAs formed (<i>completed</i>)</li> </ul>	<p>Intensive user involvement and technological improvements are</p>

CAS Outcomes/ Indicators	Milestones	Status at Completion (as of January 2009)	Lessons Learned/ Considerations for New CAS
<p>in 90,000 hectares of spate irrigated lands</p>	<p>established through formation of Scheme Water User Federations (WUFs) and Water User Associations (WUAs)</p> <ul style="list-style-type: none"> <li>Public investment in spate rehabilitation</li> <li>Increased efficiency of and higher returns to agricultural water use in the Sana'a basin</li> </ul>	<ul style="list-style-type: none"> <li>Satisfactory progress toward sustainable water use in 3 spate irrigation schemes in Tuban, Zabid and Ahwar (<i>ongoing</i>)</li> </ul>	<p>critical to success in this area.</p>
<p><b>(iv) (b) Improving Regulatory Framework and Public Investments in Key Sectors: Rainfed Agriculture and Livestock</b></p>			
<p>Increased household revenues for supported rural families through cash or in kind benefits from agriculture &amp; livestock (baseline and targets to be defined in implementing RALD project)</p>	<ul style="list-style-type: none"> <li>Improved local policy framework and institutions through efficient livestock services delivery, effective seed growers associations, functioning rural producer groups and functioning para-veterinary professionals in 5 governorates</li> </ul>	<ul style="list-style-type: none"> <li>75 tons rainfed cereal seeds produced and sold back to 1,646 farmers in rainfed areas, covering 4,721 hectares (<i>ongoing</i>)</li> <li>Construction of Central Veterinary Laboratory underway and needed equipment being identified (<i>ongoing</i>)</li> <li>Veterinary Association restructured (<i>completed</i>)</li> <li>Community mobilization underway to support participatory learning/action (<i>ongoing</i>)</li> <li>Baseline survey on household revenues through agriculture &amp; livestock expected to be implemented in June 2009 (<i>ongoing</i>)</li> </ul>	
<p><b>(iv) (c) Improving Regulatory Framework and Public Investments in Key Sectors: Fisheries</b></p>			
<p>Increased productivity as measured by average fish size and prices for fish</p>	<ul style="list-style-type: none"> <li>Improved policy framework and implementation arrangements through 9 Governorate Fisheries Management Plans; 70 fish auction sites are managed by local cooperatives; and increased investment in 20 fishing sites</li> </ul>	<ul style="list-style-type: none"> <li>Contracts signed for ministry restructuring and creation of: (i) Fisheries Authorities in coastal governorates; (ii) Fish Research Authority; (iii) Fish Port Authority (<i>ongoing</i>)</li> <li>Rehabilitation and improvement of Implementation of Auction Yards has started in 21 sites (<i>ongoing</i>)</li> <li>3 large fishing ports rehabilitated</li> <li>20 ice plants installed and supplied in various locations along the coastline</li> <li>Support being provided to Fisheries Cooperatives, Fisheries Cooperative Union, and income-generating activities for fisheries communities along the coast (<i>ongoing</i>)</li> </ul>	<p>Political ownership is a key factor in achieving institutional reform.</p>

CAS Outcomes/ Indicators	Milestones	Status at Completion (as of January 2009)	Lessons Learned/ Considerations for New CAS
<p><b>(iv) (d) Improving Regulatory Framework</b> Improved legal and regulatory framework</p>	<p><b>Improvements in legal and regulatory framework to encourage greater private sector participation in exploration, production, distribution and domestic utilization of gas</b></p>	<p><b>Key Sectors: Gas Sector</b></p> <ul style="list-style-type: none"> <li>Model production sharing contract revised, opening new acreage for exploration and production of gas (<i>completed</i>)</li> <li>Licensing framework for investment in oil and gas reviewed (<i>completed</i>)</li> <li>TA underway to mobilize financing to build national gas pipeline (<i>ongoing</i>)</li> </ul>	<p>Meaningful engagement at highest levels and TA are required to raise importance of good governance in the oil and gas sector and facilitate interministerial decision making.</p>
<p><b>(iv) (e) Improving Regulatory Framework</b> Private sector commitment to developing at least one industrial estate</p>	<p><b>Improved policy framework and institutions in industrial estate development through regulatory framework for Industrial Estates</b></p> <ul style="list-style-type: none"> <li>Strategic investments in port cities clusters</li> </ul>	<p><b>Key Sectors: Urban Manufacturing</b></p> <ul style="list-style-type: none"> <li>Improved regulatory framework drafted (<i>completed</i>)</li> <li>Feasibility studies and bidding documents for two industrial zones under preparation (<i>ongoing</i>)</li> <li>National Ports Development Strategy adopted (<i>completed</i>)</li> <li>City development strategies underway, including updated physical and investment planning in 3 major port cities (Aden, Al-Hodeidah, and Al-Mukallah) (<i>ongoing</i>)</li> </ul>	
<p><b>Pillar 2: Accelerating Human Development through More Efficient Service Delivery and Improved Safety Nets</b></p>			
<p><b>Country Development Goal:</b> Improving human development as measured by progress towards achieving relevant MDGs</p>			
<p><i>Progress toward the relevant MDGs has been slow, though with good results in reducing urban poverty and increasing school enrollment and rural water access</i></p>			
<p><b>(i) Improving Access, Equity and Quality of Education</b> Improving access, equity &amp; quality of education &amp; training as measured by:</p> <ul style="list-style-type: none"> <li>Increasing gross enrollment ratios to 84%</li> <li>Increasing ratio of girls to 45% of enrollments</li> <li>Grade 9 female completion ratios</li> </ul>	<ul style="list-style-type: none"> <li>Construction of 3,293 schools</li> <li>Rehabilitation of 2,100 schools</li> <li>Retrofitting 3,292 schools for the handicapped</li> <li>Student-teacher ratio (public schools) increased to 28:1</li> <li>Non-wage expenditures increased to 20% of recurrent spending</li> <li>Inclusive education mission statement developed</li> </ul>	<ul style="list-style-type: none"> <li>Ratio of girls in school enrollment increased to 41.8% in 2008 (<i>partially achieved</i>)</li> <li>Grade 9 female completion rate at 28.5% (<i>ongoing</i>)</li> <li>759 classrooms constructed and 487 maintained, all of which were retrofitted for the handicapped (<i>ongoing</i>)</li> <li>Student-teacher ratio has not improved (<i>not achieved</i>)</li> <li>Non-wage expenditures reached 30% of</li> </ul>	<p>Projects' M&amp;E frameworks and data collection strategies need to be aligned with the CAS M&amp;E framework.</p>

CAS Outcomes/ Indicators	Milestones	Status at Completion (as of January 2009)	Lessons Learned/ Considerations for New CAS
increased to 50%		recurrent spending ( <i>achieved</i> )	
<p><b>(ii) Improving Access and Quality of Health</b></p> <p>Improved access to and utilization of basic health services and public health programs focused on maternal, reproductive and child health as measured by:</p> <ul style="list-style-type: none"> <li>• % of fully immunized children 12-23 months increased by 5% (from a baseline of 50%)</li> <li>• Contraceptive Prevalence Rate increased by 5 % (baseline to be established during HRSP restructuring)</li> </ul>	<p>In project intervention areas:</p> <ul style="list-style-type: none"> <li>• % of deliveries attended by skilled birth attendants increased by 5% (from a baseline of 22%)</li> <li>• % of households with at least one insecticide-treated net (ITN) increased by 5 % (baseline to be established during HRSP restructuring)</li> <li>• Increased physical access to and utilization of maternal and child health services (baseline and target to be established during HRSP restructuring)</li> </ul>	<ul style="list-style-type: none"> <li>• Immunization coverage at 64% for BCG, 74% for measles, 90.3% for polio, and 90.6% for PENTA, up from baseline immunization rate of 68% in 2003 (<i>achieved</i>)</li> <li>• No data on contraceptive prevalence in comparison to baseline of 23.1% in 2003; availability of contraceptives at service delivery has improved but varies by type</li> <li>• No data available on attended deliveries</li> <li>• 150,000 long-lasting insecticide impregnated nets delivered in project areas, 46% to most malaria-affected areas; up from baseline of 0% coverage in project-targeted areas (<i>achieved</i>)</li> <li>• Emergency obstetric services being established in 3 district hospitals and 12 health centers, up from baseline of zero; yet utilization is yet to be assessed (impact evaluation studies planned in FY09 to measure utilization) (<i>partially achieved</i>)</li> </ul>	<p>Support needs to have a policy reform focus with clearly defined targets.</p> <p>Absence of a monitoring system in the ministry represents significant challenge to service delivery.</p> <p>Donor fragmentation in the health sector remains a significant challenge.</p> <p>Full documentation of results is difficult as a result of overly complex project M&amp;E frameworks; these need to be strengthened.</p>
<p><b>(iii) Improving Safety Net Programs</b></p> <p>Improved safety net targeting as measured by amount of resources transferred to lowest three income deciles and improved targeting categorization</p> <p>Strategic framework to address disability issues</p>	<p>40 percent of Social Fund for Development (SFD) resources go to lowest three income deciles</p> <p>6.8 percent increase in income from short-term employment through Public Works Program (PWP)</p>	<ul style="list-style-type: none"> <li>• 69 percent of SFD resources went to the lowest three income deciles (Impact Evaluation 2006)</li> </ul>	<p>Community-driven development approaches such as the SFD and PWP have been efficient tools to achieve quick impact.</p>
<p><b>(iv) Improving Water Supply and Sanitation</b></p> <p>Improving access to urban water supply and sanitation services by</p>	<p>Local water and sanitation corporations established and financially viable in Sana'a, Taiz, Hodeidah and Mukallah</p>	<ul style="list-style-type: none"> <li>• Urban access to water supply has increased from 47% in 2002 (2.4 million people) to 56% of an increased population in 2007 (about 3.6</li> </ul>	<p>Ten years of reform in the urban water sector, with the establishment of decentralized</p>



CAS Outcomes/ Indicators	Milestones	Status at Completion (as of January 2009)	Lessons Learned/ Considerations for New CAS
<p>20%</p> <p>Access to improved water services increased from 68% to 73% in rural areas</p> <p>Access to improved sanitation services increased from 20% to 30% in rural areas</p>	<ul style="list-style-type: none"> <li>• New Rural Water Supply &amp; Sanitation (RWSS) Strategy, based on Demand Responsive Approach (DRA), approved</li> <li>• Long-term national RWSS investment program ready for implementation</li> <li>• Water User Associations in 5 governorates efficiently managing rural water supply schemes</li> </ul>	<p>million people) (<i>partially achieved</i>)</p> <ul style="list-style-type: none"> <li>• Urban access to improved sanitation services has increased from 25% in 2002 (1.3 million people) to 31% in 2007 (2 million people) (<i>partially achieved</i>)</li> <li>• Local water and wastewater corporations created in four identified cities (and ten other cities) (<i>achieved</i>); financial viability achieved only in Sana'a, Hodeidah, and Mukallah</li> <li>• RWSS Strategy prepared and used though not approved (<i>ongoing</i>)</li> <li>• Investment program prepared and used as part of National Water Sector Strategy and Investment Plan (<i>achieved</i>)</li> <li>• 40% of WUAs in 6 governorates efficiently managing RWSS (<i>achieved</i>)</li> </ul>	<p>local service provision, have laid the foundations for continuous improvement in service delivery.</p> <p>Institutional harmonization in an evolving decentralizing framework must continue to be addressed in order to ensure sustainable outcomes over the long run.</p> <p>Sustainability of water sources remains a challenge that should be addressed across the board and at all levels.</p>
<p><b>(v) Children &amp; Youth</b></p> <p>Children &amp; Youth Strategy to provide integrative framework</p> <p>Outcomes for children &amp; youth are included in relevant HD outcomes</p>	<ul style="list-style-type: none"> <li>• Children &amp; Youth Strategy is implemented through various Bank projects in relevant programs and Early Childhood Development Strategy &amp; Plan and Youth Employment Plan prepared by 2008</li> </ul>	<ul style="list-style-type: none"> <li>• Children &amp; Youth Strategy adopted in FY2006 (<i>achieved</i>)</li> <li>• Children &amp; Youth implementation action plan adopted in FY2009 (<i>achieved</i>)</li> </ul>	
<p><b>(vi) Gender</b></p> <p>Improved gender parity as measured in other HD outcomes above</p>	<ul style="list-style-type: none"> <li>• Improved gender outcomes from various Bank projects in relevant programs</li> </ul>	<ul style="list-style-type: none"> <li>• Gender considerations were mainstreamed in Bank projects</li> </ul>	<p>No specific activities were linked to this CAS outcome indicator, making it more difficult to track and achieve progress.</p>
<p><b>Pillar 3: Improving Fiscal Sustainability through Improved Public Expenditure Management</b></p>			
<p><b>Country Development Goal:</b> Increasing fiscal sustainability as measured by reduced non-oil primary fiscal deficit</p> <p><i>Non-oil fiscal deficit has grown from 23.8% of GDP in 2006 to 26.6% of GDP in 2008, in part due to the lack of progress in reducing fuel subsidies</i></p>			
<p><b>(i) Improving Revenue Transparency</b></p>			
<p>Publication of oil and</p>	<ul style="list-style-type: none"> <li>• Take necessary steps for Yemen to join the</li> </ul>	<ul style="list-style-type: none"> <li>• Yemen formally joined the EITI in August</li> </ul>	<p>Staying the course in critical</p>

CAS Outcomes/ Indicators	Milestones	Status at Completion (as of January 2009)	Lessons Learned/ Considerations for New CAS
gas revenue data in line with EITI requirements	Extractive Industries Transparency Initiative and thereafter meet EITI publication requirements	2007, and has taken initial steps to implement EITI requirements; national EITI council established; costed work plan for 2007-08 adopted ( <i>completed</i> )	governance sectors and supporting reform champions is important.
<b>(ii) (a) Improving Expenditure Management</b>			
Improved public expenditure outcomes: • Medium-Term Expenditure Framework consistent with PRSP • Improved budget comprehensiveness and transparency (as measured by PEFA indicators)	Improved medium-term expenditure planning in line with PRSP • Improved periodic evaluation of outcomes of public expenditure • Reduce subsidies to and contingent liabilities of public enterprises (particularly Public Electricity Corporation) • Reduce government contribution for spate irrigation to zero • RWSS schemes are recovering user charges for adequate O&M	<ul style="list-style-type: none"> <li>Some components of MTEF developed and consistent with DPPR (<i>partially completed</i>)</li> <li>Fairly comprehensive budget process has evolved, with volumes of budget documentation presented to Parliament, including economic, functional, and administrative classification based on GFS/COFOG standards (<i>ongoing</i>)</li> <li>Public Finance Management Strategy is in its second phase, addressing deficiencies identified in 2007 PEFA report (<i>ongoing</i>)</li> </ul>	DPL on institutional reform and governance has boosted dialogue and progress on existing investment operations.
<b>(ii) (b) Improving Expenditure Management: Reduced Fuel Subsidies</b>			
Reduced subsidies in line with macro-economic framework in PRSP	Reduced incentives to over-extract water by further reductions in diesel subsidies (for irrigation)	<ul style="list-style-type: none"> <li>Subsidies increased to about 11 percent of GDP (<i>not achieved</i>)</li> </ul>	This objective was overly ambitious and did not take sufficient account of CAS risks.
<b>(iii) (a) Public Sector Reform: Central Government</b>			
Improved ability to manage human and financial resources through the development of a medium-term human resource strategy  Net reduction of Govt. employment by 5%  Improved service delivery in 7 ministries measured through service delivery surveys	<ul style="list-style-type: none"> <li>HR database including biometric verification and linked to payroll is operational</li> <li>HR resource strategy identifying functions and optimal number of civil servants</li> <li>New wage structure reducing compression &amp; increasing wages within fiscal affordability</li> <li>Organization structures streamlined and business processes improved in seven pilot ministries</li> <li>New center of excellence training institution to help with change management process</li> <li>New law on anticorruption and Financial Disclosure Bill approved; independent national</li> </ul>	<ul style="list-style-type: none"> <li>HR database including biometric verification is operational and being expanded to judiciary, security, military and pensions (<i>partially completed</i>)</li> <li>Computerized link between payroll and HR database ongoing (<i>partially completed</i>)</li> <li>Despite external shocks, wage strategy implemented and enabling improvement of individual wages and decompression (from 1:2 to 1:3.5) (<i>completed</i>)</li> <li>Identification of ghost workers and double dippers in process; coordination mechanism between civil service and finance ministries being established; over 14,000 civil servants</li> </ul>	<p>Civil Service Reform works when there is clear ownership on the part of the government and good, continuous support from donors—not only in terms of financial resources but support for the reform program.</p> <p>Multi-faceted engagement is necessary, but it must remain focused on priority areas; expanding the agenda risks spreading still low capacity too thinly.</p>

CAS Outcomes/ Indicators	Milestones	Status at Completion (as of January 2009)	Lessons Learned/ Considerations for New CAS
Strengthened institution managing public sector reform process	<p>anticorruption entity established; National Corruption Record functionings; Hotline to report cases of corruption and protect whistleblowers</p> <ul style="list-style-type: none"> <li>• Manuals/guides for government services and fees published</li> <li>• Full implementation of biometric system</li> <li>• Well functioning civil service fund for retrenchment of surplus workers</li> <li>• Implementation of pilot ministry re-engineering studies in 2-3 key ministries and customs</li> </ul>	<p>retrenched; hiring maintained at 10,000 per year; program in place to retrench 34,000 employees by 2010 (<i>ongoing</i>)</p> <ul style="list-style-type: none"> <li>• Restructuring and reengineering of Civil Service Ministry nearing completion; reengineering diagnostics finalized in 4 pilot ministries (<i>ongoing</i>)</li> <li>• Training programs developed at University of Sana'a in Public Administration (with Univ. of Lieven in the Netherlands) and MBA (with Maastricht Institute); quality of training needs assessment (NIAS) improved (<i>completed</i>)</li> <li>• Anticorruption and financial disclosure bills approved; independent Anticorruption Authority established; national corruption crime monitoring system being established; hotline to report cases of corruption in place (<i>completed</i>)</li> <li>• Manuals for government services and fees are published (<i>achieved</i>)</li> </ul>	<p>HR management and controls need to be encouraged across all programs to ensure consistency and coherence.</p> <p>Slow but steady progress is better and more sustainable than fast but incoherent movement.</p>
<b>(iii) (b) Public Sector Reform:</b> Improved Local Administration planning capacity as measured by preparation of plans for 2007 and availability of administrative premises by 2007	<b>Local Government</b> <ul style="list-style-type: none"> <li>• Completion of updated city masterplans and multiyear capital investment plans in Taiz, Hodeida, Mukallah and Aden by December 2006</li> <li>• Adoption of National Training Program Strategy &amp; Curriculum for Local Administrations by December 2006; and capacity building plans for 50 local councils</li> <li>• Taiz local government capacity to deliver basic services (Asset Management Unit operational, solid waste management strategy operational Dec 2006)</li> <li>• 15 Local Council Buildings built and furnished by December 2006</li> </ul>	<ul style="list-style-type: none"> <li>• Masterplans prepared in Taiz and Aden in 2006; in Hodeidah and Mukalla in 2007 (<i>completed</i>)</li> <li>• Citywide urban upgrading strategies for urban poverty alleviation and improved service delivery completed and endorsed by Local Councils in Taiz and Sana'a in June 2008 (underway in Hodeidah) (<i>completed</i>)</li> <li>• City Development Strategies (CDS) for Local Economic Development completed for Aden, Hodeidah and Mukalla, and a CDS for sustainable development in Sana'a nearing completion (<i>completed</i>)</li> <li>• 15 Local Council Buildings built in 2006-7; furnished and operational in 2008 (<i>completed</i>)</li> </ul>	

CAS Outcomes/ Indicators	Milestones	Status at Completion (as of January 2009)	Lessons Learned/ Considerations for New CAS
<p><b>(iv) Improving Public Procurement</b></p> <p>Improved public procurement processes as measured by:</p> <ul style="list-style-type: none"> <li>• Legally established and well functioning restructured and autonomous High Tender Board (HTB)</li> <li>• UNCITRAL type arbitration provisions adopted</li> <li>• Public disclosure of procurement decisions and financial disclosure by procurement officials</li> </ul>	<ul style="list-style-type: none"> <li>• National Procurement Manual and Standardized Bidding Documents approved for use by all public agencies</li> <li>• Monitoring and tracking system to enhance timeliness and transparency of tendering process. Public Tender Law amended to restructure the High Tender Board to separate regulatory and policy functions; incorporate UNCITRAL provisions; and institutionalize public disclosure of procurement, financial disclosure of officials and reporting of conflict of interest</li> <li>• Procurement skills capacity building commencing in FY07</li> </ul>	<ul style="list-style-type: none"> <li>• National Procurement Manual and Standard Bidding Documents adopted and being rolled out (<i>completed</i>)</li> <li>• HTB restructured (<i>completed</i>)</li> <li>• Disclosure Law passed by Parliament in July 2006; being implemented in phases; financial disclosures received from 5,237 persons out of 10,333 (<i>completed</i>)</li> </ul>	
<p><b>(v) Improving Public Financial Management</b></p> <p>Improved public financial management including:</p> <ul style="list-style-type: none"> <li>• Account preparation and internal auditing;</li> <li>• External scrutiny and audit</li> </ul> <p>Progress to be measured utilizing PEFA indicators on Strengthening of Accountancy and Auditing Profession (as per ROSC recommendations)</p>	<ul style="list-style-type: none"> <li>• Public Debt Management Bill approved</li> <li>• External auditing law amended to ensure COCA's independence from the executive branch.</li> <li>• Mechanisms established to have COCA reports released to the public</li> <li>• Implement Public Finance Management strategy</li> <li>• Full implementation of Accounting and Financial Management Information System (AFMIS)</li> <li>• Implement ROSC recommendations, after discussion, including improving legal framework consistent with International Standards</li> </ul>	<ul style="list-style-type: none"> <li>• PEFA Assessment conducted (completed)</li> <li>• PFM Action Plan being adjusted on the basis of PEFA Assessment (ongoing)</li> <li>• Self-assessment implemented for major and medium-sized taxpayers (completed)</li> <li>• GFS/COFOG budget classification standards adopted, leading to functional budget classification in 2009 budget submission (completed)</li> <li>• Proposal to amend External Audit Law moved before Shura Council (<i>ongoing</i>)</li> <li>• AFMIS system in place in four central government ministries; expansion into all central ministries underway (<i>ongoing</i>)</li> </ul>	<p>Government commitment supported by development policy lending.</p> <p>Past efforts contributed to current progress.</p>

CAS Outcomes/ Indicators	Milestones	Status at Completion (as of January 2009)	Lessons Learned/ Considerations for New CAS
<b>Pillar 4: Increasing Resource Sustainability through Improved Management of Water Resources and Reduced Population Pressure</b>			
<b>Country Development Goal:</b> Increasing resource sustainability <i>Yemen has one of the lowest rates of freshwater availability in the world, and water deficits will continue to increase as long as irrigation efficiency remains low and rapid population growth continues to place pressure on limited resources. New strategic approaches in the water resource management sector hold promise for improved control over groundwater resources, but control of population growth has not yet been achieved.</i>			
<b>(i) Improved Water Resource Management</b>			
Increased number of water basin committees and community-level user associations participating in water conservation; and increased investment in irrigation improvement technologies in all basins [baselines and targets to be computed during the CAS cycle through on-going LEN activities]	<ul style="list-style-type: none"> <li>Establish a groundwater management framework and institution to manage local water resources sustainably through capacity building of government institutions and community groups</li> <li>Accelerate aquifer recharge in Sana'a basin by slowing water table declines</li> <li>Improve water use efficiency and increase farmer's returns to water through adoption of water saving technologies, rehabilitation of small to medium spate irrigation schemes, terrace rehabilitation, bank protection works and other water and soil conservation activities</li> <li>Improved soil conservation and water harvesting in rainfed areas</li> <li>Completed drainage investments in City of Taiz</li> </ul>	<ul style="list-style-type: none"> <li>National Irrigation Program established (<i>achieved</i>)</li> <li>Establishment of water user associations (WUAs) in Sana'a Basin and three governorates has increased awareness of water shortage and promoted groundwater monitoring activities; irrigation modernization implemented under Bank-assisted projects has yielded groundwater savings of over 40 million cubic meters (<i>achieved</i>)</li> <li>Participatory Irrigation Management (PIM) approach, including "Irrigation Councils" and WUAs, has progressed well in Tuban, Zabid and Ahwar (<i>achieved</i>)</li> <li>"More-crop-per-drop" on-farm technologies successfully implemented on 4,005 hectares in Tuban and Zabid, with a low unit cost; rehabilitation of spate irrigation and flood protection works completed in the two wadis, irrigating additional (average annual) 15,000 hectares (<i>achieved</i>)</li> <li>Storm water drainage investments in Taiz completed, including 21km of flood protection channels (260% of initial target) and ancillary infrastructure (<i>achieved</i>)</li> </ul>	<p>The next CAS, mainly through the new Water Sector Support Project, will scale up the application of successful approaches in PIM, on-farm "more-crop-per-drop" technologies, and conjunctive use of surface and groundwater based on the lessons learned during earlier applications/pilots.</p> <p>Though the project-based model has been successful in the water sector in the past, administrative and sector reform now suggest that it is more prudent for executing agencies to direct, supported by pooled/parallel financing from donors and Government.</p>
Reduced impact of flash flooding on citizens, property and infrastructure in Taiz (per baseline and targets in Taiz Mun. Dev. & Flood Protection Project)			
<b>(ii) Improved control over population growth</b>			
Contraceptive	<ul style="list-style-type: none"> <li>Population milestones described in Pillar 2,</li> </ul>	<ul style="list-style-type: none"> <li>No data on contraceptive prevalence in</li> </ul>	Specific strategies to reach target

CAS Outcomes/ Indicators	Milestones	Status at Completion (as of January 2009)	Lessons Learned/ Considerations for New CAS
<p>Prevalence Rate increased by 5% (baseline to be established during HRSP restructuring)</p> <p>Share of girls in grade 10-12 enrollments increased to 37%</p>	<p>CAS Outcome 2</p> <ul style="list-style-type: none"> <li>• Secondary Education Strategy is adopted</li> <li>• Program developed to increase supply of female teachers for rural areas</li> <li>• Life skills and other applied subjects included in secondary curriculum</li> </ul>	<p>comparison to baseline of 23.1% in 2003; availability of contraceptives at service delivery has improved but varies by type</p> <ul style="list-style-type: none"> <li>• Secondary Education Strategy adopted (<i>achieved</i>)</li> <li>• Female teacher contracting scheme launched in 2008 to increase the supply of female teachers in rural areas</li> </ul>	<p>groups in projects should be designed to strengthen gender outcomes.</p>

**Appendix 3: Planned Lending Program and Actual Deliveries  
CAS for FY2006-2009**

FY06	US\$m	FY07	US\$m	FY08	US\$m	FY09	US\$m
Rural Access APL II <i>(delivered)</i>	40	Rainfed Agriculture & Livestock <i>(delivered)</i>	20	Urban Water Supply APL II <i>(US\$ 50 m not delivered; replaced by WSSP)</i>	0	Population <i>(not delivered; under preparation to be delivered FY10 at US\$ 25 m)</i>	0
Fisheries <i>(delivered)</i>	25	Vocational Training II <i>(delivered)</i>	15			Port Cities APL II <i>(not delivered; under preparation to be delivered in FY10 at US\$ 30 m)</i>	0
Power Sector <i>(delivered)</i>	50	Social Development <i>(delivered)</i>	15	Girls Secondary Education <i>(delivered for \$20 mm instead of 15)</i>	20	PRSC I <i>(US\$ 40 m not delivered; replaced by WSSP)</i>	0
				4 additional financing <i>(unplanned)</i>	83.8	Water Sector Support <i>(unplanned; delivered instead of Urban Water II and PRSC I)</i>	90
				Institutional Reform <i>(planned for FY07; delivered for US\$ 50.9 m rather than US\$ 50 m)</i>	50.9	Rural Energy <i>(US\$ 25 m planned for FY08; under negotiation to be delivered May 2009)</i>	0
						Groundwater & Soil Conservation additional financing <i>(unplanned)</i>	15
						Flood Protection and Emergency Reconstruction additional financing <i>(unplanned; delivered)</i>	35
<b>Total Delivered</b>	<b>115</b>		<b>50</b>		<b>154.7</b>		<b>140</b>

## Appendix 4: Lending Preparation Cost

Fiscal Year	Project	Delivery Cost	PHRD Cost	Total
		Actuals (US\$'000)	Actuals (US\$'000)	
2006	Second Rural Access	332	95	427
	Power Sector	448		448
	Fisheries Res. Mngmnt & Conservation	548		548
2007	Second Vocational Training Project	709	554	1,263
	Rainfed Agriculture And Livestock	590		590
	Social Fund For Development 3 (Supplemental)	41		41
2008	Sec. Educ. Dev. And Girls Access Project	363	500	863
	Institutional Reform Credit (DPL)	312		312
	Civil Service Modernization Supplemental	129		129
	Rural Water Supply Additional Financing	71		71
	Public Works III Additional Financing	46		46
	Taiz Municipal Development Additional Financing	43		43
2009	Groundwater & Soil Conservation Add'l Financing	46		46
	Rural Energy Access	143		143
	Water Sector Support	305		305
Average	<b>Average [FY05-FY08]</b>	<b>303</b>	<b>383</b>	<b>399</b>
	<b>Average Additional Financing [FY05-FY08]</b>	<b>66</b>		<b>66</b>
	<b>Without Additional Financing [FY05-FY08]</b>	<b>472</b>		<b>557</b>



## Annex 7: IFC-IDA Joint Strategy Implementation

### A. *Translating a joint strategy into operational cooperation*

1. *The CAS aims to leverage synergies across the Bank Group*, in line with President Zoellick's vision of a "One World Bank vision". With support from the IDA / IFC Secretariat, the CAS was hence developed as a truly joint product with substantial and substantive involvement by both IDA and IFC in its design.
2. *The joint approach is built on a solid pre-existing foundation.* IDA and IFC teams are co-located in the same country office (in Sana'a) and use the same technical hub (in Cairo). Sustained efforts have been made over the last years to ensure an adequate flow of information across the two organizations and to strengthen coordination (e.g. joint sectoral meetings in the energy sector, joint supervision of the ongoing Safe Motherhood Program) – in large part thanks to management effort. A number of sector teams have demonstrated their willingness to learn about the other side of business and to develop strategic interactions, albeit informal. The Yemeni authorities have also indicated their strong support to an integrated Bank Group approach.
3. *The CAS proposes to take this agenda forward.* Both IDA and IFC are seeking a more formalized cooperation to further leverage each other and achieve better results on the ground. At the strategic level, this requires developing a shared assessment of constraints and priorities, and a coordinated selection of proposed instruments – which was done through the CAS process. At the level of each sector, this will rest on practical tools which will vary across sectors, and can include: (i) preparing joint activities; (ii) designing a comprehensive program of complementary activities; (iii) strategically sequencing separate activities to ensure optimal complementarity; or (iv) coordinating policy dialogue.
4. *This approach is reflected in the proposed arrangements for the integration of IDA and IFC programs.* Such arrangements are expected to remain light and flexible, but to allow for close monitoring of the actual complementarity of activities between both institutions. This includes both a commitment to hold semi-annual review of progress by the joint management of both institutions (at Director level) and close collaboration between relevant IDA and IFC teams throughout the CAS period in implementing activities under the five "target strategic themes" (financial sector, business environment, energy, mining, and health).
5. *For each strategic theme, IDA and IFC teams developed a common program.* Strategic themes were selected as those sectors / areas where enhanced cooperation is expected to yield the highest results (in view of the current status of the programs). Management also highlighted that the challenge for IDA and IFC teams is to develop a business culture of close cooperation. Hence joint sectoral approaches should be developed in such a way that they translate into enhanced cooperation throughout CAS implementation (and not only during CAS design). Within the context of the CAS preparation, each IDA-IFC sectoral team was hence requested to jointly: (i) identify possible obstacles to an effective and genuine cooperation; (ii) develop an agreement on sectoral priorities and respective instruments; and (iii) build an action plan to ensure sustained follow up throughout the CAS implementation period.

**B. Findings of the joint sectoral teams: challenges and possible solutions for enhanced cooperation**

6. Key challenges for enhanced cooperation identified by the joint teams include:
- **The need to agree on a clear sharing of roles and responsibilities** in sectors where there is potential overlap (e.g., private sector development (IDA) / business enabling environment (IFC));
  - **The need to strengthen communication** between teams in order to send consistent messages to the clients;
  - **The need to deal explicitly with differences in institutional approaches**, in particular: (i) differences in clients targeted by operations and advisory services in the same sector (e.g. private and public banks in the financial sector); (ii) potential conflicts between the relatively slow pace of reforms supported by IDA and the eagerness to increase investments by IFC (e.g. financial, power and mining sectors); (iii) potential conflict of interests within the Bank Group (e.g., reforms supported by IDA leading to investment opportunities for IFC);
  - **The lack of corporate incentives** for joint work as well as for management to guide and monitor implementation of the joint sectoral strategies.
7. **Practical approaches proposed by the joint teams to overcome these obstacles during CAS implementation include:**
- **Strengthen communication**, e.g., through systematically copying both institutions on relevant sectoral correspondences (e.g., Statement of Mission Objectives, Aide-Memoires);
  - **Consult on a regular basis to discuss and address potential issues**, possibly through in-the-field meetings among those involved from both sides;
  - **Continue to involve the IDA-IFC secretariat** throughout the CAS implementation process to take stock of progress, provide advice and experience sharing, as well as document teams efforts;
  - **Agree on procedures to mitigate the risks of potential conflicts of interest** with the Conflicts of Interest Office;
  - **Joint IDA/IFC missions in the field** to discuss Government's strategic directions and possible joint/complementary projects (e.g., health and financial sectors).

**C. Specific joint activities in the new CAS**

8. **The joint teams have identified a number of joint activities to be undertaken in the upcoming period.**
- **Private sector development / business environment.** IDA and IFC will continue to maintain the strong collaboration in supporting PSD reforms in Yemen. This will include supporting the Government in preparing a coherent strategic approach to private sector development, especially through the direct involvement of the private sector through public-private dialogue mechanisms. In the short-term, IDA and IFC will assist the Government in designing a well articulated and communicated PSD strategy in line with the CAS and the National Development Plan. In the medium-term, both institutions will develop IDA AAA and ESW work, including an Investment Climate Assessment (ICA) Update to help provide the necessary analytical tools for the Government to guide the PSD strategy.

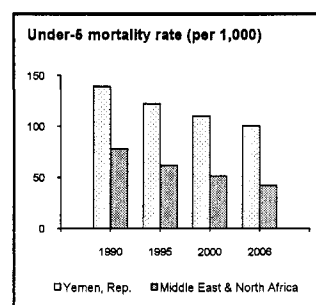
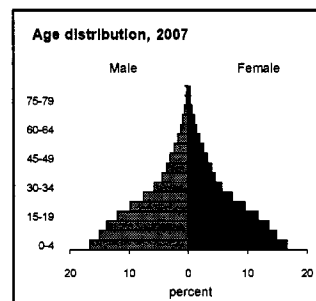
- **Financial sector.** IDA and IFC will initially focus on capacity building activities to support the implementation of the Yemen Financial Sector Reform Action Plan and begin strengthening associations in the sector and selected private bank, on corporate governance, risk management and MSME financial services. In a second phase, the joint team will work on improving the legal and regulatory framework as well as the Central Bank's supervision and oversight in areas of corporate governance and risk management on private banks.
- **Mining.** In the short term, IDA and IFC (including IFC Advisory Services) will work together on policy issues to mitigate risks involved in investing in the mining sector. The IDA team will continue implementation of the ongoing trust funds focused on mining institutional arrangement and promotion of mining, and both teams will continue their cooperation in the sector. Complementarity of approaches will be sought in operations going forward (i.e. the planned IFC Advisory Services operation and the proposed IDA TA work and sector dialogue).
- **Energy.** While no specific joint activities are envisaged at this point, complementarity between IDA and IFC programs will be maintained. IDA will continue to promote power sector reform in Yemen, while IFC will support the Government in instituting a Public-Private Partnership program (PPP) in the sector. In the short-term, IDA will work towards improving the business climate for private sector investments in the power sector; in the medium-term IDA will work with IFC in developing PPPs in power (including renewable energy) as well as natural gas midstream investments. IFC will provide institutional support and transaction advice for a small number of pilot PPP transactions.
- **Health.** The joint team will contribute to the acceleration of the achievement of MDGs 4 & 5 through the Health and Population Project and the ongoing Safe Motherhood Program. While IDA will focus on financing investments of the primary and secondary health care levels, IFC will assess potential private health sector investment opportunities, and possibly undertake advisory support jointly with IDA for a PPP to strengthen Gomhoriya hospital (tertiary care level) which will complement the broader Aden health coverage plan supported by IDA.

## CAS Annex A2: Yemen at a Glance

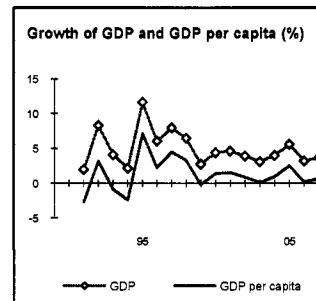
## Yemen, Rep. at a glance

9/24/08

Key Development Indicators (2007)	Yemen	M. East & North Africa	Low Income
Population, mid-year (millions)	22.4	313	1,296
Surface area (thousand sq. km)	528	8,778	21,846
Population growth (%)	3.0	1.7	2.1
Urban population (% of total population)	30	57	32
GNI (Atlas method, US\$ billions)	19.4	876	749
GNI per capita (Atlas method, US\$)	870	2,794	578
GNI per capita (PPP, international \$)	2,200	7,413	1,500
GDP growth (%)	3.6	5.8	6.5
GDP per capita growth (%)	0.6	4.0	4.3
<b>(most recent estimate, 2000–2007)</b>			
Poverty headcount ratio at \$1.25 a day (PPP, %)	..	5	..
Poverty headcount ratio at \$2.00 a day (PPP, %)	..	19	..
Life expectancy at birth (years)	62	70	57
Infant mortality (per 1,000 live births)	75	34	85
Child malnutrition (% of children under 5)	41	..	29
Adult literacy, male (% of ages 15 and older)	73	83	72
Adult literacy, female (% of ages 15 and older)	35	63	50
Gross primary enrollment, male (% of age group)	100	108	100
Gross primary enrollment, female (% of age group)	74	103	89
Access to an improved water source (% of population)	66	89	68
Access to improved sanitation facilities (% of population)	46	75	39



Net Aid Flows	1980	1990	2000	2007 <sup>a</sup>
<i>(US\$ millions)</i>				
Net ODA and official aid	571	400	263	284
<i>Top 3 donors (in 2006):</i>				
Germany	20	38	32	41
United States	15	41	57	32
Netherlands	20	30	34	29
Aid (% of GNI)	..	8.3	3.0	1.6
Aid per capita (US\$)	68	32	14	13
<b>Long-Term Economic Trends</b>				
Consumer prices (annual % change)	..	44.9	8.1	5.5
GDP implicit deflator (annual % change)	..	17.1	25.8	15.0
Exchange rate (annual average, local per US\$)	4.6	26.2	161.7	199.0
Terms of trade index (2000 = 100)	..	80	100	157
Population, mid-year (millions)	8.4	12.3	18.2	22.4
GDP (US\$ millions)	..	4,828	9,441	22,523
<i>(% of GDP)</i>				
Agriculture	..	24.2	10.3	14.3
Industry	..	26.8	46.5	40.3
Manufacturing	..	9.3	5.2	4.7
Services	..	49.0	43.2	45.4
Household final consumption expenditure	..	73.8	60.7	62.4
General gov't final consumption expenditure	..	17.5	14.1	16.7
Gross capital formation	..	14.6	19.5	24.4
Exports of goods and services	..	14.3	42.3	38.0
Imports of goods and services	..	20.1	36.6	41.4
Gross savings	..	27.9	33.6	28.3



1980–90 1990–2000 2000–07  
(average annual growth %)

3.8 3.9 3.0  
.. 6.0 4.0

Note: Figures in italics are for years other than those specified. 2007 data are preliminary. .. indicates data are not available.  
a. Aid data are for 2006.

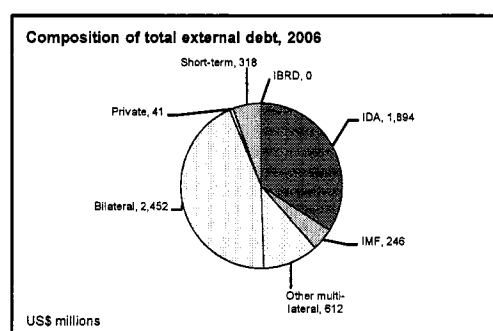
Development Economics, Development Data Group (DECDG).

Yemen, Rep.

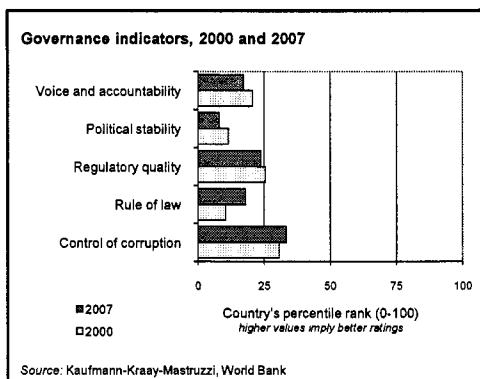
<b>Balance of Payments and Trade</b>	<b>2000</b>	<b>2007</b>
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	3,797	6,624
Total merchandise imports (cif)	2,484	4,538
Net trade in goods and services	540	1,214
Workers' remittances and compensation of employees (receipts)	1,288	1,283
Current account balance as a % of GDP	13.4	4.2
Reserves, including gold	2,822	6,198

<b>Central Government Finance</b>		
<i>(% of GDP)</i>		
Current revenue (including grants)	39.2	34.5
Tax revenue	7.7	6.7
Current expenditure	25.8	28.3
Overall surplus/deficit	8.0	-2.2
Highest marginal tax rate (%)		
Individual	..	..
Corporate	..	..

<b>External Debt and Resource Flows</b>		
<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	5,075	5,563
Total debt service	243	226
Debt relief (HIPC, MDRI)	-	-
Total debt (% of GDP)	53.8	29.2
Total debt service (% of exports)	4.5	2.6
Foreign direct investment (net inflows)	6	1,121
Portfolio equity (net inflows)	0	0



<b>Private Sector Development</b>	<b>2000</b>	<b>2008</b>
Time required to start a business (days)	-	13
Cost to start a business (% of GNI per capita)	-	93.0
Time required to register property (days)	-	19
Ranked as a major constraint to business (% of managers surveyed who agreed)	<b>2000</b>	<b>2007</b>
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	..	..
Bank capital to asset ratio (%)	..	..



<b>Technology and Infrastructure</b>	<b>2000</b>	<b>2007</b>
Paved roads (% of total)	15.5	8.7
Fixed line and mobile phone subscribers (per 1,000 people)	2	18
High technology exports (% of manufactured exports)	0.0	5.1

<b>Environment</b>		
Agricultural land (% of land area)	34	34
Forest area (% of land area)	1.0	1.0
Nationally protected areas (% of land area)	..	0.0
Freshwater resources per capita (cu. meters)	..	194
Freshwater withdrawal (% of internal resources)	161.7	..
CO2 emissions per capita (mt)	0.87	1.0
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	7.7	6.9
Energy use per capita (kg of oil equivalent)	268	319

<b>World Bank Group portfolio</b>	<b>2000</b>	<b>2007</b>
<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	2,058
Disbursements	65	122
Total debt service	23	49
<b>IFC (fiscal year)</b>		
Total disbursed and outstanding portfolio of which IFC own account	12	27
Disbursements for IFC own account	12	27
Disbursements for IFC own account	8	20
Portfolio sales, prepayments and repayments for IFC own account	0	1
<b>MIGA</b>		
Gross exposure	-	-
New guarantees	-	-

Note: Figures in italics are for years other than those specified. 2007 data are preliminary.  
.. indicates data are not available. - indicates observation is not applicable.

9/24/08

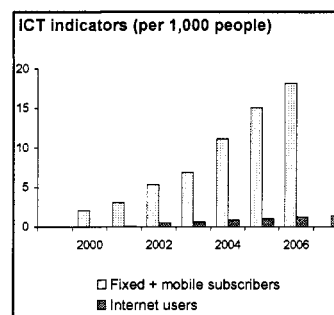
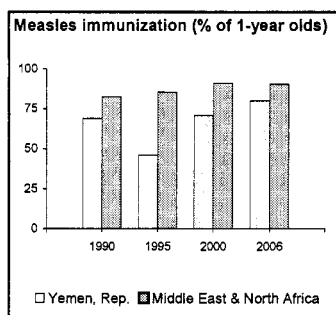
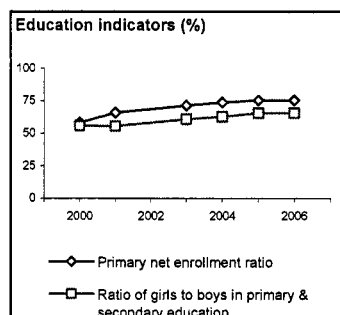
Development Economics, Development Data Group (DECDG).

## 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	2007
<b>Goal 1: halve the rates for extreme poverty and malnutrition</b>				
Poverty headcount ratio at \$1.25 a day (PPP, % of population)	..	..	..	..
Poverty headcount ratio at national poverty line (% of population)	..	..	41.8	..
Share of income or consumption to the poorest quintile (%)	6.1	..	7.4	7.2
Prevalence of malnutrition (% of children under 5)	..	47.6	..	41.3
<b>Goal 2: ensure that children are able to complete primary schooling</b>				
Primary school enrollment (net, %)	50	..	58	75
Primary completion rate (% of relevant age group)	..	..	55	60
Secondary school enrollment (gross, %)	..	..	43	46
Youth literacy rate (% of people ages 15-24)	..	60	..	75
<b>Goal 3: eliminate gender disparity in education and empower women</b>				
Ratio of girls to boys in primary and secondary education (%)	..	..	56	66
Women employed in the nonagricultural sector (% of nonagricultural employment)	..	..	7	..
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)	139	122	110	100
Infant mortality rate (per 1,000 live births)	98	89	81	75
Measles immunization (proportion of one-year olds immunized, %)	69	46	71	80
<b>Goal 5: reduce maternal mortality by three-fourths</b>				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	430
Births attended by skilled health staff (% of total)	16	22	..	27
Contraceptive prevalence (% of women ages 15-49)	10	21	..	23
<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)	120	119	101	78
Tuberculosis cases detected under DOTS (%)	..	1	54	43
<b>Goal 7: halve the proportion of people without sustainable access to basic needs</b>				
Access to an improved water source (% of population)	..	72	70	66
Access to improved sanitation facilities (% of population)	28	34	39	46
Forest area (% of total land area)	1.0	..	1.0	1.0
Nationally protected areas (% of total land area)	..	..	..	0.0
CO2 emissions (metric tons per capita)	0.8	0.8	0.9	1.0
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	8.5	8.2	7.7	6.9
<b>Goal 8: develop a global partnership for development</b>				
Telephone mainlines (per 100 people)	1.0	1.2	1.9	4.5
Mobile phone subscribers (per 100 people)	0.0	0.1	0.2	13.7
Internet users (per 100 people)	0.0	0.0	0.1	1.4
Personal computers (per 100 people)	..	0.1	0.2	2.8



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

9/24/08

Development Economics, Development Data Group (DECDG).

**CAS Annex B2: Selected Indicators of Bank Portfolio Performance and Management**

<b>Indicator</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Portfolio Assessment</b>				
Number of Projects Under Implementation <sup>a</sup>	18	19	19	19
Average Implementation Period (years) <sup>b</sup>	3.4	3.6	4.3	4.5
Percent of Problem Projects by Number <sup>a, c</sup>	5.6	5.3	0.0	5.3
Percent of Problem Projects by Amount <sup>a, c</sup>	2.8	17.6	0.0	5.3
Percent of Projects at Risk by Number <sup>a, d</sup>	5.6	10.5	0.0	5.3
Percent of Projects at Risk by Amount <sup>a, d</sup>	2.8	21.8	0.0	5.3
Disbursement Ratio (%) <sup>e</sup>	25.6	27.6	23.3	18.4
<b>Portfolio Management</b>				
CPPR during the year (yes/no)	No	No	Yes	No
Supervision Resources (total US\$)	2,039	2,361	2,284	1,095
Average Supervision (US\$/project)	102	111	114	55

<b>Memorandum Item</b>	<b>Since FY 80</b>	<b>Last Five FYs</b>
Proj Eval by OED by Number	113	7
Proj Eval by OED by Amt (US\$ millions)	1,681.0	313.0
% of OED Projects Rated U or HU by #	28.8	28.6
% of OED Projects Rated U or HU by Amt	21.3	13.2

- 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.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- 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.

### CAS Annex B3: IDA Indicative Financing Program

#### Proposed IBRD/IDA Base-Case Lending Program <sup>a\*</sup>

<i>Fiscal year</i>	<i>Project</i>	<i>US\$(M)</i>	<i>Strategic Rewards b (H/M/L)</i>	<i>Implementation b Risks (H/M/L)</i>
2010	Port Cities Development Project II	35.0		
	Mocha Wind Park Project	20.0		
	Higher Education Project II	10.0		
	Schistosomiasis Project	20.0		
	Social Development Fund Project IV	55.0		
	Result	140.0		
2011	Public Finance Modernization Project	10.0		
	Integrated Urban Development Project	30.0		
	Health and Population Project	30.0		
	Subsidy Reform DPG	30.0		
	Result	100.0		
2012	Basic Education Development Project (additional financing)	40.0		
	Public Works Project IV	40.0		
	Rural Access Project (additional financing)	40.0		
	Result	120.0		
2013	Water Sector Support Project (additional financing)	90.0		
	Agriculture Development Project	30.0		
	Result	120.0		
	Overall Result	480.0		
Outer years	Financial Sector DPL	30.0		
	Natural Gas Project	15.0		
	Hydro Power Project	30.0		
	Power Sector Project	40.0		
	Social Welfare Fund Project	10.0		

*\*Indicative average annual allocation: SDR 75 million, i.e. \$120 million. Amounts for FY11, FY12, and FY13 are indicative only and will be adjusted on the basis of IDA allocations.*

*\*Projects (including "outer years" operations) may be advanced or delayed during CAS implementation based on a re-prioritization of needs which would reflect development on the grounds and/or changes in the external environment.*



## CAS Annex B4: Summary of past non-lending activities

<i>Product</i>	<i>Completion FY</i>	<i>Cost (US\$000)</i>	<i>Audience<sup>a</sup></i>	<i>Objective<sup>b</sup></i>
<b>Recent completions</b>				
<b>ESW</b>				
Development Policy Review (DPR)	2006	294	Government, B&	Knowledge generation
Investment climate Assessment (ICA)	2006	312	Government, B&	Knowledge generation
Country Social Analysis	2006	153	Government, B&	Knowledge generation
Urban Poverty Analysis (TAIZ)	2006	82	Government, B&	Knowledge generation
Secondary Education Strategy Note	2006	76	Government, B&	Knowledge generation
QAT Awareness	2007	57	Government, B&	Knowledge generation
Poverty Assessment	2007	481	Government, B&	Knowledge generation
Social Protection Strategy	2007	142	Government, B&	Knowledge generation
Public Expenditure Management and Tr	2007	92	Government, B&	Knowledge generation
Gas Incentive Framework Study	2007	122		
GCC Integration	2008	36	Government, B&	Knowledge generation
Social Protection Strategy	2008	50	Government, B&	Knowledge generation
<b>TA</b>				
Environmental Health	2006	12	Government, B&	Knowledge generation
Public Financial Management	2006	16	Government, B&	Knowledge generation
Assistance on Water Strategy Impleme	2006	69	Government, B&	Knowledge generation
Children and Youth Strategy	2006	154	Government, B&	Knowledge generation
Social Protection Workshop	2006	20	Government, B&	Knowledge generation
CA: Aden CDS for Local Economic De	2007	140	Government, B&	Knowledge generation
National Disability Study	2007	63	Government, B&	Knowledge generation
Health Sector Consultation & Dialogue	2007	133	Government, B&	Knowledge generation
Water Sector Strategy Support	2007	35	Government, B&	Knowledge generation
Implementation Children & Youth Plan 1	2008	75	Government, B&	Knowledge generation
TF: Petroleum Governance TA	2008	500	Government, B&	Knowledge generation, pri
Public Financial Management	2008	85	Government, B&	Knowledge generation
Anti-Corruption	2008	67	Government, B&	Knowledge generation, pri
CDM TA for Yemen	2008	30	Government, B&	Knowledge generation, pri
Cash Transfer Targeting Assistance	2008	44	Government, B&	Knowledge generation, pri
<b>Underway</b>				
Public Expenditure Review	2009	350	Government, B&	Knowledge generation
Financial Sector Reform	2009	60	Government, B&	Knowledge generation
Mineral Sector Review	2009	175	Government, B&	Knowledge generation
Transport Sector Review	2009	260	Government, B&	Knowledge generation
Land Tenure Study	2009	90	Government, B&	Knowledge generation
Health Sector Review	2009	40	Government, B&	Knowledge generation
Anti Corruption	2009	75	Government, B&	Knowledge generation
Public Finance Management	2009	50	Government, B&	Knowledge generation
Institutional Framework for Energy Effic	2009	40	Government, B&	Knowledge generation
Improving Administration of the SWF T/	2009	50	Government, B&	Knowledge generation
Electricity Trade and Interconnection T/	2009	40	Government, B&	Knowledge generation
GAC Diagnostic Survey	2009	40	Government, B&	Knowledge generation

a. Government, donor, Bank, public dissemination.

b. Knowledge generation, public debate, problem-solving.

## CAS Annex B6: Key Economic Indicators

Indicator	Actual			Estimate			Projected		
	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>National accounts (as % of GDP)</b>									
Gross domestic product <sup>a</sup>	100	100	100	100	100	100	100	100	100
Agriculture	11	10	10	9	9	9	8	8	8
Industry	44	47	47	32	33	32	29	26	26
Services	44	43	43	59	58	59	63	66	66
Total Consumption	79	76	75	72	72	77	72	71	71
Gross domestic fixed investment	21	18	17	21	20	19	17	16	17
Government investment		8	7	7	7	6	6	6	7
Private investment		10	10	14	13	13	11	10	10
Exports (GNFS) <sup>b</sup>	36	40	41	29	36	26	21	21	20
Imports (GNFS)	35	35	32	35	35	27	23	21	20
Gross domestic savings	21	24	25	28	28	23	28	29	29
Gross national savings <sup>c</sup>	22	22	26	31	25	22	27	28	28
<i>Memorandum items</i>									
Gross domestic product (US\$ million at current prices)	13873	16745	19082	23618	26539	28463	34489	39930	45534
GNI per capita (US\$, Atlas method)	580	670	770	890	960	1130	1240	1370	1570
Real annual growth rates (% , calculated from 90 prices)									
Gross domestic product at market prices	4.0	5.6	3.2	3.6	3.9	7.7	5.0	4.4	4.5
Gross Domestic Income									
Real annual per capita growth rates (% , calculated from 90 prices)									
Gross domestic product at market prices	0.9	2.5	0.1	0.6	0.9	4.6	2.0	1.4	1.6
Total consumption									
Private consumption									
<b>Balance of Payments (US\$ millions)</b>									
Exports (GNFS) <sup>b</sup>	5045	6843	7865	7773	9475	7283	8537	8972	9146
Merchandise FOB	4676	6413	7316	7050	8628	6312	7441	7752	7802
Imports (GNFS) <sup>b</sup>	4918	6003	7781	9357	9350	7779	8516	9209	9907
Merchandise FOB	3859	4713	5926	7490	7473	5716	6271	6822	7340
Resource balance	127	840	84	-1584	125	-496	21	-238	-761
Net current transfers	1444	1418	1382	1426	1482	1298	1218	1369	1609
Current account balance	225	646	232	-1508	-531	-690	-414	-582	-882
Net private foreign direct investment	144	-302	1121	917	463	129	-329	-388	-316
Long-term loans (net)	26	49	236	232	176	338	499	537	609
Official	44	131	245	201	90	23	-49	-79	-112
Private	-18	-82	-9	31	86	315	548	616	722
Other capital (net, incl. errors & omissions)	225	371	-132	366	-359	387	489	866	1176
Change in reserves <sup>d</sup>	-619	-764	-1457	-7	251	-164	-245	-433	-588
<i>Memorandum items</i>									
Resource balance (% of GDP)	0.9	5.0	0.4	-6.7	0.5	-1.7	0.1	-0.6	-1.7
Real annual growth rates ( YR90 prices)									
Merchandise exports (FOB)	-7.4	2.0	-6.7	-16.7	-6.1	31.7	-1.7	-5.5	-4.5
Merchandise imports (CIF)	-15.7	-9.2	2.8	9.3	-23.5	37.7	-8.5	-1.3	2.1

(Continued)

Indicator	Actual			Estimate			Projected		
	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Public finance (as % of GDP at market prices)<sup>e</sup></b>									
Current revenues	31.7	34.6	38.5	30.4	37.4	24.9	24.6	26.0	25.1
Current expenditures	24.1	26.6	28.3	27.7	34.1	23.1	21.9	20.9	18.9
Current account surplus (+) or deficit (-)	7.6	7.9	10.2	2.7	3.3	1.8	2.7	5.0	6.2
Capital expenditure	9.8	9.8	9.1	8.2	8.4	7.0	7.0	7.3	7.7
Foreign financing	0.1	0.6	0.5	1.0	0.7	1.2	1.4	1.3	1.3
<b>Monetary indicators</b>									
M2/GDP	38.0	34.5	37.6	35.1	35.4	37.0	33.8	32.0	30.5
Growth of M2 (%)	13.9	13.7	27.7	16.8	13.7	12.1	10.8	9.7	8.9
Private sector credit growth /	33.9	20.0	16.7	35.0	20.8	1.8	25.8	22.1	22.2
<b>Price indices (YR90 =100)</b>									
Merchandise export price index	159.1	214.1	261.9	302.9	394.9	219.2	262.9	289.9	305.5
Merchandise import price index	159.1	214.1	261.9	302.9	394.9	219.2	262.9	289.9	305.5
Merchandise terms of trade index	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Real exchange rate (US\$/LCU) <sup>f</sup>	115.9	120.4	133.0	137.7	..	..	..	..	..
<b>Real interest rates</b>									
Consumer price index (% change)	12.5	11.4	18.4	12.6	16.6	14.0	12.3	11.6	7.4
GDP deflator (% change)	14.1	18.4	13.7	20.6	8.7	-0.4	15.5	11.0	9.2

a. GDP at factor cost

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

## CAS Annex B7: Key Exposure Indicators

Indicator	Actual				Estimated		Projected	
	2005	2006	2007	2008	2009	2010	2011	2012
Total debt outstanding and disbursed (TDO) (US\$m) <sup>a</sup>	5363	5561	5930	6550	6582	6879	7349	7862
Net disbursements (US\$m)	155	252	201	176	325	338	499	537
Total debt service (TDS) (US\$m) <sup>a</sup>	155	166	168	215	227	228	256	281
Debt and debt service indicators (%)								
TDO/XGS <sup>b</sup>	76.4	68.0	72.7	69.1	90.4	80.6	81.9	86.0
TDO/GDP	32.0	29.1	25.1	24.7	23.1	19.9	18.4	17.3
TDS/XGS	2.2	2.0	2.1	2.3	3.1	2.7	2.9	3.1
Concessional/TDO	87.0	88.8	89.1	86.2	89.3	89.8	90.4	91.1
IBRD exposure indicators (%)								
IBRD DS/public DS	0.0	0.0	0.0	..	..	..	..	..
Preferred creditor DS/public DS (%) <sup>c</sup>	69.5	68.5	74.1	..	..	..	..	..
IBRD DS/XGS	0.0	0.0	0.0	..	..	..	..	..
IBRD TDO (US\$m) <sup>d</sup>	0	0	0	..	..	..	..	..
Of which present value of guarantees (US\$m)	0	0	0	..	..	..	..	..
Share of IBRD portfolio (%)	0	0	0	..	..	..	..	..
IDA TDO (US\$m) <sup>d</sup>	1689	1894	2058	..	..	..	..	..
IFC (US\$m)								
Loans	15.20	48.40	131.85	151.31	160.00	200.00	250.00	320.00
Equity and quasi-equity /e	0.90	0.90	0.00	0.00	0.00	10.00	20.00	30.00
MIGA								
MIGA guarantees (US\$m)								

- a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.
- b. "XGS" denotes exports of goods and services, including workers' remittances.
- c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.
- d. Includes present value of guarantees.
- e. Includes equity and quasi-equity types of both loan and equity instruments.

## CAS Annex B8: Operations Portfolio (IDA and Grants)

## Closed Projects 121

<b>IBRD/IDA *</b>	
Total Disbursed (Active)	505.7
of which has been re	0.0
Total Disbursed (Closed)	1,724.0
of which has been re	315.1
Total Disbursed (Active + C	2,229.7
of which has been re	315.1
Total Undisbursed (Active)	482.1
Total Undisbursed (Closed)	2.0
Total Undisbursed (Active	484.1

## Active Projects

Project ID	Project Name	#	Last PSR		Fiscal Year	IDA	Cancel.	Undisb.	Difference Between	
			Development Objectives	Supervision Rating					Expected and Actual Disbursements <sup>1/</sup>	Orig. Frm Rev'd
P107037	Water Sector Support	#			2009	90.0		85.9		
P101453	Institutional Reform Credit (DPL)	S			2008	50.9		27.0		
P089761	Sec. Educ. Dev. and Girls Access Project	S			2008	20.0		19.0	1.0	
P089259	Rainfed Agriculture and Livestock	MS			2007	20.0		16.1	5.0	0.4
P086308	Second Vocational Training Project	MS			2007	15.0		16.0	2.5	
P086886	Fisheries Res. Mngmnt & Conservation	MS			2006	25.0		23.9	8.0	
P086865	Power Sector	MU			2006	50.0		52.1	43.1	
P085231	Second Rural Access	S			2006	40.0		19.6	4.3	
P076185	Basic Education Development Program	MS			2005	65.0		32.0	20.5	
P082976	Third Public Works	S			2004	74.8		26.3	4.9	
P082498	Social Fund for Development III	S			2004	75.0		5.1	12.0	2.8
P074413	Groundwater & Soil Conserv Proj	S			2004	70.0		38.9	10.4	0.6
P065111	Port Cities Development Program	S			2003	23.4		7.3	4.3	4.3
P064981	Sana'a Basin Water Management	S			2003	24.0		10.7	8.2	
P057602	Urban Water Supply & Sanit. (APL)	MS			2003	130.0	4.7	50.3	37.3	1.2
P070092	Taiz Municipal Dev. & Flood Protection	S			2002	65.2		12.9	12.3	4.0
P043254	Health Reform Support Proj (HRSP)	MS			2002	27.5		3.5	2.7	5.7
P005906	Rural Water Supply & Sanitation	S			2001	40.0		14.5	7.4	3.0
P050706	Civil Service Modern	S			2000	44.0		21.1	3.8	3.8
Overall Result						949.9	4.7	482.1	82.1	7.0

## CAS Annex B8/2: IFC Investment Portfolio/Operations Portfolio

Commitment Fiscal Year	Institution Short Name	LN		ET		QL+QE		GT		RM		All		All Cmid-Part
		Cmid-IFC		Cmid-IFC		Cmid-IFC		Cmid-IFC		Cmid-IFC		Cmid-IFC		
1999	ACSM	2.85		0.00		0.00		0.00		0.00		2.85		0.00
2007/ 2008	AYCC	70.00		0.00		0.00		0.00		0.00		70.00		55.00
2003	Ahlia Water	1.36		0.00		0.00		0.00		0.00		1.36		0.00
2008	Al-Mawarid	8.00		0.00		0.00		0.00		0.00		8.00		0.00
2008	Magrabi Yemen	10.00		0.00		0.00		0.00		0.00		10.00		0.00
1987/ 1990/ 1993	Marib Agri	0.00		0.00		0.00		0.00		0.00		0.00		0.00
2006	NCC Yemen	35.00		0.00		0.00		0.00		0.00		35.00		0.00
2007	S Y Healthcare	20.00		0.00		0.00		0.00		0.00		20.00		0.00
1984/ 1985/ 1990/ 1993	Yemen Battery	0.00		0.00		0.00		0.00		0.00		0.00		0.00
2007	Saba Islamic Bank	0.00		0.00		2.70		0.00		0.00		2.70		0.00
<b>Total Portfolio:</b>		<b>147.20</b>		<b>0.00</b>		<b>2.70</b>		<b>0.00</b>		<b>0.00</b>		<b>149.90</b>		<b>55.00</b>

## CAS Annex B8/3: IFC Investment Portfolio by Sector/Product

	FY06	FY07	FY08
<b>Commitments US\$m</b>			
Gross	35.00	90.58	23.81
Net	35.00	90.58	23.81
<b>Net Commitments by Sector (%)</b>			
Global Manufacturing and Services	100.00	77.28%	0.00%
Health and Education	0.00	22.08%	75.60%
Financial and Private Sector Development	0.00	0.64%	24.40%
<b>Total</b>	<b>100.00</b>	<b>100.00%</b>	<b>100.00%</b>
<b>Net Commitments by Investment Instrument (%)</b>			
Guarantee	0.00%	0.64%	24.40%
Loan	100.00%	99.36%	75.60%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>



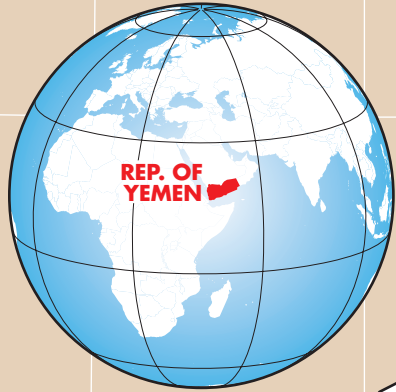


MAP SECTION



# REPUBLIC OF YEMEN

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



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