

Document of
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Report No: 53355-YE

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR 6.6 MILLION
(US\$10.0 MILLION EQUIVALENT)

TO THE

REPUBLIC OF YEMEN

FOR A

SOCIAL WELFARE FUND INSTITUTIONAL SUPPORT PROJECT

May 7, 2010

Human Development Department
Country Department 3
Middle East and North Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective April 26, 2010)

Currency Unit = Yemeni Rial (YER)
YER 1 = US\$0.0048
US\$ 1 = YER 206

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AFPPF	Agriculture and Fisheries Production Promotion Fund
BO	Branch Office
BDP	Beneficiary Development Program
CAS	Country Assistance Strategy
CBO	Community-based organization
CBY	Central Bank of Yemen
CCT	Conditional Cash Transfer
COCA	Central Organization for Control and Audit
CT	Cash Transfer
CSO	Civil Society Organization
DA	Designated Account
DFID	Department for International Development
DPPR	Development Plan for Poverty Reduction
EC	European Commission
EIA	Environmental Impact Assessment
GDP	Gross Domestic Product
GFRP	Global Food Crisis Response Program
GIS	Geographical Information System
GOY	Government of Yemen
GTZ	German Agency for International Cooperation
HBS	Household Budget Survey
HH	Household
IAD	Internal Audit Department
ICR	Implementation Completion and Result Report
IDA	International Development Association
IFPRI	International Food Policy Research Institute
IFR	Interim Financial Report
ISA	International Standards on Auditing
ISP	Institutional Support Project
LA	Local Authority
MDG	Millennium Development Goals
M&E	Monitoring and Evaluation
MFI	Micro Finance Institutions
MIS	Management Information System
MOF	Ministry of Finance
MOLA	Ministry of Local Administration
MOPIC	Ministry of Planning and International Cooperation
MOSAL	Ministry of Social Affairs and Labor
MSE	Micro and Small Enterprise
NGO	Non Governmental Organization
OM	Operations Manual

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PAD	Project Appraisal Document
PDO	Project Development Objective
PFS	Project's Financial Statements
PMT	Proxy Means Test
PPP	Purchasing Power Parity
PWP	Public Works Project
PST	Project Support Team
RCT	Randomized Controlled Trial
SA	Sponsoring Agency
SFD	Social Fund for Development
SMED	Small and Micro Enterprises Development
SMEP	Small and Micro Enterprise Promotion Agency
SSN	Social Safety Net
SWF	Social Welfare Fund
TA	Technical Assistance
UCT	Unconditional Cash Transfer
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WA	Withdrawal Application
WFP	World Food Program

Vice President:	Shamshad Akhtar
Country Director:	A. David Craig
Sector Director:	Steen Jorgensen
Sector Manager:	Roberta Gatti
Task Team Leader:	Afrah Al-Ahmadi

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REPUBLIC OF YEMEN
SOCIAL WELFARE FUND INSTITUTIONAL SUPPORT PROJECT
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REPUBLIC OF YEMEN
SOCIAL WELFARE FUND INSTITUTIONAL DEVELOPMENT PROJECT
PROJECT APPRAISAL DOCUMENT
MIDDLE EAST AND NORTH AFRICA

Date: May 7, 2010 Country Director: A. David Craig Sector Manager/Director: Roberta V. Gatti/Steen Jorgensen Project ID: P117608 Lending Instrument: Specific Investment Loan	Team Leader: Afrah Al-Ahmadi Sectors: Social Protection Themes: Social Safety Net (80%); Governance (20%) Environmental screening category: C
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Project Financing Data			
<input type="checkbox"/> Loan <input type="checkbox"/> Credit <input checked="" type="checkbox"/> IDA Grant <input type="checkbox"/> Guarantee <input type="checkbox"/> Other:			
Source	Local	Foreign	Total
International Development Association (IDA)	6.74	3.26	10.00
Total:	6.74	3.26	10.00

Recipient: Republic of Yemen
Responsible Agency: Social Welfare Fund

Estimated disbursements (Bank FY/US\$m)							
FY	2011	2012	2013	2014	2015	2016	2017
Annual	1	1	2	3	2	0.5	0.5
Cumulative	1	2	4	7	9	9.5	10
period: 2011-2017 effectiveness date: October 10, 2010 March 31							

Does the project depart from the CAS in any other significant respects?	No
Does the project require exceptions from standard management?	No
Have there been approved exceptions from the Board?	n/a
Does the project include national risks that are not covered by the Regional criteria for readiness for implementation?	Yes

Project development objectives
The Project Development Objectives are to: (i) increase the share of poor households among the beneficiaries of the cash transfer program; and (ii) contribute in building the human capital of the Social Welfare Fund beneficiaries in selected districts.

Project description
1. The Social Welfare Fund Institutional Support Project (ISP) will support the Social Welfare Fund

(SWF) to develop and implement a new poverty-based targeting policy and strengthen the SWF's administration and management of its Cash Transfer program to improve program outreach and performance. A communication strategy will be developed and put into action to promote SWF reform and increase program transparency and Fund accountability. Through pilot projects, alternative options for the Beneficiary Development Program will be designed and delivered, and results will be assessed to capture lessons learned and best practices to apply to scaling up on a national level.

2. **Component 1: Improve the Cash Transfer Program** (estimated IDA contribution US\$4.4 million). This component has two sub-components: (i) Strengthening Targeting, Management and Administrative Processes; and (ii) Developing and Implementing a Communication Strategy.

3. **Sub-component 1.1: Strengthening Targeting, Management and Administrative Processes** (estimated IDA contribution US\$4.0 million). Following from the Government's poverty focused reformed SWF law, the objective of this sub-component is to support the SWF in developing and implementing a new poverty based targeting policy, and strengthening management practices and administrative procedures. Under this sub-component, the project will: (i) develop a poverty based targeting policy; (ii) develop and implement improved program procedures for the full cash transfer program cycle; (iii) build a responsive MIS system to support operational processes; (iv) develop and implement an M&E system; and (v) train SWF staff in all aspects of the cash transfer program cycle and operational processes. This sub-component will finance consultant services, goods, training and operational costs.

4. **Sub-component 1.2: Developing and Implementing a Communication Strategy** (estimated IDA contribution US\$0.4 million). The objectives of this sub-component are to: (i) increase awareness of the SWF reform process as mandated by the 2008 law; (ii) gain support for the proxy means test (PMT) targeting approach and the phasing out of ineligible beneficiaries; (iii) reach out to poor households not yet enrolled to receive benefits; (iv) improve the SWF internal communications; (v) increase transparency; and (vi) increase beneficiary demand for improved SWF services. The sub-component will: (i) develop a comprehensive communication strategy; and (ii) carry out public information and awareness campaigns, including the production of media materials. The sub-component will finance consultant services (including media services), goods, training and operational costs.

5. **Component 2: Design and Delivery of Beneficiary Development Program** (estimated IDA contribution US\$4.6 million). The objective of this component is to design and pilot-test the implementation of Beneficiary Development Program (BDP) activities and delivery options in three governorates (25 districts). The component will: (i) design and deliver BDP activities; (ii) train staff, including study tours, on BDP delivery alternatives; (iii) provide awareness raising and training services for SWF beneficiaries; and (iv) conduct recertification surveys in some of the pilot areas. The component will support SWF's exploration of different options for a non-lending role in facilitating beneficiaries' access to micro-credit programs and MFIs. The component will finance consultant services, goods, beneficiary development training, staff training and operational costs. The IDA resources will not be used to finance grants or micro-credit loan funds.

6. **Component 3: Project Management and Evaluation** (Estimated IDA contribution US\$1.0 million). This component supports SWF to implement and evaluate the project. An impact evaluation for *Component 2* will be completed to assess pilot project results. The component will provide project implementation support through the recruitment of local technical and fiduciary consultants to complement the skills not available in-house and eventually build the capacity of SWF staff. The Project Support Team (PST) is to include a Technical Coordinator, Financial Management Specialist, Procurement Specialist, MIS Specialist, and an Executive Secretary. The component will finance consultancy services, training, goods, and incremental operational costs.

Which safeguard policies are triggered, if any? No safeguard policies are triggered by the project.

Significant, non-standard conditions, if any, for:

Board presentation:

None.

Grant effectiveness:

- (a) The Subsidiary Grant Agreement has been executed on behalf of the Recipient and SWF.
- (b) SWF has established the PST with a composition, resources and terms of reference satisfactory to the Association.
- (c) SWF has adopted the updated Financial Management Manual satisfactory to the Association.
- (d) SWF's financial management accounting software is operational with project-specific recording and reporting arrangements satisfactory to the Association.

Covenants applicable to project implementation:

- The Recipient shall ensure that the SWF carries out the Project in accordance with its obligations under the Project Agreement and the Operations Manual.
- On or about April 15, 2013, the Recipient shall cause SWF to carry out jointly with the Association, a midterm review of the progress made in carrying out the Project (the Midterm Review).
- Not later than two (2) months after Effectiveness, the Recipient shall cause SWF to appoint a procurement advisor to the PST, on terms and conditions satisfactory to the Association.

I. STRATEGIC CONTEXT AND RATIONALE

A. Country and sector issues

1. **Yemen, one of the poorest countries in the MENA region, faces daunting challenges in an uncertain global and regional environment.** Living conditions for much of Yemen's population of 23 million remain difficult. With a GDP per capita of US\$1,209 (PPP), 34.8 percent of the population lives in poverty (2007 Yemen Poverty Assessment) and the country ranks 140 out of 182 countries in the 2009 Human Development Index. Yemen is also facing rapid population growth (over 3.0 percent a year, 2004 census), lack of clear alternatives to the oil economy, limited institutional capacity and outreach of the State, rapidly depleting water reserves (with aquifers feeding major cities expected to dry up within the next 15 to 30 years), poor infrastructure, limited human development, including basic education and health service coverage, and acute gender inequality issues.

2. **Already a food insecure nation, with about 32 percent of the population considered undernourished and food insecure** (one of the highest in the region), Yemen has been hit hard by the global food and financial crisis. The rise in food prices in 2007 and 2008 had serious consequences for household budgets and hence for the desired reduction in the poverty rate. According to the International Food Policy Research Institute (IFPRI), the crisis resulted in a direct 25 percent increase in the poverty rate from 2006-2010, with poverty now affecting 44 percent of the population, or more than 10 million persons. The Government budget was reduced by more than 50 percent due in part to decreasing oil revenues as supplies have dwindled, limiting its capacity to provide basic services to an already impoverished population. Food insecurity and malnutrition levels in the country have surpassed emergency levels. Yemen is among the 10 countries in the world with the highest rates of food insecurity, with the country ranked third for the highest malnutrition in the world: 58 percent of children under 5 are stunted, and more than 1 in 10 children is acutely malnourished. Based on the World Food Program's (WFP) recent Comprehensive Food Security Survey (2009), 7.5 million persons are caught in the chronic poverty trap. The situation is further compounded by climate change, increasing influx of refugees from the Horn of Africa, high population growth, and low literacy.

3. **Fiscal sustainability is the foremost economic issue in Yemen**, as government spending is driven by a large public sector wage bill and unsustainably high fuel subsidies. Insufficient budget resources are a severe constraint on the Government's ability to provide essential services and to address poverty. A steep decline in oil revenues is evident, attributable in part to oil price fluctuations, but mainly to production decline as reserves diminish. The authorities have borrowed domestically to finance a growing deficit (estimated at 7 percent for 2010), but have not significantly adjusted expenditure. Human development and poverty alleviation efforts are constrained by the limited fiscal resources. Macro-economic choices have a direct implication on the Government's ability to sustain present social programs and future initiatives towards poverty reduction.

4. **At the same time, the Government has demonstrated a commitment to poverty reduction and has developed and is implementing a Development Plan for Poverty Reduction Strategy (DPPR).** One of the main pillars of the strategy is to protect the poor and vulnerable through a comprehensive social safety net program. Yemen has in place a multi-tier safety net, including highly successful *community-driven programs*, notably under the Social Fund for Development (SFD) and the Public Works Project (PWP); and the provision of defined benefits through *cash transfers* (CT) through the Social Welfare Fund (SWF). While the SFD and PWP activities provide medium to long-term benefits to poor communities through supporting access to social services and economic opportunities, the SWF program is the only national program that is mandated to reach chronically poor households with immediate safety net support through the provision of cash assistance. Altogether, public financing

for these safety net programs is still quite modest, representing only 0.6 – 1 percent of GDP, as compared to similar low income countries which spend between 1.5 - 2 percent of GDP on safety net programs.

5. **Yet the largest share of public safety net expenditures go into a costly and untargeted subsidy system,** essentially for petroleum products (14 percent of GDP in 2008 and 7.7 percent in 2009). 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 assume some degree of prominence in the coming period. Even though it is estimated that more than 77 percent of the petroleum subsidy benefits accrue to the non-poor, economic analysis has determined that if all energy subsidies were removed without alternatives compensative initiatives, poverty rates would increase by more than 8 percentage points. Yemen's DPPR takes a cautious approach to this politically and socially sensitive issue, and focuses on the need to strengthen existing safety net programs so they effectively carry out their core mandate as a safety net and become responsive to shocks.

6. **The Social Welfare Fund (SWF), established in 1996 by Presidential Law, is the only public cash-transfer based social safety net in Yemen.** Over time, the Government has shown commitment to the SWF which resulted to a gradual expansion of coverage. The Fund has expanded from 100,000 beneficiaries at its start to over 1 million households over a ten-year period. The SWF's cash transfer budget has grown from US\$4 million at the outset to US\$200 million in 2008/2009. The Fund has operated with limited technical assistance and no exposure to international experience and best practice in the design and delivery of cash transfer programs, as well as an insufficient operational budget, limiting the Fund's ability to carry out adequate case management. Targeting was based on social categories and was not linked with household poverty levels as measured by income or expenditure. Since its beginning, the institution built a level of knowledge and experience accumulated through a "learning by doing" approach. However, the program has suffered from a combination of low benefits, poor targeting, and inefficient administrative and operational processes resulting in chronically low coverage of the poorest and little impact on overall poverty. The 2007 Poverty Assessment concluded that the SWF covered only 13 percent of the poorest population and nearly two-thirds of beneficiaries were above the national poverty line.

7. **As a result of these findings, the Government of Yemen (GoY) has authorized a program of fundamental reforms to the SWF to improve targeting of the poor, strengthen service delivery capacity, and implement a new legal and policy framework.** In 2008 the GoY endorsed a new *Law on Social Welfare* to reorient SWF objectives so that (i) poverty is the primary focus of assistance and is more clearly defined; (ii) beneficiaries include those in economic difficulty (unemployed, etc.) as well as the poor covered by previous social categories (female-headed households, widows, elderly, disabled, etc.); (iii) a case management system will be established to reassess beneficiaries' eligibility and recertify them within a defined period of time for either re-enrollment in, or graduation from, SWF benefits; and (iv) the SWF's beneficiary development role to assist the transitory poor (i.e., those around the poverty line) to exit poverty through skills training and linkages with the labor market is legally mandated. In response to the food crisis, in 2009, the Government doubled the maximum SWF benefits to YR 4,000 (US\$20) per case per month. Furthermore, the Government has announced a plan to increase the coverage of beneficiaries to 1.5 million households, permitting coverage of nearly all those below the poverty line.

8. The SWF's new Policy Statement supports a system open to applications from all poor and vulnerable households, provides assistance to lift beneficiaries out of poverty and undertakes recertification on a regular basis with options for re-enrolling in the program if economic circumstances change, especially for those most vulnerable to becoming poor (i.e., those around the poverty line). In

2008, the SWF launched and completed an extensive national survey¹ to further identify the poor and vulnerable in Yemen and apply improved targeting methods to the data collected in order to expand the program to cover those in need. It is expected that beneficiary application for SWF support and assessments of applicants' eligibility will be a continuous process. The SWF newly established database is the most comprehensive national record of poor and vulnerable individuals available in Yemen. Such a national database can be used to target and coordinate other funds and benefits across a range of social programs.

9. The implementation of the SWF reforms and program expansion are entering a critical period requiring immediate technical assistance, policy guidance, capacity building and training support. Technical assistance has been provided by the European Commission (EC) for several years, and more recently the World Bank has provided initial guidance on CT program design including targeting. A draft core Operations Manual reflecting key reform elements of the program was developed in 2009 through World Bank technical assistance. Further guidance on (i) poverty-based targeting; (ii) reaching the ultra poor; (iii) phasing out the ineligible beneficiaries; (iv) assessing benefit levels; and (v) CT program fiscal implications and sustainability issues, is needed.

10. Successful cash transfer programs build broad credibility and accountability among beneficiaries and other stakeholders. Over time, the SWF benefit payment system has shifted from people delivering actual cash ("cashiers") to using intermediary agencies (i.e., post offices, banks) to control corruption in the flow of cash transfer funds. Yet about 38 percent of the cash benefits is still being delivered by cashiers. The use of new technologies (e.g., mobile banks) to deliver 100 percent of funds through secure mechanisms needs to be explored and supported. The SWF needs to establish and apply clear and transparent rules on beneficiary selection criteria, established benefit levels, rights and obligations of beneficiaries, grievance and complaint systems. The credibility of the program also rests on SWF's ability to keep an ongoing communication with and receive feedback from participating households.

11. An overall communication strategy is required to increase the SWF program's transparency and advocate for the mandated reform. The provision of information to the public will become even more acute as beneficiary eligibility parameters change due to new targeting methods and as the GoY begins to deal with subsidy reforms. Potential partnerships with Civil Society Organizations (CSOs) to develop awareness tools and messages, encourage participation of women and gather community feedback will promote the Fund transparency and increase demand from beneficiaries for improved services. Ongoing communication to inform decision makers, beneficiaries and other stakeholders concerning the SWF reforms and beneficiary recertification is essential.

B. Rationale for Bank involvement

12. The World Bank has been a lead donor in supporting Yemen's Poverty Reduction Strategy and Social Protection Agenda. In addition to direct support to two key social protection instruments in Yemen (the Social Fund for Development and the Public Works Project) for more than ten years, the Bank supported the review of the Yemen Social Protection program and provided technical assistance for the development of the Social Protection Strategy and Action Plan. More recently, the Bank, among other donors, is supporting the development of Yemen's Food Security Strategy.

¹ SWF 2008 Survey: over 1.6 million households were covered in this survey, 1 million of which are current SWF beneficiary HHs, and 0.6 million new applicants.

13. The Bank's involvement and support to other social sectors in Yemen (e.g., health, education), as well as the micro-finance sector, provides an important opportunity for the Bank to facilitate multi-sectoral linkages between SWF and sector ministries as well as Micro Finance Institutions (MFIs). The Bank is best positioned to bridge the supply side of social development services (e.g., health/nutrition, education, skills training, microcredit, etc.) with the demand side for these services through the SWF Beneficiary Development Program (BDP). With the SWF reaching over 8 million poor Yemeni, Yemen can benefit from the Bank's international and best practice expertise to improve targeting of the poor and increase demand for human development related services, through linkages with the Bank's support for supply side sectoral projects.

14. The project builds on key recommendations of the Social Protection Strategy, Subsidy Reform Dialogue and international experience. The 2008 report on Yemen's Social Protection Strategy indicated that with appropriate targeting, technology and administrative support, the SWF could become an important institution providing cash support to the poorest (chronic poor), as well as channeling additional (supplemental) assistance under special circumstances such as compensation for the reduction and/or abolition of subsidies and the sharp rise in the price of food staples. The Bank has also initiated a dialogue on the subsidy reform agenda where it is recognized that the SWF "can have a fundamental role in poverty reduction, and for that role to be effective, the SWF needs to improve: (i) its method of screening (targeting); (ii) its application pool and processes; and (iii) its cash delivery mechanism". The SWF can be used to deliver transitional relief for the low-income population at the time of energy subsidies reduction to minimize the impact on the poor and vulnerable, and to gain public support for the subsidy reform.

15. Based on the new law, the SWF is seeking to improve its current beneficiary/applicants inclusion/exclusion error rate and deliver cash transfers only to the poor and vulnerable. Reducing inequalities through cash transfer programs can be done for the lowest cost possible when transfers are targeted properly to the poor and ultra poor. A well-targeted program will have small inclusion errors (relatively rich people get included as beneficiaries) and small exclusion errors (poor people get excluded as beneficiaries). In 2009, a technical assistance (TA) activity funded by the Bank introduced proxy means tests (PMT)² as a targeting method and applied it to the 2008 SWF beneficiary and applicant survey. The Bank's long and diverse international experience in cash assistance programs that have gone through a similar transformation would benefit the SWF as it proceeds with its reform program.

16. The proposed SWF Institutional Support Project (ISP) is a tool to mobilize donor support and coordination for the Social Safety Net in Yemen. The Bank's technical assistance over the past year has coordinated closely with the European Commission (EC) support to the SWF, and resulted in an EC funded Grant (administered by the World Bank) being channeled through the SWF to finance an emergency cash transfer project (Emergency Social Safety Net Enhancement Project). The project has also attracted the World Food Program (WFP) interest in working closely with the SWF on their food assistance program. The ISP activities will encourage continued collaboration, whereby institutional support activities will complement EC ongoing support, and targeting support will facilitate the identification of eligible beneficiaries for the WFP additional food support to poor households (under discussion/design). The UK Department for International Development (DFID) has expressed interest in coordinating closely with the Bank team during the ISP preparation as it is considering future engagement, possibly through parallel financing to the ISP, in which case DFID would follow the ISP

² The Proxy Means Testing (PMT) is a targeting method based on a score that is attributed to households on the basis of observable characteristics and the estimated relationship of these characteristics with consumption and poverty.

design. The team will also make efforts to coordinate with the regional donors and explore possibilities of their support to the SWF.

17. The proposed project supports the 2010 – 2013 CAS objective to “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)”. The project also responds to recommendations in the 2008 National Social Protection Strategy supported by IDA, as well as IDA’s recommendations from the TA in support of the SWF administration, delivered during fiscal year 2009 (FY09), and from the energy subsidy dialogue which emphasizes the importance of having in place an effective compensatory safety net prior to launching the subsidy reform to mitigate the expected adverse impact on the poor and vulnerable. It also builds on existing partnerships in the social protection sector with the EC, WFP and DFID.

C. Higher level objectives to which the project contributes

18. The project will contribute to the strengthening of Yemen’s efforts in the sphere of human and social development through protecting the poor and vulnerable and fostering their inclusion in the economic and social development process. Through supporting the BDP, the project will contribute towards reaching the Millennium Development Goals (MDGs) by supporting the demand side of MDG-related social services (maternal and child health, nutrition and education) and promoting the inclusion of the poor in economic activities through increasing their consumption capability and potential productivity.

19. Through strengthening of the cash transfer program’s targeting, communication and services, the project will contribute to the promotion of equity in the distribution of resources and encourage transparency of decisions and processes, thereby contributing to improving the Government’s image. The project will also bolster communication concerning the Government’s reform efforts and counter public perceptions of the GoY’s lack of commitment to the reform agenda.

20. Finally, the project will strengthen a key safety net instrument central to Yemen’s risk management strategy. Having an efficient and effective cash transfer program can play a major mitigation role in cases of economic, social and natural shocks (Yemen is subject to all) whereby the program can scale up to respond to shocks when they arise and scale down to its core function of a safety net to the chronic poor when the shock has subsided. This instrument will be crucial to have in place when Yemen acts on its subsidy reform agenda.

II. PROJECT DESCRIPTION

A. Lending instrument

21. The proposed Social Welfare Fund Institutional Support Project (ISP) will be financed by a US\$10 million IDA Grant. The financing instrument will be a Specific Investment Loan (SIL). The project will be six years in length, with a closing date of March 31, 2017.

B. Project development objective and key indicators

22. The project will support and implement the SWF reform as outlined in the revised 2008 SWF law (No. 39) with a focus on poverty-based targeting, reduction of the inclusion and exclusion errors, and define the SWF’s role in beneficiary access to social and economic opportunities.

23. The Project Development Objectives are to: (i) increase the share of poor households among the beneficiaries of the cash transfer program; and (ii) contribute in building the human capital of SWF beneficiaries in selected districts.

Key Performance Indicators	Baseline	Target
Percentage of cash transfer beneficiaries who are in groups A and B (according to PMT scores) ³	35%	60-70%
Percentage of cash transfer applicants who are in groups A and B.	52%	60-70%
Increase in the fraction of total cash transfer amount that is awarded to the poorest 20% of the population (lowest 2 deciles according to HBS)	42%	20% increase
Percentage increase in human capital outcomes of households receiving BDP services to comparable households that do not receive BDP services	to be collected through baseline study	20%

C. Project components

24. The project, which will be implemented over six years, has three components: (i) Improve the Cash Transfer Program; (ii) Design and Delivery of the Beneficiary Development Program (BDP); and (iii) Project Management and Evaluation. Component 2 mechanisms will be tested through a scalable pilot project in three governorates (25 districts).

25. The ISP will support the SWF to develop and implement a new poverty-based targeting policy and strengthen the SWF's administration and management of its Cash Transfer program to improve program outreach and performance. Under the project, a communication strategy will be developed and put into action to promote the SWF reform and increase program transparency and Fund accountability. Through pilot activities, alternative options for the Beneficiary Development Program will be designed and delivered, and results will be assessed to capture lessons learned and best practices to scale up on a national level.

26. **Component 1: Improve the Cash Transfer Program** (estimated IDA contribution US\$4.4 million). This component has two sub-components: (i) Strengthening Targeting, Management and Administrative Processes; and (ii) Developing and Implementing a Communication Strategy.

27. **Sub-component 1.1: Strengthening Targeting, Management and Administrative Processes** (estimated IDA contribution US\$4.0 million). Following the Government's poverty focused revised SWF law, the objective of this sub-component is to support the SWF in developing and implementing a new poverty based targeting policy, and strengthening management practices and administrative procedures. Under this sub-component, the project will: (i) develop a poverty based targeting policy; (ii) develop and implement improved program procedures for the full cash transfer program cycle; (iii) build a responsive Management Information System (MIS) to support operational processes; (iv) develop and implement an M&E system; and (v) train SWF staff in all aspects of cash transfer program cycle and operational processes. This sub-component will finance consultant services, goods, training and operational costs.

28. **Sub-component 1.2: Developing and Implementing a Communication Strategy** (estimated IDA contribution US\$0.4 million). The objectives of this sub-component are to: (i) increase awareness of the

³ SWF beneficiaries and applicants are classified into 6 groups around the national poverty line, groups A and B being under the poverty line. See annex 10.

SWF reform process as mandated by the 2008 law; (ii) gain support for PMT targeting approach and the phasing out of ineligible beneficiaries; (iii) reach out to poor households not yet enrolled to receive benefits; (iv) improve the SWF internal communications; (v) increase transparency; and (vi) increase beneficiary demand for improved SWF services. The sub-component will: (i) develop a comprehensive communication strategy; and (ii) carry out public information and awareness campaigns, including the production of media materials. The sub-component will finance consultant services (including media services), goods, training and operational costs.

29. ***Component 2: Design and Delivery of Beneficiary Development Program (estimated IDA contribution US\$4.6 million).*** The objective of this component is to design and pilot-test the implementation of Beneficiary Development Program (BDP) activities and delivery options in three governorates (25 districts). The component will: (i) design and deliver of BDP activities; (ii) train staff, including study tours; (iii) provide awareness raising and training services for SWF beneficiaries; and (iv) conduct recertification surveys in some of the pilot areas. The component will support the SWF's exploration of different options for a non-lending role in facilitating beneficiaries' access to micro credit programs and MFIs. The component will finance consultant services, goods, beneficiary development training, staff training and incremental operational costs. The IDA resources will not be used to finance grants or micro-credit loan funds.

30. ***Component 3: Project Management and Evaluation (Estimated IDA contribution US\$1.0 million).*** This component supports SWF in implementing and evaluating the project. An impact evaluation for *Component 2* will be completed to assess pilot project results. The component will provide project implementation support through the recruitment of local technical and fiduciary consultants to complement the skills not available in-house and eventually build the capacity of SWF staff. The Project Support Team (PST) is to include a Technical Coordinator, Financial Management Specialist, Procurement Specialist, MIS Specialist, and an Executive Secretary. The component will finance consultancy services, training, goods, and operational costs.

D. Lessons learned and reflected in the project design

31. ***Global Experience with Cash Transfer (CT) programs.*** Over the past decade, the number of CT Programs in the world has expanded substantially. The largest CT programs are in Latin America, e.g., Brazil, Mexico and Argentina, and cover millions of households. Some East and Central Asian countries (Armenia and Georgia) have CT programs that have been in place for the last 10-25 years. The design of these programs has been improving over the years, especially with regard to targeting, often using the PMT methodology. Recently both Africa and Asia have initiated CT pilots in several countries, such as Kenya, Tanzania, Zambia, Bangladesh and Pakistan. International experience has shown that well-designed CT Programs can cost effectively reach the poorest and most needy households, and can represent an effective alternative to poorly targeted and inefficient subsidies. There is mounting evidence that CT Programs are an efficient way of redistributing income to the poor and thereby raising their consumption levels. Moreover, robust impact evaluations of well-designed CT Programs are starting to provide sound evidence of positive impacts on school enrolment and attendance rates. The evidence on health outcome improvements is currently less clear, but recent studies demonstrate that CT Programs have resulted in increased total food consumption and improved child growth.

32. Although direct cash transfers imply an opportunity cost for Government in terms of alternative government spending, there is growing evidence that they can improve equity and efficiency. Cash Transfers (CT) as Social Safety Net not only alleviate poverty directly (evidence from Mexico where cash transfers were associated with increased savings capacity, entrepreneurship together with smoother consumption and better nutrition), but also help households (HHs) cope with risks. They are proven effective in building human capital in poor households. For example children will be kept in school

during periods of drought or other adverse conditions to prevent loss (often permanent) of schooling opportunities.

33. Fiszbein and Shady (2008) argue that, among the evaluated programs, there is a significant impact on the poverty gap and the poverty severity index, but that headcount poverty is only affected in programs where transfers are large enough. Even if a large share of the transfers are used to cover food expenditure and costs related to sending children to school, in some cases the cash transfers are used for savings or investments in productive assets. Savings allow households to protect themselves from negative shocks that would otherwise have a long-term negative impact on a household's welfare and productive assets.

34. The following points concerning health and nutrition, consumption and education benefits of Unconditional Cash Transfer (UCT) programs such as Yemen's are directly relevant to the design of the ISP, particularly to the improved cash transfer targeting for the poorest in Component 1 and streaming of BDP services for beneficiary groups in Component 2.

35. *Health and Nutrition.* UCT programs have had positive effects on health and nutrition in Malawi, South Africa and Zambia. In Malawi, the cash transfer led to improvements in health care access for adults and children among the beneficiary households. The beneficiaries of South Africa's Child Support Grant (CSG) also reported a significant impact on increasing their children's height, particularly for those children who received the transfer before age two and continued to receive benefits for at least two-thirds of their first three years. Evidence also suggests that cash transfer programs targeted to the elderly, particularly elderly women, have positive impacts on children's nutritional status.

36. *Consumption benefits.* Evidence from various programs suggests that UCT have made substantial impacts on consumption, mostly related to expenditures on food, the quantity and quality of food consumed and changes in child nutrition. In most programs, beneficiaries spent substantial amounts of the transfer on food, leading to increased food consumption in the beneficiary households. The Malawi Cash Transfer Program showed improvement in food consumption where 93 percent of the covered households reported improved food consumption. In addition, impact evaluations from these programs also suggest that UCT can be appropriate responses to acute food crisis indicating that cash transfers can help to alleviate chronic poverty and increase the resilience of households in dealing with periodic shocks.

37. *Education benefits.* UCT programs in South Africa, Malawi and Zambia have positive impacts on education. In Zambia and South Africa, the largest impacts identified were on enrollment rates for very young children, suggesting that improved nutrition and health might have increased school attendance. The Malawi program provided a protective function with respect to schooling: after one year, children in beneficiary households had doubled their enrollment rates compared to comparison households, with drop-out rates half of those for children in comparison households. The beneficiary group also had fewer school absences per month.

38. *Gender Aspects.* Experience in Central America, South America and Albania as well as in other regions has demonstrated the value of involving women as the responsible beneficiaries of CT programs. Gender analysis and evaluations have clearly shown that families, particularly children, benefit in direct proportion to the role played by women as decision makers concerning the expenditure of family income. Experience in Albania demonstrated that in highly patriarchal societies such as Yemen, women's involvement is best facilitated through the channel of male traditional leaders, through working with male leaders to champion integration of women's family responsibilities with project benefits (e.g., cash transfers, training, awareness building, etc.)

39. *CCT Control Systems:* The experience of CCT systems indicates that a set of control and accountability mechanisms needs to be in place to provide transparent, timely and adequate information

to all stakeholders. Bank reviews⁴ of the control systems in CCT programs in Latin America and South Asia highlight the following lessons which were taken into account in the project design and which are essential for strengthening the efficiency of the UCT program, as well as enabling a future implementation of CCT at a national level:

- *Institutional design.* Define lines of authority and accountability, including administration and service delivery. Identify risks and remedies up front.
- *Targeting.* Focus attention on possible exclusion errors (i.e., eligible households not being included) and define rules for recertification of eligibility.
- *Payment processes.* Ensure cash-flow monitoring and associated control procedures.
- *Management information systems.* Strengthen focus on design and effective implementation of MIS systems. Where possible, encourage cross-checks of enrollment with other databases.
- *Internal quality control.* Include process evaluation, feedback loops, and correction mechanisms within programs, particularly through spot checks.
- *Accountability.* Ensure appropriate mechanisms to handle complaints and appeals in a timely manner, and publish program data.
- *Financial management and auditing.* Ensure payment accounting and clearly define reporting requirements. Focus audits on risk areas. Make use of supreme audit institutions if adequate.
- *Procurement.* Closely supervise the implementation of large service contracts.

40. The Yemen Country Assistance Strategy (CAS) “lessons learned” speak to the context of limited institutional capacity, where implementation remains challenging and these lessons have been applied to the SWF ISP project design through: (i) simplifying project designs and streamlining implementation arrangements; (ii) focusing on results based on a realistic assessment of capacity constraints; and (iii) using decentralized implementation arrangements where appropriate.

41. The ISP design also features the *engagement of Civil Society Organizations (CSOs) and community participation as measures to improve social accountability for service delivery.* Lessons from public service strengthening programs have shown that engaging CSOs leads to increasing demand for improved public service delivery and accountability. The SWF and the Bank’s team have involved CSOs in all phases of ISP design and appraisal, beginning with a consultation workshop with Yemeni Civil Society Groups on the draft Concept of the Social Welfare Fund Institutional Support Project. The pilot project design builds on the interest of CSOs in service delivery and will support CSOs in the pilot project areas to build capacity and contribute to ISP human capital development goals and improved targeting for those under the national poverty line (Groups A&B according to the PMT). The CSOs’ role in project monitoring, communication support and service delivery will be strongly encouraged within the project.

E. Alternatives Considered and Reasons for Rejection

42. **Conditional Cash Transfer (CCT) Pilot Project:** Given that, in Yemen, human development indicators are so low and household behavioral challenges are enormous (i.e., girls education, qat and other health related behaviors), introducing CCT was considered for the pilot component to promote human development objectives. This option was ruled out for the time being due to TA assessments indicating that increased institutional capacity in targeting, enrolment, case management, information management, etc. would be a necessary prerequisite for the implementation of CCT. In

⁴ World Bank (2007), *Control and Accountability Mechanisms in Conditional Cash Transfer Programs: A Review of Programs in Latin America and the Caribbean*. Operational Innovations in Latin America and the Caribbean, Vol. 1, No. 1,

addition, the EC has just initiated a SWF CCT pilot program which is intended to benefit from the administrative and management support of ISP. In discussions with EC and SWF, there was a concern that an additional CCT pilot would overburden the SWF's already limited capacity. The results of the EC-supported CCT pilot as well as the Education sector pilot will be assessed during the project mid-term review (MTR) to determine whether to introduce conditionalities into the ISP pilot component.

43. **Project Implementation:** Establishing a traditional Project Management Unit was considered but based on capacity building lessons learned and the institutional support nature of the project, the proposed approach is to implement the project through the SWF's existing structure while providing assistance and capacity building through a Project Support Team (PST) comprising: financial management specialist, procurement specialist, technical coordinator, and MIS specialist to offer technical and fiduciary support. This option is preferred in order to ensure that all aspects of the project are understood and owned by the SWF managers and staff and that strengthened management capacity remains within the institution.

44. **Micro-finance Focus:** One option regarding the design of a small sub-component of Component 2 (BDP) was to continue with the current micro-credit approach taken by the SWF Beneficiary Development Department, i.e., direct loans to beneficiaries who could not access MFIs, in addition to acting as guarantors for other beneficiary loans. The status of the current SWF micro-finance programs was assessed to determine impacts and potential advantages and disadvantages of a continuation of the current program. The analysis determined that the current SWF micro-credit implementation approach may actually place beneficiaries in financial jeopardy due to loan repayment difficulties. The SWF has adopted a new approach to loan repayment: cash transfer payments to loan recipient beneficiaries are held as guarantee, "garnished" at source until the loan is repaid, thereby potentially depriving a household of much needed cash transfer support for an extended period of time. Based on real and perceived dangers of adopting the SWF micro-credit approach, the Bank's preferred option is to explore a viable role for the SWF in facilitating and supporting its beneficiaries' access to micro-credit services through the BDP pilot.

III. IMPLEMENTATION

A. Partnership arrangements

45. Only a few partners have been engaged in supporting the SWF in the past. This is partly attributed to lack of a reliable targeting mechanism in place. The EC has been supporting the SWF since 2002, focusing on building the institutional capacity and policy reform to achieve further effectiveness and efficiency. The Bank has been providing technical assistance since 2007, including technical assistance in 2009 that introduced proxy means testing (PMT) for better targeting. The Bank's close coordination with the EC resulted in an EC-funded, Bank-administered, emergency cash transfer project (Euro 17.5 million) which is under implementation.

46. It is expected that the ISP will strengthen targeting and delivery capacity of the SWF and can be a tool to mobilize additional partner support and coordination for SWF. The Government of Yemen under the leadership of the MOPIC is developing a National Food Security Strategy that is supported by a number of international partners, including the EC, the German Agency for Technical Cooperation (GTZ), the World Food Program (WFP) and the Bank. The SWF is a member of the Yemeni Food Security Committee. The WFP is committed to working closely with the SWF on their food assistance program, currently under preparation, which aims to provide food support to poor households. The SWF's newly developed targeting mechanisms and the recently established database of the SWF eligible beneficiaries will be shared with the WFP to ensure appropriate support to households desperately in need of food assistance. The ISP activities will continue to have close collaboration with different partners, whereby institutional support activities will complement the ongoing EC. The support to SWF targeting

will facilitate the identification of eligible beneficiaries for the WFP food support to poor households. The Beneficiary Development Program piloted under the Component 2 of the ISP will coordinate with the CCT program being piloted under the EC Program. DFID is interested in supporting the SWF program and if funding is confirmed, it will support the ISP program using a parallel financing mechanism.

B. Institutional and implementation arrangements

47. The SWF, established in 1996 by Presidential Law No. 31, is the largest public cash transfer based social safety net in Yemen. The SWF program has gradually expanded to provide cash transfers to almost one million poor and vulnerable Yemeni households. The SWF is headed by a Board of Directors, and chaired by the Minister of Social Affairs and Labor who is responsible for the overall policy of the Fund. The main executive agency is the SWF Head Office in Sana'a with 22 Branch Offices (one in each governorate) and 210 District Offices. At the present time, the SWF employs approximately 1775 staff at head office, governorate and district levels. The SWF Head Office is headed by its Executive Director who is also a member and secretary of the SWF's Board. The Head Office has eight departments and five units dealing with all SWF affairs at the national level.

48. The SWF will be responsible for implementing the project activities through its departments in head office and branch offices. A Project Support Team (PST) comprised of a team of consultants will be recruited to provide technical and fiduciary support to complement the skills not available in-house. The PST will report to the Executive Director, administer the Grant funds and support the SWF's efforts to implement the project.

49. Specifically, the PST will: (i) coordinate between units, departments and branch offices responsible for implementation; (ii) support the SWF in monitoring and evaluation of the project targets and evaluation of the project results; (iii) handle procurement, financial, and disbursement management, including the preparation of withdrawal applications under the project; (iv) facilitate the work of the international/national consultants providing technical assistance; (v) facilitate the work of the external auditor and prepare the financial statements; (vi) prepare the financial and procurement parts of the semi-annual Progress Report and consolidate with the technical part prepared by the SWF for submission to the SWF Board and IDA; (vii) act as the liaison between the SWF and IDA; and (viii) ensure that all reporting requirements for IDA have been met according to the project's legal agreements.

50. The project support team would include a Technical Coordinator, Financial Management Specialist, Procurement Specialist, MIS Specialist and Executive Secretary. A short-term Procurement Advisor, with terms of references acceptable to IDA, will be hired within two months after effectiveness to provide procurement support and build the procurement management capacity, especially in the area of consultant contract management.

51. *Component 1: Improve the Cash Transfer Program (estimated US\$4.4 million) and Component 3: Project Management and Evaluation (estimated US\$1.0 million.)* will be implemented through relevant departments and units of the SWF Head Office in Sana'a and 22 Branch Offices in different governorates.

52. *Component 2: Design and Delivery of BDP (estimated US\$4.6 million)* will be implemented through Aden, Hodeidah and Hadramaut Branch Offices with close monitoring and supervision of the Head Office and overall fiduciary responsibility of the PST.

C. Monitoring and evaluation of outcomes/results

53. For *Component 1*, the primary source of data will be the entry forms for new applicants and the assessments of beneficiaries who are due for recertification. The information on new applicants and also on beneficiaries due for recertification will be collected by the district offices, which will enter them into the electronic databases and then transmit the information to the branch offices and eventually to the head office in Sana'a. The forms and assessments will capture all the information necessary for the application of the PMT method. The district offices will collect the data on a timely basis and provide them to the branch offices without significant delay. The PMT method will be applied to the data at the main office in order to classify households in one of the six PMT groups.

54. There will also be regular monitoring to ensure that the cash transfer and beneficiary development processes are being implemented in a manner that ensures targets are met. Data will be collected on the number of beneficiaries contacted, the number of appeals received and responded to annually, and also on the number of beneficiaries who receive various BDP services, including health and education services, skills training, and access to microcredit. This data will be used for measuring process performance.

55. An impact evaluation of *Component 2* will be carried out, and there will be baseline and follow-up data collection from a sample of beneficiaries who do and do not receive BDP services. The survey will collect information on several human capital indicators (e.g., malnutrition among children, school enrollment, and adult literacy) as well as income and employment activities of adults. Process evaluation will be added to measure the improvement of the CT procedures and beneficiary satisfaction with the BDP services and the communication campaigns.

D. Sustainability

56. The SWF is the only public cash transfer based social safety net which has expanded its coverage during the last ten-year period. The Fund's budget has grown from US\$4 million at the outset to US\$200 million in 2008/2009. In response to the food crisis, the Government doubled the maximum benefits to YR 4,000 (US\$20) per case per month, and has decreed to increase the number of poor beneficiaries to include all those under the poverty line. The recent financial crisis did not affect the cash transfers budget flow. Furthermore, the Government is considering increasing the benefit level and securing funding to include all poor households under the poverty line, provided the targeting reform and energy subsidy reform go forward and free some resources currently allocated to the expensive and untargeted energy subsidies. The proposed project will strengthen the SWF poverty based targeting, delivery capacity and transparency to play an increasingly effective role as an essential Social Safety Net provider. Its operational efficiency, strengthened through this project, will further improve institutional as well as program sustainability.

57. The 2008 Law on Social Welfare mandates the SWF, through its services and support from the BDP, to assist those capable of working to exit the cash transfer program due to increased economic opportunities. The Pilot BDP will be implemented in three pilot governorates through three branch offices. If proven to be technically and financially sustainable and scalable in other governorates, the program will be scaled up through the SWF regular BDP program.

58. The project will be implemented through existing departments and units at the Head Office in Sana'a and Branch Offices. A traditional Project Implementation Unit will not be established, but consultants will be hired as a Project Support Team to assist the project implementation and build the capacity of the SWF, in particular, in procurement, financial management, and monitoring and evaluation.

E. Critical risks and possible controversial aspects

59. The key project risks, and risk mitigation measures, are presented in the table below:

Risk Factors	Description of Risk	Rating of Risk ^a	Mitigation Measures	Rating of Residual Risk ^a
I. Sector Governance, Policies and Institutions				
Sector Specific Risks	Financial sustainability: Government spends only 0.6%-1% of GDP on safety net and the sector development is heavily donor-dependent	High	Ongoing policy dialogue is being carried out on the subsidy reform, and the Government is committed to reallocate a portion of the savings from the reform to the social programs including targeted social safety net. Continue to provide analytic economic advice and carry out policy dialogue to improve the targeting and effectiveness of safety net programs.	Substantial
	Political difficulties for the SWF targeting reform process	High	The GoY has established a Ministerial Committee to oversee the reform of the SWF. The GoY is committed to the SWF reform and institutional development at highest levels, as it plans to use SWF as the instrument to mitigate the impact of the energy subsidy reform on the poor and near poor in view of program targeting reform. These reform programs are intended to address the cost efficiency of public finance.	Substantial
	Weak government salary levels, capacity building and performance measurement leading to fraud and corruption	High	A Project Support Team will be recruited to carry out project financial and procurement management; an independent qualified private external auditor acceptable to the World Bank will be engaged to audit the project's accounts, quarterly and annually, according to TORs acceptable to the World Bank. The project will provide intensive staff training, as well as introducing performance monitoring measures through the M&E system.	Substantial
II. Operation-Specific Risks				
Technical Design	Popular opposition to targeting reform due to phasing out of	High	The Ministerial Committee for the SWF Reform has requested assistance from the Bank to prepare	Substantial

Risk Factors	Description of Risk	Rating of Risk ^a	Mitigation Measures	Rating of Residual Risk ^a
	ineligible beneficiaries.		<p>a Targeting Policy Paper to present “phasing out” options and the political and fiscal implications for each course of action. The ISP will assist with the exploration of such options and support their implementation as part of the design; as well as develop and maintain an ongoing dialogue with key stakeholders including CSOs to build the constituency for reform throughout project preparation and implementation.</p> <p>A communication campaign will be implemented to promote support for the proposed change.</p> <p>The SWF will be equipped through ISP with the administrative tools and processes development to support the transformation of the SWF.</p> <p>CSOs are engaged at all levels of project preparation and implementation.</p>	
Implementation Capacity	<p>Lack of staff experience in all aspects of CT program</p> <p>Limited prior experience with IDA project implementation</p>	<p>Substantial</p> <p>High</p>	<p>The project focuses on on-the-job-training and technical training will be provided to staff at all levels including branch and district office staff.</p> <p>Administrative processes will be developed and put in place at early stage of project implementation.</p> <p>Technical Coordinator, FM and Procurement Specialists, MIS specialist and Short-term Procurement Advisor will be contracted to support implementation. Regular Bank supervision will be carried out and training will be provided to Project Support Team.</p>	<p>Moderate</p> <p>Substantial</p>
Sustainability	Fiscal sustainability of the cash transfer program in view of the	High	In addition to ongoing policy dialogue on the subsidy reform, the project's reform efforts will	Substantial

Risk Factors	Description of Risk	Rating of Risk ^a	Mitigation Measures	Rating of Residual Risk ^a
Financial Management ¹	<p>overall fiscal challenges the country is facing</p> <p>Insufficient Financial Management (FM) and Disbursement Capacity</p>	High	<p>contribute to fiscal sustainability of the program through improved targeting and phasing out of ineligible beneficiaries</p> <p>The project implementation will be ring fenced, a qualified FM Specialist has been hired, and two accountants have been assigned under the project.</p> <p>The Project's FM policies, procedures, controls and safeguards which will be consistent with IDA's requirement will be documented in the Project's FM Manual which will be part of the Project OM.</p> <p>A segregated Designated Account will be maintained at the Central Bank of Yemen (CBY) for the project's funds. The project will use the traditional disbursement methods applied by the Bank.</p> <p>A high level of FM supervision will be provided on an on-going basis through the Bank's country-based FMS.</p>	Substantial
Procurement Management	Insufficient Procurement Management Capacity	High	<p>Recruitment of a short-term procurement advisor to assist SWF procurement management and train procurement staff; the recruitment of a qualified procurement officer under the project; and frequent supervision missions (at least three times a year during the first year of implementation).</p>	Substantial
III. Overall Risk (including Reputational Risk)				
Overall Risk				
^a Rating of risks on a four-point scale – High, Substantial, Moderate, Low – according to the likelihood of occurrence and magnitude of potential adverse impact.				

¹ Please see Annex 7. Financial Management and Disbursement Arrangement for detailed FM risks and mitigating measures.

F. Grant conditions and covenants

Condition of Grant Effectiveness

- The Subsidiary Grant Agreement has been executed on behalf of the Recipient and SWF.
- SWF has established the PST with a composition, resources and terms of reference satisfactory to the Association.
- SWF has adopted the updated Financial Management Manual satisfactory to the Association.
- SWF's financial management accounting software is operational with project-specific recording and reporting arrangements satisfactory to the Association.

Covenants Applicable to Project Implementation:

- The Borrower shall ensure that the SWF carries out the Project in accordance with its obligations under the Project Agreement.
- On or about April 15, 2013, the Borrower shall cause SWF to carry out jointly with the Association, a mid-term review of the progress made in carrying out the Project (the Midterm Review).
- Not later than two (2) months after Effectiveness, the Recipient shall cause SWF to appoint a procurement advisor to the PST, on terms and conditions satisfactory to the Association.

IV. APPRAISAL SUMMARY

A. Economic and financial analyses

60. Three of the main welfare benefits stemming from the project are likely to be: (i) increased consumption among beneficiary households; (ii) increased school enrolment and attendance for children; and (iii) reduced rates of morbidity and malnutrition among 0 to 5 year-old children. Improvements in the health and education outcomes of children and the wider family are expected due to the income effects of the transfer (e.g., increased food consumption, dietary diversity). In addition to the direct welfare benefits arising from improved health status, gains can also be expected through increased schooling levels, improved cognitive achievement as well as productivity, earnings and income for adults. Both adequate education and good health are key elements in reducing poverty in Yemen.

61. By receiving regular cash transfers, households are likely to increase their food intake resulting in less food insecurity and the maintenance of productive assets. This is expected to have a positive effect on consumption smoothing. This will reduce both income poverty and income inequality due to the redistributive effect of targeting the transfer to the poorest families within the households.

62. Cost-effective cash transfer programs channel most program resources to their intended target group. They also economize the administrative resources required to implement the program in two ways. First, at the level of the whole safety net system, they avoid fragmentation and the subsequent need to develop administrative systems without realizing economies of scale. Second, they run efficiently with the minimum resources required to achieve the desired impact, but with sufficient resources to carry out

all program functions well. As such, it is critical that the SWF's targeting performance be improved in order for its expenditures on the cash transfer program to have the maximum benefits. Since the improvement of targeting is a key part of the ISP, the project can result in much larger benefits down the road if it succeeds in improving targeting procedures used by the SWF. Also, by increasing the likelihood that better-off beneficiaries (particularly those in groups E and F) will not remain on beneficiary rolls, the ISP will result in the cash transfer program being more efficient in meeting its poverty targeting goals.

63. Unconditional Cash Transfers (UCTs) such as the one implemented by SWF will give poor families the most flexibility and are administratively less challenging to implement. UCTs are likely to impact on human development where vulnerable groups have sufficient access to information to make informed choices about health and education. A body of supporting evidence is emerging which shows that unconditional cash transfers have had positive impacts on consumption and human capital.

B. Technical

64. The ISP technical design responds to the GoY expressed need to build the present and future capacity of the SWF to fully function as an essential component of Yemen's social safety net. The design reflects international best practices for targeting and implementing cash assistance programs. The GoY decided to use the proxy means testing to identify SWF beneficiaries as the best way to shift targeting from the previous social to poverty-based categories. The PMT was applied to the 2008 SWF mass survey data, and determined to indeed provide the best targeting alternative for the CT program. Strengthening of the PMT application in the SWF will ensure continued targeting progress.

65. The focus on developing the SWF core operational processes around the full CT program cycle will enable the GoY to implement large-scale CCT programs and increase CT program responsiveness to future shocks and crises. The approach of implementing the project through existing SWF structures would ensure learning by doing and building the capacity of the SWF staff through substantial amount of technical assistance and training. The project oversight responsibility is assigned to the existing SWF Board of Directors, thereby ensuring close coordination and collaboration with other donor-supported projects (e.g., the EC).

66. The present SWF approach to micro-credit does not reflect international best practice. The pilot project design is intended to test alternative roles for the SWF in the microcredit sector, as well as to connect the SWF with more experienced players in the microcredit network in Yemen. The pilot project design is based on streaming BDP services to beneficiary groups and will test ways to address basic literacy, numeracy and nutritional awareness needs to build human capital in rural Yemen. The pilot will also test BDP approaches to assisting appropriate beneficiaries to exit the CT program due to improved economic opportunities.

C. Fiduciary

Financial Management

67. The project's design is based on partial use of the country system with mitigating measures following the ring-fenced approach based on the enhanced structure of the SWF. Procurement, contract management and financial management, including the disbursement process, will all be centralized at the SWF Head Office in Sana'a while the SWF branch offices in Aden, Hodeidah and Hadramaut will participate in the non-fiduciary/technical aspects of *Component 1* and will be responsible for the implementation of the Project activities under *Component 2* with close monitoring and supervision of the Head Office, including fiduciary responsibility implemented by the Head Office. The project's design for fiduciary arrangements is centralized in the Head Office through the PST, while one of the important

objectives of this project is building the fiduciary capacity of the SWF, including its branches so that they become reliable for fiduciary responsibilities once they are deemed satisfactory.

68. Accounting records will be maintained within the SWF's Head Office using the SWF's existing internally developed automated accounting system, which will be updated to accommodate for project-specific recording and reporting arrangements that are satisfactory to the Association. The SWF's Head Office will manage all the financial aspects of the Project, including transactions recording and reporting through the use of an automated accounting system and based on an acceptable Financial Management Manual (FMM), and management of the disbursement process. The SWF will prepare and submit to the Bank, the project's quarterly Interim Financial Reports (IFRs) and annual Project Financial Statements (PFS), reviewed and audited by an independent external auditor, respectively.

69. The SWF does not have sufficient experience with World Bank-financed projects. However, through the recently prepared Emergency Social Safety Net Enhancement Project that is not yet effective, the following FM arrangements were carried out by the SWF which are applicable to the proposed project: (i) hiring of a qualified Financial Management Specialist based on a TOR acceptable to the World Bank; (ii) developing the Financial Management Manual (FMM) which includes the FM procedures, controls, and safeguards, including the role of the Internal Audit Department; this manual will be updated to reflect the new project's activities; (iii) establishing an accounting system that is able to record project transactions and generate timely project financial reports; and (iv) the SWF will engage an independent private-sector external auditor acceptable to the Bank and Central Organization for Control and Audit (COCA) to perform the project's annual financial statement audits and quarterly reviews of the project's IFRs. The residual FM risk is *Substantial*.

70. The following items regarding financial management are to be met by the Recipient prior to project effectiveness:

- (a) SWF has adopted the updated Financial Management Manual satisfactory to the Association.
- (b) SWF's financial management accounting software is operational with project-specific recording and reporting arrangements satisfactory to the Association.

Disbursement and Flow of Funds

71. To ensure that funds are readily available for project implementation, a Designated Account (DA) in US Dollars will be opened and maintained for the project at the Central Bank of Yemen. Deposits into and payments out of the DA will be made in accordance with the provisions stated in the Grant Agreement. Disbursement under the Grant will be made according to transaction-based disbursement procedures that include withdrawal applications for direct payment, reimbursement and requests for the issuance of special commitments. Withdrawal applications and replenishments of the DA will be prepared by the project assigned FM team and signed by authorized signatories as designated by the Recipient. The name and corresponding specimen signature of each of the authorized signatories will be submitted to IDA.

Procurement

72. The SWF has a Financial Department which is led by a manager seconded from the MOF. The Financial Department has a procurement unit, responsible for all non-high value tenders, while the MOF takes responsibility for high-value contracts. The Department is staffed with two employees responsible for procurement who are not yet familiar with World Bank procurement procedures. Since the project's

main focus is capacity building with substantial amount of consultant contracts and procurement of goods, capacity in this area will need to be built rapidly. A core Project Support Team staff, including a Procurement Officer, will be recruited prior to effectiveness.

73. To mitigate the risk for proper handling of procurement management of the project, in addition to the project's Procurement Officer, a short-term Procurement Advisor, with ToRs acceptable to IDA, will be recruited no later than two months after the effectiveness. The Procurement Advisor will support: (i) quality control of project procurement documents and process and contract management, particularly for the technical services contracts; (ii) on-the-job capacity building for the procurement officer; and (iii) procurement planning, drafting of terms of reference, and preparing guidelines and procedures.

74. The overall project risk for procurement is "High" as the proposed project is only the second IDA-financed project to be implemented by SWF. The procurement risk over the first year implementation period is expected to be mitigated and rated as "Substantial" through: (i) provision of capacity building training offered by the World Bank to all project units implementing IDA financed/administered projects, (ii) recruitment of an international level procurement advisor to assist with the SWF procurement management and train procurement staff, and (iii) frequent supervision missions (at least three times a year during the first year of implementation and twice a year thereafter).

75. All procurement activities for the proposed project would be carried out in accordance with the World Bank's Guidelines: Procurement under IBRD Loans and IDA Credits, dated May 2004 (revised October 2006), and procurement activities are open to all bidders from eligible countries as defined in the guidelines. Consultants would be selected in accordance with World Bank Guidelines: Selection and Employment of Consultants by the World Bank Borrowers dated May 2004 (revised October 2006) and the Financing Agreement. In addition, procurement under the proposed operation will be carried out in accordance with the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loan/Credits/Grants", known as the "2006 Anti-Corruption Guidelines". See Annex 8 for details.

D. Social

76. **Poverty targeting.** The project will contribute to increased benefits to rural and urban populations through the SWF's focus on poverty targeting based on the PMT method, improving the SWF's ability to target those most in need. The project addresses targeting issues at three levels: (i) at the policy level to obtain the Government endorsement of the PMT targeting approach with its identification of a large number of beneficiaries who will be ineligible for cash transfers in the future; (ii) at the technical level by building the SWF capacity to collect appropriate applicant data on which to apply the PMT as well as building staff capacity in PMT methods; and (iii) at the community level with a comprehensive public information campaign designed in part to inform and encourage the poorest households to apply for benefits. The project will also involve CSOs and NGOs to identify eligible households not yet receiving benefits.

77. **Gender.** Since SWF cash transfers go to the head of the household and most household heads are men, it will be important to assess if this determines how money is spent. If male/female spending patterns are an issue, the project would establish methodologies for effectively communicating important messages (e.g., nutrition) to both men and women. This may mean working through community elders/local leaders to make sure the messages reach the household heads and other household members. Social analysis will be carried out at the outset of the development of the BDP to inform the program's design on household decision-making dynamics. The results of the analysis will be utilized to direct interventions and communication messages to men and women to influence the household spending patterns towards human capital benefits.

78. **Participation and inclusion.** The project, through its pilot, will support overall participation by a wide range of stakeholders in aspects of project preparation, design and implementation. These stakeholders include local CSOs, NGOs, agencies, training institutions, government officials and government offices. The inclusion of CSOs such as the Midwives Association and the National Network for Motherhood and Children in the project will strengthen the SWF's gender focus at the community level. Individuals and community groups will be invited to participate in the basic education, numeracy and nutrition information/training sessions offered through the SWF Beneficiary Development Program in the pilot governorates/districts. It is expected that sessions of this nature will build human capital of the participating households, as well as promoting awareness and increasing the demand for health and nutritional services from other providers.

79. The project will assist the SWF to strengthen CSO/NGO partnerships to most effectively engage in policy dialogue concerning poverty alleviation and household needs. The project will promote transparency through real stakeholder engagement at every stage since the stakeholders as service providers are an integral part of the project design. The SWF has established a CSO Coordination Unit in order to maximize resources and build social accountability for SWF practices and procedures at the household level.

80. Involuntary Resettlement (OP 4.12) will not be triggered.

E. Environment

81. The project is classified as an **Environmental Category C** according to the World Bank's Operation Policy on Environmental Assessment (OP 4.01), requiring no environmental assessment. The project does not finance civil works.

F. Safeguard policies

Safeguard Policies Triggered by the Project	Yes	No
<u>Environmental Assessment (OP/BP 4.01)</u>		[X]
<u>Natural Habitats (OP/BP 4.04)</u>		[X]
<u>Pest Management (OP 4.09)</u>		[X]
<u>Physical Cultural Resources (OP/BP 4.11)</u>		[X]
<u>Involuntary Resettlement (OP/BP 4.12)</u>		[X]
<u>Indigenous Peoples (OP/BP 4.10)</u>		[X]
<u>Forests (OP/BP 4.36)</u>		[X]
<u>Safety of Dams (OP/BP 4.37)</u>		[X]
<u>Projects in Disputed Areas (OP/BP 7.60)</u>		[X]
<u>Projects on International Waterways (OP/BP 7.50)</u>		[X]

G. Policy Exceptions and Readiness

82. No policy exceptions are being sought for this project.

Annex 1: Country and Sector or Program Background

REPUBLIC OF YEMEN

SOCIAL WELFARE FUND INSTITUTIONAL SUPPORT PROJECT

I. COUNTRY CONTEXT

Macroeconomic Context

83. Having an oil-based economy, Yemen faces external challenges to economic growth. For every US\$10 decline in the per barrel price of oil, the overall fiscal and current account balance is expected to deteriorate by almost 1 percentage point of GDP. Even though Yemen's economy is less integrated into the global economy, it is affected by the global economic crisis: there has been a drop in Foreign Direct Investments (FDI), a decline in remittances (especially from the Gulf), as well as a drop in external financing. Instability in the Horn of Africa and a recent increase in sea piracy are also cause for concern for maritime transport, off-shore oil exploration and fisheries; there were about 130 attacks on freight and passenger vessels in 2008 and 53 attacks by April 2009.⁵

84. Fiscal sustainability is the foremost macroeconomic issue, as the reduction of oil revenues is not nearly compensated by increased income from other sources. Government spending is driven by a large public sector wage bill and unsustainably high energy subsidies (14 percent of GDP in 2008, 7.7 percent in 2009), which together account for around 50 percent of expenditures. The large fiscal deficit and external shocks (e.g., soaring food prices in 2007/2008) combine to create strong inflationary pressures.⁶

85. Diversifying economic growth by reducing economic dependence on oil is of high priority for the Government of Yemen (GoY). Despite its major contribution to GDP, Yemen's oil sector provides employment for only about 21,000 workers while small enterprises employed 1.2 million workers in 2004. The labor market consists of a large informal and agricultural sector, a small private sector, with a few dominant family-owned enterprises, and low demand for skilled labor. The economic base is largely restricted to small enterprises.

86. In this context, the Government realizes the pressing need for a comprehensive fiscal adjustment. In the short-term, this would focus on reducing expenditures (including energy subsidies and the public sector wage bill), which is a politically sensitive endeavor. In the medium-term, Yemen needs to develop alternative sources of growth and fiscal revenues. The Government has announced steps to substantially reduce expenditures in 2009/2010 – yet the degree to which such policies can be effectively implemented will depend on the overall policy environment and the severity of the global downturn. Already recent political and security events have decreased the near-term prospects of subsidy reform action, originally planned to be launched in the summer of 2009.

Institutional and Governance Context⁷

⁵ Yemen Economic Update, Spring 2009, World Bank.

⁶ Yemen Country Assistance Strategy, World Bank, 2009

⁷ Yemen Country Assistance Strategy, World Bank, 2009

87. Severe institutional and capacity problems hinder Yemen's struggle to overcome the many challenges it faces. The government's overall capacity, especially its capacity to deliver social services effectively, efficiently, and equitably is limited. Furthermore, the capacity of local governments to identify local problems, needs of the local population, and formulate programs and projects to deal with these problems is also limited. Civil society organizations, while also suffering from limited capacities, are often closer to communities and more familiar with their problems.

88. The Government is taking steps to improve governance and fight corruption. Key measures taken over the last years 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; starting to improve public finance management; and improving engagement of civil society organizations to promote demand for enhanced public services.

Poverty and Vulnerability Context

89. Despite some progress, Yemen is unlikely to reach key Millennium Development Goals (MDGs) by 2015. With GDP per capita standing at about US\$1,209 (PPP), over 34.8 percent of Yemenis live in poverty according to the 2007 Yemen Poverty Assessment (vs. a 2015 target of 19 percent), especially in rural areas. Yemen ranks 140 out of 182 countries on the 2009 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-olds 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).⁸

90. Although Yemen's headcount poverty ratio has decreased from 40 percent in 1998 to 35 percent in 2006⁹, the number of poor remained the same at around seven million during this period as Yemen also faces high population growth¹⁰. This modest decline in poverty rates observed was largely the result of high oil prices during that period. Related to the "oil-driven" growth is the fact that poverty declined mainly in urban areas. Rural Yemen, where most of the poor live, witnessed only a small decline. Still, changes have been uneven even within the urban groups with four of the seven urban regions registering a poverty decline while the remaining three experienced practically no change in poverty.

91. Risk is a pervasive aspect of living standards in Yemen. Shocks in health, employment, natural disasters, climate change, civil unrest and commodity prices often throw households into poverty. Many individuals, households and communities exposed to economic risks have poor access to formal coping mechanisms (such as credit) and rely on informal coping mechanisms that may be inefficient in the long-term. For example, the withdrawal of children from school and the use of their labor in order to smooth consumption is a costly coping mechanism relied on by some poorer households when faced with risk.¹¹

⁸ Yemen Country Assistance Strategy, World Bank, 2009

⁹ Poverty Assessment, World Bank, 2007.

¹⁰ Using the food poverty line, overall poverty is estimated at 12.5 percent, representing almost 2.9 million individuals who cannot even satisfy their basic food needs.

¹¹ Yemen Social Protection Strategy, World Bank, 2008

92. Agriculture occupies a pivotal position in the Yemeni economy and residents of rural areas are often most vulnerable to various types of shocks. Over 70 percent of Yemen's population lives in rural areas and most derive their livelihood from agriculture. However, only 3 percent of land in Yemen is arable and only 24 percent of this small portion is irrigated. Chronic water shortages and stagnating agricultural production has therefore led to the persistence of high poverty in rural Yemen.

93. Domestic cereal production covers only 18 percent of the country's cereal consumption. With an average 2.5 million tons of cereal imported every year, a large proportion of the population remains net buyers of cereal. The increase in wheat prices from US\$196 per ton in June 2007 to currently US\$440 per ton has resulted in an additional US\$600 million burden on Yemen. Because Yemen is a country highly dependent on wheat as a staple, the result is an increased risk of malnutrition when food prices increase.

94. The rise in international food grain prices in the context of meager per capita growth in Yemen has the potential to reverse the poverty reduction achievements of the last seven years. If not mitigated with income transfers, the doubling of wheat prices, compounded with the increase in prices of rice and maize, is projected to increase the proportion of the population living in poverty over the 1998 level. Estimated per capita real consumption growth indicates a decline of 1 percent per year in the last two years, a worrying trend in a context where already 32 percent of the population is food insecure and severe child malnutrition (32 percent of poor children are severely stunted and 14 percent are severely underweight) is common.

II. SECTOR CONTEXT

Overview of Social Protection in Yemen

95. The objectives of Social Protection Strategies are to expand earning opportunities, manage risks, and enhance equity by lowering poverty. The typical instruments of Social Protection include labor market policies, social security (health insurance, unemployment insurance, pensions for old age and disability) and social assistance (e.g., direct cash or in-kind benefits to the poor and vulnerable.)

96. Compared to other countries in the MENA region, Yemen faces the biggest challenge to promote economic and social development starting as it does from the lowest base of per capita income and social indicators, coupled with limited resources and a rapidly increasing population. On the positive side, Yemen has an array of social policies and institutions that, albeit embryonic, provide a laboratory for what can be maintained or reformed, expanded or abandoned.

97. Despite being a low income country, Yemen has a series of social protection programs and policies in the areas of social security, social assistance, and labor markets. Yemen is already implementing a series of measures through the Social Welfare Fund (SWF, 1996), Social Fund for Development (SFD, 1997), Public Works Project (PWP, 1998) as well as programs for Social and Family Development, the Disabled and the Handicapped, Rural Development, Children and Youth or more broadly the Agriculture and Fisheries Production Promotion Fund (AFPPF).

98. More generally Yemen has established: (i) social security for civilian and military workers and their protection in old age, or upon illness or injury during work; (ii) cash assistance to people who are unable to earn a living; (iii) programs that aim to increase the provision of basic social services; and (iv) projects to create job opportunities or support productive activities in agriculture, fisheries and livestock grazing, and so on.

Overview of Safety Net Programs in Yemen

99. The largest public safety net comes in the form of energy subsidies, although they are very inefficient. The government provides significant direct subsidies on a variety of petroleum products, including diesel, petrol, kerosene and LPG. These direct and indirect fuel subsidies absorbed 14 percent of GDP in 2008 and 7.7 percent of GDP in 2009, exceeding expenditures on wage payments or social expenditures. Energy subsidies have three main problems. First, they are costly and divert significant resources from alternative investments, including social programs and infrastructure. Second, large subsidies distort the use of subsidized commodities, encouraging underproduction for domestic markets and overconsumption. And third, critical from a safety nets perspective, they are very inefficient in terms of delivering benefits to the poor. It is estimated that more than 77 percent of the direct subsidies on petroleum products accrues to the non-poor, while only 23 percent goes to the poor, since wealthier individuals and households consume more of these goods.

100. However, the energy subsidies remain critical for the poor. Despite the fact that they are inefficient and highly distortive, if all energy subsidies were removed without an effective safety net alternative, poverty rates would increase by more than 8 percentage points. Subsidies have a larger immediate effect on poverty than other public safety net programs, according to the World Bank Poverty Update conducted in 2007.

101. Three notable institutions comprise the targeted safety net programs: highly successful community-driven programs (notably under the Social SFD and the PWP, and the provision of defined benefits to limited *cash transfer* to the poorest, through the SWF. While the SFD and PWP are highly dependent on external funding (donors), the SWF is entirely funded by the public budget. SFD and PWP focus on the delivery of social services and creation of employment opportunities to poor communities (targeting the community level), SWF provides direct cash assistance to households (targeting the household level). The role of other government-sponsored institutions (the Disability Fund and the Fund for Productive Families) is negligible in terms of actual expenditure levels. It is equally problematic in terms of ability to reach the poor cost-effectively. Altogether, public financing for these safety net programs is still quite modest, representing only 0.6 – 1 percent of GDP if compared to similar low income countries, which spend between 1.5 – 2 percent of GDP on safety nets programs.

102. Like in all other Islamic countries, Yemen too has the informal safety net in the form of Zakat. At present, Zakat collection *officially* amounts to 0.2 percent of GDP, probably the lowest rate of collection among Arab countries. While it is difficult to clearly delineate the problems with Zakat, it is widely believed that many households do not contribute to the Government controlled formal Zakat, but do so informally to charity mainly because of lack of confidence and lack of transparency in the official Zakat administration.

103. Finally, in response to the food price crisis, the Government initiated an emergency workfare program funded through a grant from the Global Food Crisis Response Program. This program is implemented by the SFD and is expected to reach poor households within the communities most seriously affected by the food crisis. The program provides temporary work opportunities through a well-tested community targeting mechanism and provides needed basic infrastructure in areas important for enhanced food production such as irrigation, water harvesting, soil protection, agricultural terraces rehabilitation, maintenance and improvement of village access earth roads, streets pavement, forestation, and other types of labor intensive based on the demand and priority needs of each community.

104. A second action, in response to the food price crisis and the multiple shocks Yemen has recently experienced, has been to expand the coverage and increase benefits from the SWF. Moreover, the Government is currently planning a reform program to improve SWF targeting through proxy means

testing, implementing a national survey to identify the poor with the participation of local communities, and building institutional capacity. The aim is to increase the number of beneficiaries from 1 million households currently to 1.5 million households to include all those under the national poverty line.

105. However, resources to implement such reform program are insufficient, and additional resources and technical assistance are needed to support it. The current food price crisis has highlighted the limitations of the current system to support the poor when faced with risk and the importance of building a Social Safety Net (SSN) for the long run that could both be scaled up in times of crisis as well as providing incentives for human capital accumulation and economic advancement.

III. The Social Welfare Fund: Opportunities and Challenges

106. The SWF, established in 1996 by Presidential Law, is the only public cash-transfer based social safety net in Yemen. The SWF has expanded its coverage from 100,000 beneficiaries at its start to almost 1 million poor and vulnerable Yemeni households over a ten-year period. The Fund's budget has grown from US\$4 million at the outset to US\$200 million in 2008/2009. In response to the food crisis, in 2009 the government doubled the maximum SWF benefits to YR 4,000 (US\$20) per case per month and has decreed that the number of beneficiaries will be increased to at least 1.5 million households, permitting coverage of nearly all those below the poverty line. Initially, based on government policy, beneficiaries were defined by social categories (i.e. widows, single females with no male support, elderly, etc.) without reference to economic circumstances resulting in low coverage of the poor and little impact on overall poverty.

107. In response to its expansion in coverage, the SWF expanded in staffing and regional presence. As of December 2009, the SWF has 1775 staff operating through a three-level organizational structure: central office in Sana'a with 197 staff; 22 Governorate offices covering all Governorates in Yemen, with 762 staff; and 210 district offices with 816 staff covering 333 districts in Yemen. The program provided cash transfers to 1 million households, and in 2004 established the Beneficiary Development Program (BDP) with the aim of providing SWF beneficiaries with skills training and economic advancement opportunities. To date, the BDP has delivered 44 training programs benefiting 23,000 individuals among SWF beneficiary HHs and provided 4,375 loans with a total disbursement of US\$1.8 million. The expansion of SWF coverage and services was not being accompanied by adequate technical and operational support, including low operational budget for case management and monitoring and evaluation of program performance, resulting in high inefficiency in targeting and impact of the programs.

108. For over ten years the SWF operated with limited technical assistance and no exposure to international experience and best practice in the design and delivery of cash transfers. Targeting was based on social categories and was not linked with the household poverty as measured by income or expenditure. Over the years, the institution built a level of knowledge and experience that was accumulated through a "learning by doing" approach. However, the program has suffered from a combination of low benefits, poor targeting, and inefficient administrative and operational processes resulting in chronically low coverage of the poor and little impact on overall poverty. The 2007 Poverty Assessment concluded that the SWF covered only 13 percent of the poorest population and nearly two-thirds of beneficiaries were not poor, according to the national poverty line.

109. As a result of these findings, the GoY has authorized a program of fundamental reforms to SWF, including improving the targeting of the poor, strengthening the service delivery capacity, and implementing a new legal and policy framework. In 2008 the GoY drafted a new *Law on Social Welfare*. The thrust of the 2008 law reorients SWF objectives so that (i) poverty is the primary focus of assistance and is more clearly defined; (ii) beneficiaries include those in economic difficulty (unemployed, etc.), as

well as the poor covered by previous social categories (female headed households, widows, elderly, disabled, etc.); (iii) a case management system will be established whereby beneficiaries' eligibility will be reassessed and beneficiaries will be recertified within a defined period of time for either re-enrollment in, or departure from (graduation) the cash transfer program; and (iv) SWF's role in beneficiary development to assist the poor to exit poverty through skills training and linkages with the Labor market is legally mandated. SWF's new Policy Statement supports a system which is open to applications from all poor and vulnerable, provides assistance to lift beneficiaries out of poverty and undertakes recertification on a regular basis with options for re-enrolling in the program if economic circumstances change, especially for those most vulnerable to becoming poor (i.e., those around the poverty line).

110. In 2008, the SWF launched a survey covering 1.6 million households, including current beneficiaries and new applicants, in order to establish whether the poorest households were being targeted by the cash transfer program and determine which applicants should be included in the list of beneficiaries. It is expected that, in order to ensure access of all poor households, the SWF will support an open application process, whereby applying and assessing applicants' eligibility for SWF support would be a continuous process. Eventually, between 7 and 10 million Yemenis may be recorded, making the SWF database the most comprehensive national record of poor and vulnerable individuals available in Yemen. Such a national database can be useful to target and coordinate other programs and benefits across a range of social programs.

111. Based on the new law, the SWF is seeking to improve its current beneficiary/applicants inclusion/exclusion error rate and deliver cash transfers only to the poor and vulnerable. Reducing inequalities through cash transfer programs can be done for the lowest cost possible when transfers are targeted properly to the poor and ultra poor. A well-targeted program will have small *inclusion errors* (relatively rich people get included as beneficiaries) and small *exclusion errors* (poor people get excluded as beneficiaries). In 2009 a TA funded by the Bank introduced proxy means tests (PMT) as a targeting method and applied it to the 2008 SWF beneficiary and applicant survey. **Table 1** shows the composition of the beneficiaries and applicants according to the category of their PMT score. Analysis of the findings showed that 27 percent of current beneficiaries belonged to Groups E&F - the ineligible groups¹² (inclusion error). From the same survey, 52 percent of new applicants were found to be among the poorest - Groups A&B - but are not yet enrolled in the program and therefore not receiving benefits (exclusion error). The SWF needs a strategy to appropriately include/exclude eligible and ineligible beneficiaries coupled with strong communication/awareness campaigns to benefit from local knowledge particularly that of women to encourage the poor to apply for benefits and discourage the rich from expecting the same. Additional field-testing and staff training in all SWF offices is needed to fully operationalize the PMT method.

Table 1: Distribution of current beneficiaries and new applicants resulted from the 2008 survey

Categories	SWF caseload			
	New Applicant	%	Old Beneficiaries	%
A	57,263	10%	58,839	6%
B	247,591	42%	293,010	29%
C	111,540	19%	189,761	19%
D	88,057	15%	193,432	19%
E	56,243	9%	153,026	15%
F	34,411	6%	119,045	12%
Total	595,105		1,007,113	

¹² Surveyed applicants are ranked in 6 groups around the food poverty line: A&B groups are below the poverty line; C&D groups are on or just above poverty line; and E&F groups well above the poverty line.

112. The phasing out of those currently ineligible but receiving benefits is politically sensitive and will require a strong commitment to reform. To oversee this reform, the GoY has established the *Ministerial Committee to oversee the Social Welfare Fund Reform*. The Committee, chaired by the Deputy Prime Minister for Economic Affairs and Minister of Planning and International Cooperation, has requested assistance from the Bank to support development of a Targeting Policy and present “phasing out” options and the fiscal implications for each course of action. A draft policy note was prepared during the December 2009 Identification Mission and will be further developed as part of the ISP.

113. Another major challenge for SWF contained in the new Law is the expectation that through its BDP, those capable of working will be able to graduate from the cash transfer program and become self-sufficient. The current BDP was introduced in 2004 as a complementary service offered to SWF Program beneficiaries to develop their human capital and to provide options for training and economic recovery. Based on the SWF Bylaw the SWF Beneficiary Development Department is responsible to (i) train and qualify beneficiaries for microenterprise funding, (ii) define and select small projects for beneficiaries, (iii) develop and execute awareness programs, and (iv) support beneficiaries to obtain health and educational special service exemptions due to them. The training process for beneficiaries in the BDP is implemented through the SWF Branches and District Offices with skills training carried out by various partners (Productive Family Centers, NGOs, Agriculture Extension, specialized institutes, universities and colleges, etc.).

114. SWF supports the microenterprise program through designated SWF funds and by providing beneficiary funding referrals to the Co-operative Agricultural Credit (CAC) Bank. As of February 2010, 4,275 loans and 476 bank guarantees have been provided in 17 governorates with a pay-back rate of approximately 80 percent. Although BDP technically offers up to 44 training programs with a variety of partners throughout the country, the reality shows that the majority of training programs was done for livestock and bee-keeping in cooperation with the Ministry of Agriculture in 10 Governorates. The main reason for beneficiary participation in the training program is the fact that they automatically get a loan after completion of the program. The livelihood results are not known as the BDP has focused primarily on activities rather than tracking beneficiary outcomes. However, the BDP delivery design highlights SWF staff capacity challenges as well as potentially distorting the microenterprise sector due to SWF providing interest free loans and lack of adequate assessment of the beneficiaries’ capacity to repay. Initial assessments indicate a need to build linkages and partnerships for effective BDP delivery as well as designing a workable case management system to assist able-bodied beneficiaries to access income generation opportunities and graduate from the cash-transfer program.

115. Successful cash transfer programs build a broad credibility and accountability among beneficiaries and other stakeholders. Over time the SWF benefit payment system has shifted from people delivering actual cash (“cashiers”) to using intermediary agencies (i.e. Post Offices, banks) to control corruption for flow of cash transfer funds. However, 38 percent of the CT benefits remain to be delivered by cashiers. The use of new technologies to deliver 100 percent of funds through secure mechanisms is important to explore and support. SWF needs to establish and apply clear and transparent rules on beneficiary selection criteria, established benefit levels, rights and obligations of beneficiaries, grievance and complaint systems. The credibility of the program also rests on SWF’s ability to keep an ongoing communication with and receive feedback from participating households.

116. To respond effectively to its mandated new directions, SWF requires organizational development, technology, process design assistance and staff capacity building. To aid SWF in transitioning to address its new responsibilities, additional TA funded by the Bank in 2009 developed a draft core Operations Manual. The Manual elaborates on institutional arrangements and main design parameters of the SWF program, and details all processes in SWF operations including communication plans and awareness

raising requirements and M&E procedures. The Manual now requires completion (development of detailed technical annexes and process tools) and integration into SWF operational processes. The development of a Management Information System (MIS) and MIS capacity in program process, beneficiary databases, web-based applications is urgently needed as are national as well as local communications networks between SWF offices to facilitate real-time information and application flows.

117. The 2008 report on Yemen's Social Protection Strategy indicated that with appropriate targeting, technology and administrative support, the SWF could become an important institution providing cash support to the poorest (chronic poor), as well for channeling additional (supplemental) assistance under special circumstances such as compensation for the reduction and/or abolition of subsidies and the sharp rise in the price of food staples. The Bank has also initiated a dialogue on the subsidy reform agenda; it is recognized that SWF "*can have a fundamental role in poverty reduction, and for that role to be effective, SWF needs to improve: (i) its method of screening (targeting); (ii) its application pool and processes; and (iii) its cash delivery mechanism*". SWF can be used to deliver transitional relief for the lower and middle income population at the time of energy subsidies reduction to minimize the impact on the poor and vulnerable, and to gain public support to the subsidy reform.

118. An overall communication strategy is needed to increase SWF program transparency and advocate for the initiated reform. This will become even more acute as beneficiary eligibility parameters change due to new targeting methods and as the GoY begins to deal with subsidy reforms. Potential partnerships with Civil Society Organizations (CSOs) to develop awareness tools and messages, encourage participation of women and gather community feedback will promote Fund transparency and increase demand from beneficiaries for improved services. Ongoing communication to inform decision makers, beneficiaries and other stakeholders concerning the SWF reforms and beneficiary recertification is essential.

119. Further coordination and complementarity between social programs is possible through the use of the SWF applicant database, to be further supported by ISP. The database will aim to be the most comprehensive national database of poor and vulnerable individuals available in Yemen. Many countries use such national databases to target and coordinate receipt of benefits across a range of social programs. For example, Colombia's national database in conjunction with a proxy means test is used to identify recipients of the cash transfer program and for a national school feeding and day care program. Chile uses its database to target cash benefits for the main welfare program, cash for the poor elderly, for a school lunch program and for housing assistance. Palestine's cash transfer database is used to cross-check with other state and donor-supported programs to ensure proper targeting and distribution of benefits. Yemen has the potential to use the SWF database in a similar fashion, perhaps coordinating with SFD, PWP, school and health interventions.

120. Finally, considering that children are most at risk, and enrollment are low and dropout rates are high, over the medium run the SWF's cash transfer program is a good candidate for the introduction of a *conditional cash transfer* program. Assistance can be tied to children's schooling and health/immunizations, as is now being implemented in a number of countries around the world including Mexico, Pakistan, Turkey and Bangladesh.

Annex 2: Major Related Projects Financed by the Bank and/or other Agencies

REPUBLIC OF YEMEN

SOCIAL WELFARE FUND INSTITUTIONAL SUPPORT PROJECT

121. **Social Fund for Development Phase IV Project (P117949) (Total project cost: US\$60 million).** The project was approved by the World Bank Board on March 30, 2010. The Project Development Objectives are to: (a) improve access to basic services; (b) enhance economic opportunities; and (c) reduce the vulnerability of the poor. The project has four components, consisting of four operational Programs: (a) *Community and Local Development program*. Under this program, Social Fund for Development (SFD) will continue to implement community-based subprojects in various sectors, while building the capacity of local authorities and engaging select districts in implementing development projects; (b) *Small and Micro Enterprises Development (SMED) program*. This program will support overall SMED program of SFD which is: (i) strengthening and building capacity of local microfinance providers; and (ii) actively promoting entry into the market by creating an enabling environment and by encouraging the establishment of new financial service providers managed on a private sector basis by international investors with strong technical partners; (c) *Capacity-Building program*. This program will support the other three programs through a focus on capacity-building of local entities, including local and central government bodies, NGOs, and communities, and (d) *Labor-Intensive Works program*. This program will provide a cash-for-work safety net to target households to bridge their consumption gap during shocks and stagnation of agricultural seasons, while increasing the productive assets of communities and households.

122. **EC-Trust Funded Emergency Social Safety Net Enhancement Project – ESSN (P117038) (Total project cost: Euro17.53 million).** The project agreement was signed on March 16, 2010. The objective of the project is to contribute to the reduction of the negative impact of food price volatility on the poor and vulnerable in selected areas, and support the protection and building of community assets. The proposed support will help respond to the situation by: (i) carrying out a labor intensive workfare program initiated under the Global Food Crisis Response Program (GFRP) by SFD to provide cash to communities most seriously affected by the food crisis to help mitigate the impact of increased food prices through temporary work opportunities while building and protecting community infrastructure assets; and (ii) providing cash transfers to poor households in flood, conflict and child-trafficking affected areas that are not yet enrolled in the Social Welfare Fund (SWF) program. It is estimated that approximately 12,000 households within the communities most seriously affected will benefit from the workfare program and 41,000 households will benefit from the cash transfer, which will help them to cope with the crisis over a 12-month period.

123. This European Commission (EC) Trust Fund-financed operation complements, expands and builds on the early lessons learned from the US\$10 million additional financing provided to the Republic of Yemen through the International Development Association (IDA) Food Crisis Grant in 2008. The IDA Grant funded the establishment of the labor intensive program and provided institutional support to the cash transfer program. The ESSN Project will expand the labor intensive program benefits to additional poor communities, while simplifying and improving program targeting and delivery based on the lessons learned. The SWF will implement the project cash transfer component using the improved targeting and administrative capacity previously supported by the IDA Grant. The World Food Program is also supporting the Government of Yemen (GoY) with an Emergency Food Distribution Project that is benefiting from the improved targeting methodology introduced as a pre-requisite for the SWF direct implementation of this operation.

124. Third Public Works Project (P082976) (Total project cost: US\$45 million plus additional financing of US\$29.84 million). The project closing date is June 30, 2011. The overall development objectives would be to: (a) provide needed infrastructure to improve services and environmental conditions (particularly those affecting women and children); and (b) create short-term employment. The Project would also seek to ensure the sustainability of these measures through: (i) community participation in project selection, preparation, and implementation; and (ii) the development of local contracting and consulting firms. The project will be supported through: (a) Community Infrastructure. This component will provide basic infrastructure services in sectors such as health, education, water supply, waste water, roads, water harvesting/irrigation and vocational training and will target communities in areas with high poverty densities. (b) Technical Assistance/Consultant Services. This component will (i) assist about 50 districts to carry out assessment of their infrastructure needs, their capacity for implementation, preparation of medium-term investment plan, assessment of sources of revenues and establishment of management information systems; (ii) preparation of design and supervision.

125. Public Finance Modernization Project (P117363) (Total Project Cost: US\$12 million). The Project is expected to be presented to the Board in September 2010. The proposed Project's objective is to improve performance of public finance management under the six critical dimensions of the Performance Measurement Framework (PMF) through improving and modernizing country systems and enhancing the capacity of government staff in the area of: (i) budget credibility; (ii) comprehensiveness and transparency; (iii) policy-based budgeting; (iv) predictability and control in budget execution; (v) accounting, recording and reporting; and (vi) external scrutiny and audit. An improved PFM performance would contribute towards attainment of PFM objectives of aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery within the country.

126. Climate Resilient Integrated Coastal Zone Management (P115001) (Total Project Cost: US\$14.5 million). The Project is expected to be submitted to the Board in December 2010. The proposed project objective is to demonstrate at pilot sites improved knowledge of climate change adaptation and diversified economic activities of coastal communities to address climate variability, and improved coastal resources conservation and management through the implementation of climate resilient ICZM. Expected benefits derived from this project could be measured at pilot sites by (i) climate resilient integrated coastal zone management capacity strengthened (e.g., knowledge and institutional arrangements) and ICZM approach applied (e.g., decision making process, zoning practices); (ii) rural economic activities diversified (e.g., sustainable fishing, tourism, biogas application); and (iii) public goods and environment management improved (e.g., better handling of fish waste, reduced coastal erosion, better conservation of mangroves and other key coastal and marine biodiversity resources).

127. Agro-biodiversity and Climate Adaptation project (P103922) (Total Cost: US\$4 million). This project is funded by the Global Environment Facility Trust Fund. The project is expected to be submitted to the Board in May 2010. The Project development objectives are: (a) to enhance capacity and awareness at key national agencies and at local levels, to respond to climate variability and change; and (b) to better equip local communities to cope with climate change through the conservation and use of agro-biodiversity. The project will build on the traditional knowledge of farmers and develop an inventory of local agro-biodiversity, and identify and test selected landraces for climate resilience. Information on the agro-biodiversity resources will be used to develop natural resource management and alternative income-generation plans with the communities. It will also focus on raising awareness on climatic changes and developing initial local predictive capacity of weather patterns and long-term climate change scenarios for the country, and integrating climate resilience into rain-fed agriculture. At the national level, the project will support the development of a climate-resilient rain-fed agriculture strategy.

128. Strengthening National System for Disaster Risk Reduction (P110551) (Total Cost: US\$1 million – Global Facility for Disaster Reduction and Recovery - GFDRR): This is a technical assistance program which has the final delivery date of July 2010. The overall objective is to support Yemen in developing a sound Disaster Risk Reduction and Recovery system using the funds made available by GFDRR. In particular, the top priority identified for Yemen was the need to strengthen the national system for Disaster Risk Reduction and Recovery. To achieve the strategic objective of supporting Yemen in developing a sound Disaster Risk Reduction and Recovery system, a three-fold strategy was identified to guide the identification and implementation of key activities to be supported under this proposal. The strategy consists of intervening both at national and local levels, whereas GFDRR Track II would support: (i) a country Disaster Risk Assessment which will form the basis for policy dialogue and prioritization of interventions, (ii) the central government to develop the National DRR System, including necessary legal and strategic frameworks to ensure mainstreaming and inter-ministerial and inter-sectoral coordination, and (iii) a series of innovative pilot activities at the local level.

Annex 3: Results Framework and Monitoring for Overall Program

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Project Development Objectives (PDO)	Project Outcome Indicators	Use of Results Monitoring
(i) Increase the share of poor households among the beneficiaries of the cash transfer program; and (ii) contribute in building the human capital of SWF beneficiaries in selected districts.	<ol style="list-style-type: none"> 1. Percentage of cash transfer beneficiaries who are in groups A and B, (according to PMT scores). (Target: 60-70%) 2. Percentage of cash transfer applicants who are in groups A and B (Target: 60-70%) 3. Increase in the fraction of total cash transfer amount that is awarded to the poorest 20% of the population (lowest 2 deciles according to HBS) (Target 20% increase) 4. Percentage increase in human capital outcomes of households receiving BDP services to comparable households that do not receive BDP services (Target 20%) 	<ol style="list-style-type: none"> 1. Demonstrating that SWF resources are targeted to poorer households 2. Verifying the communication of SWF cash transfer program reaches poorer households 3. Measuring the impact of BDP 4. Measuring responsiveness of the BDP.
Intermediate / Immediate Results	Results Indicators for Each Component	Use of Results Monitoring
<p>Component 1: Improve the Cash Transfer Program</p> <p>Increased application of PMT method to existing and future SWF applicant survey data</p> <p>Adoption of poverty-based targeting policy</p> <p>Development and implementation of a communications strategy</p> <p>Improved case management</p> <p>Improved monitoring & evaluation capacity</p> <p>Improved administrative cost</p> <p>MIS in place and used by management team</p>	<ol style="list-style-type: none"> 1. Number of cases that undergo a recertification process using the PMT method 2. Preparation of a targeting policy paper 3. Endorsement of the poverty-based targeting policy by the SWF Board 4. Number of new applications 5. Percentage of new applications processed and decided on 6. Percentage of appeals received and responded to per year 7. Percentage of beneficiaries who collect their quarterly payments on time 8. Average number of contacts with beneficiary households per year 9. M&E system in place 10. Percentage of administrative cost compared to overall program cost 11. All departments of the SWF have access to MIS and use it for reporting purposes 	<p>Monitor whether cash transfers are better targeted and administrative processes have been improved</p>

<p>Component 2: Design and Delivery of BDP</p> <p>Beneficiary development program that is responsive to needs of beneficiaries</p> <p>Higher graduation rates among recipients of BDP services</p>	<ol style="list-style-type: none"> 1. Percentage of beneficiary households that have access to the BDP services (in the targeted areas) 2. Percentage of beneficiary households that received health, education services who are in groups A&B (in the targeted areas) 3. Percentage of beneficiary households that receive skills training and/or microcredit who are in groups C&D (in the targeted areas). 4. Percentage of beneficiary households that are satisfied with beneficiary development services and SWF communication (in the targeted areas). 5. Percentage of BDP participants who graduate from cash transfer program (in the targeted areas) 	<p>Monitor whether beneficiary development services are more accessible to eligible households and whether they have an impact on the welfare of the participating households</p>
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Results Indicators for All Components	Baseline	YR 1 2011	YR 2 2012	YR 3 2013	YR 4 2014	YR 5 2015	YR 6 2016	Total or Final Target	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Component 1: Improve management and administrative processes of the Cash Transfer Program											
1. Number of cases that undergo a recertification process using the PMT method	None			100,000	200,000	300,000	400,000	1,000,000	Quarterly progress report	SWF MIS	M&E Department and Project TC
2. Preparation of a targeting policy paper	None							Policy developed	Annual report	report	M&E Department and Project TC
3. Endorsement of targeting policy paper	None							Policy endorsed	Annual report	SWF BOD minutes of meeting	M&E Department and Project TC
4. Number of new applications		50000	50000	100,000	100,000	100,000	100,000	400,000	Annual report	SWF MIS	M&E Department and Project TC
5. Percentage of new applications processed and decided on	Currently all are on a waiting list	30	35	40	45	50	55	55	Annual report	SWF MIS	M&E Department and Project TC
6. Percentage of appeals received and responded to per year		10	15	20%	40%	60%	70%	80% of received appeals are responded to	Annual report	SWF MIS	M&E Department and Project TC
7. Percentage of beneficiaries who collect their quarterly payments on time	90%			95%	98%	98%	98%	98%	Quarterly progress reports	SWF MIS	M&E Department and Project TC
8. Average number of contacts with beneficiary households per year	Only during mass beneficiary surveys	10%	20%	30%	40%	40%	50%	50%	Quarterly progress reports	SWF MIS	M&E Department and Project TC

	Baseline	YR 1 2011	YR 2 2012	YR 3 2013	YR 4 2014	YR 5 2015	YR 6 2016	Total or Final Target	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
9. M&E system in place	Existing but not interactive and no linkages between departments, or cash delivery providers		MIS requirements are developed	MIS at 30% completion on rate	MIS at 50% completion on rate	MIS at 80% completion on rate	MIS 100% completion on rate	MIS system is 100% complete and operational	Quarterly progress reports	Consultant reports and IDA supervision mission	M&E Department and Project TC
10. Percentage of administrative cost compared to overall program cost	4.7%(including benefit delivery fee and staff salaries)			6%	7%	8%	10%	10%	Annual report	SWF MIS	M&E Department and Project TC
11. All departments of SWF have access to MIS and use it for reporting purposes	Only the IT department have access to the current MIS partially developed system			M&E department using MIS system	M&E Allocation (enrollment) department are using the system	M&E, Allocations, and BDP departments are using the system	All departments and regional office are using the system	All relevant departments and regional offices are using the MIS system	Quarterly progress reports	Consultant reports and IDA supervision missions	M&E Department and Project TC

Component 2: Support the design and implementation of BDP delivery mechanisms

1. Percentage of beneficiary households that have access to the BDP services	0.4% of all beneficiaries participate	5%	10%	15%	20%	20%	20%	20% of Groups A, B, C, D	Quarterly progress reports	Consultant reports and IDA supervision missions	BDP Department and project TC
2. Percentage of beneficiary households that received health, education from the A&B groups (in the targeted areas)	None	20%	30%	50%	70%	70%	70%	70%	Quarterly progress reports	Consultant reports and IDA supervision missions	BDP Department and project TC
3. Percentage of beneficiary households that receive skills training and/or		30%	30%	50%	60%	60%	70%	70%	Quarterly progress reports	Consultant reports and IDA	BDP Department and project TC

	Baseline	YR 1 2011	YR 2 2012	YR 3 2013	YR 4 2014	YR 5 2015	YR 6 2016	Total or Final Target	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
microcredit are in groups C&D										supervision missions	
4. Percentage of beneficiary households that are satisfied with beneficiary development services and SWF communication (in the targeted areas).	n/a							70%	End of project	Survey for impact & process evaluation	M&E Department and Project TC
5. Percentage of graduation rate among BDP participants.	0	0	0	0	0	5%	10%	10%	Baseline, 3 year and 6 year follow up	Survey for impact evaluation	Independent impact evaluation consultant

Annex 4: Detailed Project Description

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A. ISP Development Objective

129. The ISP will support SWF in carrying out its reform process as mandated by the SWF 2008 Law No. 39. The SWF's new Policy Statement supports a system which is open to applications from all poor and vulnerable people, provides complementary services to assist beneficiaries out of poverty and undertakes recertification on a regular basis with options for re-enrolling in the program if economic circumstances change, especially for those most vulnerable to becoming poor (i.e. those around the poverty line). Through the project, SWF will develop and implement a new poverty based targeting policy, and strengthen the administration and management of its cash transfer program to improve program outreach and performance. A communication strategy will be developed and put into action to promote SWF reform and increase program transparency and Fund accountability. Through pilot projects, alternative options for the BDP will be designed, delivered and results assessed to capture lessons learned and best practices to apply to scaling up on a national level.

130. The Project Development Objectives are to: (i) increase the share of poor households among the beneficiaries of the cash transfer program; and (ii) contribute in building the human capital of SWF beneficiaries in selected districts.

Key Performance Indicators	Baseline	Target
Percentage of cash transfer beneficiaries who are in groups A and B (according to PMT scores)	35%	60-70%
Percentage of cash transfer applicants who are in groups A and B.	52%	60-70%
Increase in the fraction of total cash transfer amount that is awarded to the poorest 20% of the population (lowest 2 deciles according to HBS)	42%	20% increase
Percentage increase in human capital outcomes of households receiving BDP services to comparable households that do not receive BDP services	to be collected through baseline study	20%

B. Project Components

131. The project will be implemented over six years and has three components (i) Improve the Cash Transfer Program; (ii) Design and Delivery of Beneficiary Development Program (BDP); and (iii) Project Management and Evaluation. *Component 2* mechanisms will be tested through a scalable pilot project in 3 governorates (25 districts). The ISP is intended to support the SWF reform process as outlined above through the project components below.

132. **Component 1: Improve the Cash Transfer Program** (*estimated IDA contribution US\$4.4 million*). The objective of this component is to assist the SWF to respond to its revised mandate to focus its assistance on the poor and vulnerable. Under this component, the SWF will develop and implement a new poverty based targeting policy and strengthen administration and management of its Cash Transfer program to improve program outreach and performance. A communication strategy will be developed

and put into action to promote SWF reform and increase program transparency and Fund accountability. This component finances consultant services, goods, training and operational costs

133. *Sub-component 1.1: Strengthening Targeting, Management and Administrative Processes (estimated IDA contribution US\$4.0 million).* Following from the Government's poverty focused reformed SWF law, the objective of this sub-component is to support the SWF to develop and implement a new poverty based targeting policy, and strengthen management practices and administrative procedures. Under this sub-component, the project will: (i) develop a poverty- based targeting policy; (ii) develop and implement improved program procedures for the full cash transfer program cycle; (iii) build a responsive MIS system to support operational processes; (iv) develop and implement an M&E system; and (v) train SWF staff in all aspects of cash transfer program cycle and operational processes. This sub-component will finance consultant services, goods, training and operational costs.

134. The application of the Proxy Means Test (PMT) to the SWF's existing list of beneficiaries and to new applications has far-reaching implications, primarily that some current beneficiaries are no longer eligible based on the SWF cash transfer program poverty requirements. The phasing out of those currently ineligible but receiving benefits is politically sensitive and will require a strong commitment to the SWF reform. To oversee this reform, the GoY has established the *Ministerial Committee to Oversee the Social Welfare Fund Reform*. The Committee, chaired by the Deputy Prime Minister for Economic Affairs - Minister of Planning and International Cooperation, has requested assistance from the Bank to prepare a Targeting Policy to present "phasing out" options and the political and fiscal implications for each course of action. A draft Discussion Note of this policy was prepared during the December 2009 Identification Mission and will be further developed, leading to an SWF Targeting Policy under this sub-component with the assistance of a short-term consultant. The component will finance consultant services and workshops for discussions of the Policy with government staff and Civil Society Organizations (CSOs).

135. The SWF cash transfer (CT) program cycle includes beneficiary targeting, enrolment, payment systems and case management, including recertification and exit strategies. The sub-component will support the strengthening of all aspects of this cycle:

a) *Beneficiary Targeting:* the SWF target groups are families in the economic category (unemployed, female headed households without family support) below the poverty line and vulnerable individuals in the social category (disabled, severely ill, elderly, orphans, etc.) below the poverty line. Poverty levels are defined using the Proxy Means Test (PMT). In a well-targeted CT program, the beneficiary households will be the poorest among the overall population. SWF needs to initiate a targeting process that attracts and enrolls only the poorest beneficiaries (below the poverty line).

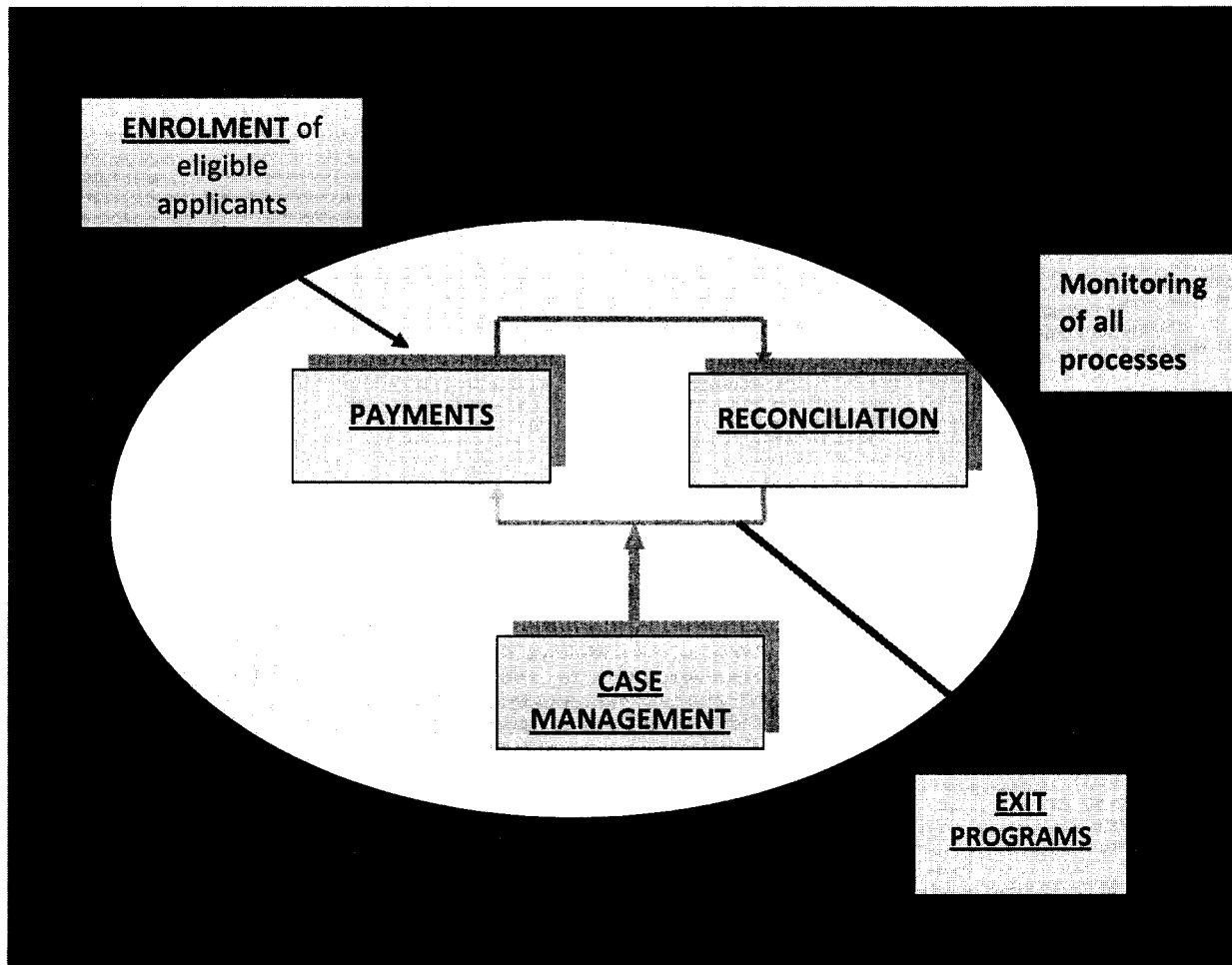
b) *Enrolment:* the current enrolment policy states that economic categories are enrolled for 2 years, social categories for 5 years, after which recertification (i.e., assessment of eligibility to continue to receive benefits) takes place. The recertification system and process is not defined and at present there is no connection between recertification and complementary and/or exit oriented beneficiary development programs.

c) *Payment Systems:* the SWF provides monthly payments through four quarterly installments to individuals and families. Delivery mechanisms are the Post Office, commercial banks or cashiers. The use of cashiers raises concerns of misuse of funds; this will be actively discouraged and solutions, including new technology (mobile banking) will be explored and supported. The project will help explore other delivery mechanisms through existing or new providers to phase out the use of cashiers. Payment reconciliations are global, not individual and there is no network link between SWF and the payment providers. Improvement in payment periods, payment mechanisms, the payment registry information system, as well as the individual payment reconciliation and linking it to case management are required.

d) *Case Management:* The Case Management system is intended to cover all aspects of the interaction between applicants/beneficiaries and the SWF, i.e., filling out applications, researching appeals from ineligible applicants, updating beneficiary information, examining complaints, promoting beneficiary development program participation and developing individual exit strategies. SWF at present lacks an effective case management system with social workers/researchers spending too much of their time in targeting rather than beneficiary enrolment, development, and recertification.

- *Beneficiary Development Program:* The BDP was introduced in 2004 as a complementary service offered to SWF Program beneficiaries to develop their human capital and to provide options for training and economic recovery. Based on the SWF Bylaw the Beneficiary Development Department is responsible for: a) training and qualifying beneficiaries for microenterprise funding and the Labor market; b) defining and selecting small projects for beneficiaries; c) developing and executing awareness programs; and d) supporting beneficiaries to obtain health and educational special service exemptions due to them. To date there has been no systematic approach to beneficiary participation in BDP activities.

- *Exit Strategies:* The 2008 *Law on Social Welfare* mandates SWF through its services and support from the Beneficiary Development Program (BDP) to assist those capable of working to exit the cash transfer program (“graduate”) due to increased economic opportunities, therefore no longer relying on the SWF programs. Beneficiary assessments conducted by SWF would determine appropriate individual exit strategies for eligible beneficiaries. At present, insufficient SWF social researcher/other staff training limits their ability to develop beneficiary program exit plans.



136. To address the shortcomings of the cash transfer cycle as identified above, *Sub-component 1.1* will support the services of a long-term advisor to assist SWF to develop and test procedures for each step of the cycle. The long-term advisor will provide “hands-on” training and further development of the Operations Manual and its technical annexes as required. All 1,600 SWF staff (at all three levels) will be trained in the cash transfer procedures and processes specific to their area of responsibility by technical experts identified by the long-term advisor. Study tours as well as exchange visits with other relevant countries would be implemented.

137. An essential cash transfer program component as identified in the cash transfer cycle above is a responsive MIS that links data entered at the district, governorate and head office to program operations. An effective MIS would provide up-to-date information for case management (e.g., beneficiaries requiring recertification, etc.) as well as information for managers on the status of program elements, such as applications, enrolments, payments, recertifications, and beneficiary development program participation. At the present time, the existing MIS system does not receive inputs from operations departments, highlighting the lack of connection between all cash transfer operations and the IT system.

138. The sub-component provides the services of an MIS expert to put an effective MIS in place module by module. Training for all program staff will cover every aspect of the SWF data collection, input, application of the PMT, analysis and utilization of results, and reporting. An MIS manual would be

prepared by the long-term advisor in concert with the MIS expert as a reference text for staff and to support continued staff capacity building.

139. The MIS would also provide data for the M&E system. The M&E system would show progress made in the CT program implementation focusing on inputs, outputs and performance which may also include outcomes. The Component 2 impact evaluation and other project assessments will also comprise aspects of the M&E system. The M&E system will be established with the assistance of short-term consultants as identified by the long-term advisor.

140. Specifically, this sub-component will finance the following activities:

- a. finalizing a poverty-based targeting policy,
- b. developing and system-wide implementation of tested cash transfer procedures,
- c. applying the PMT method to all new applications prior to enrolment,
- d. capacity building in the PMT method,
- e. establishing processes and building capacity in beneficiary enrolment (verification, ID card issuing, information of program details, monitoring of compliance, payment procedures, payment reconciliation, case management and complaint mechanisms),
- f. instituting M&E systems to track process, performance, evaluations,
- g. developing an MIS responsive to departmental data needs, and
- h. further developing the Operations Manual and its Technical Annexes.

141. Outputs will include:

- a. A Poverty Based Targeting Policy
- b. Operations Manual Technical Annexes covering all aspects of the Cash Transfer Program
- c. Cash transfer program implementation procedures
- d. New applicant lists classified according to PMT poverty analysis
- e. An M&E system
- f. An MIS
- g. Training programs and workshop reports

142. *Sub-component 1.2: Developing and Implementing a Communication Strategy (estimated IDA contribution US\$0.4 million).* The objectives of this component are to: (i) increase awareness of the SWF reform process as mandated the 2008 law; (ii) gain support for the PMT targeting approach and the phasing out of ineligible beneficiaries; (iii) reach out to poor households not yet enrolled to receive benefits; (iv) improve the SWF internal communications; (v) increase transparency; and (vi) increase beneficiary demand for improved SWF services. The sub-component will support: (i) development a comprehensive communication strategy; and (ii) carrying out public information and awareness campaigns, including the production of media materials. The sub-component will finance consultant services (including media services), goods, training and operational costs.

143. The sub-component supports the SWF to promote its revised institutional mandate and establish social accountability mechanisms through a multi-dimensional SWF communication strategy. The lack of an overall communication strategy for dissemination of SWF messages at the governmental, institutional, public and beneficiary levels is a serious deficit for the Fund. This deficit will become even more acute as beneficiary eligibility parameters change due to new targeting methods and as the GoY begins to deal with subsidy reforms. SWF faces both internal and external communication challenges: the institution must lobby and advocate for the targeting reform at all levels to make it understood and palatable to all stakeholders. Sub-component financing will support the SWF to establish potential partnerships with Civil Society Organizations (CSOs) to develop awareness tools and messages, encourage participation of

women and applications for benefits from eligible households, as well as gathering community feedback to promote Fund transparency and increase demand from beneficiaries for improved services. Ongoing communication to inform decision makers, beneficiaries and other stakeholders concerning SWF reforms and beneficiary recertification is essential.

144. Specifically this sub-component will finance the following activities:

- a) development of a comprehensive SWF communication strategy targeting internal and external stakeholders.
- b) rolling out of a public information campaign including technical assistance, materials, training, media services, etc.

145. ***Component 2: Design and Delivery of Beneficiary Development Program*** (estimated IDA contribution US\$4.6 million). The objective of this component is to design and pilot-test the implementation of Beneficiary Development Program activities and delivery options in three governorates (25 districts). SWF will incorporate the lessons learned and “best practices” into its Operations Manual to apply on a national level. The focus is on designing and field-testing different beneficiary development activities and mechanisms to assist beneficiaries in eligible target groups to develop their human capital (nutrition, health, education) and their livelihood options, promoting graduation for some beneficiaries from the SWF cash transfer program. The nutrition, health and education activities will focus on the poorest beneficiaries (Groups A&B) to assist them to meet their basic needs and build their human capital while skill training activities will focus on those at or slightly above the poverty line (Groups C&D) to assist them to meet their basic needs and provide opportunities for self-employment and promote engagement in Labor market activities. The component will: (i) design and deliver of BDP activities; (ii) train staff, including study tours, on BDP delivery alternatives; (iii) provide awareness raising and training services for SWF beneficiaries; and (iv) conduct recertification surveys in some of the pilot areas. The component will support SWF’s exploration of different options for a non-lending role in facilitating beneficiaries’ access to micro credit programs and MFIs. The component will finance consultant services, goods, beneficiary development training, staff training and operational costs. The IDA resources will not be used to finance grants or micro-credit loan funds.

146. Selected SWF beneficiaries have been provided with training and other development opportunities since May 2004. To date, approximately 23,000 beneficiaries have completed training courses in approximately 40 topic areas. The training process is implemented through the SWF Branches and District Offices with skills training carried out by various partners (Productive Family Centers, NGOs, Agriculture Extension, specialized institutes, universities and colleges, etc.). SWF supports the microenterprise program through designated SWF funds and by providing beneficiary funding referrals to the Cooperative and Agricultural Credit (CAC) Bank. As of February 2010, 4275 loans and 476 bank guarantees have been provided in 17 governorates with a repayment rate of approximately 80 percent. The livelihood results are not known as the BDP has focused primarily on activities rather than tracking beneficiary outcomes. However, the BDP delivery design highlights SWF staff capacity challenges as well as potentially distorting the microenterprise sector due to SWF providing interest free loans. Initial assessments indicate a need to build linkages and partnerships for effective BDP delivery as well as designing a workable case management system to assist able-bodied beneficiaries to access income generation opportunities and graduate from the cash-transfer program.

147. The design of the pilots will benefit from international experience and best practice through the provision of a technical advisor with proven record on the design and implementation of similar programs. Activities under the component will be tailored to the specific needs of the beneficiaries, service provider availability, and feasible economic opportunities in formal and informal sectors. Design parameters for the BDP pilot are:

- a) Implementation of the BDP pilots at the governorate level through SWF regional offices.
- b) Participatory approach: SWF staff participates in the BDP options design, pilot activity delivery, progress monitoring and results reporting of BDP pilots in order to build capacity for similar activities in the future.
- c) Pilot program activities are streamed for A&B, C&D groups. Groups E&F are not included.
- d) BD Program core built around basic literacy, numeracy, nutrition, skills training and micro-credit. SWF beneficiaries (A&B) targeted for basic literacy, numeracy and nutrition, but other willing participants not turned away.
- e) Pilot design based on SWF assuming a facilitating stance rather than self-delivery stance for all services, including micro-credit e.g., identifying and contracting appropriate service delivery providers including agencies, CSOs, NGOs, with a view to rural reach, experience, etc., providing Micro-Finance Institution (MF(I) guarantees for appropriate SWF beneficiaries
- f) Explore SWF’s role in facilitating access of beneficiaries to micro-finance.

148. *Pilot Governorates.* BDP design and implementation activities under **Component 2** will be tested through a scalable pilot project located in three governorates – Aden, Hodeidah and Hadramout. All 8 districts in Aden, 10 districts in Hodeidah and 7 districts in Hadramout - Mukalla will be the sites for component activities. Aden, Hodeidah and Hadramaut – Mukalla were selected due to: (i) the high number of beneficiaries in both rural and urban areas; (ii) relatively better capacity of SWF branch offices; (iii) pre-existing Beneficiary Development Program activities; and (iv) existence of available private, NGO, CSO and public training providers. In addition, some districts of these governorates have significant numbers of beneficiaries in groups E&F. Selecting these governorates would provide an opportunity to pilot the “phasing out strategy” should the government so choose.

149. *Beneficiary Profiles in Pilot Governorates.* The PMT was applied to survey data gathered from existing beneficiaries as well as new applicants. Based on the PMT, the beneficiary categories in the pilot areas are shown in **Table 1**. Groups E&F make up 38 percent of the total, with the largest percentage (52 percent) in Aden. Group A coverage is very small (approximately 1 percent) with Group B coverage for the pilot area about 13 percent, with only 5 percent coverage of this group in Aden. Groups C&D make up the largest percentage (48 percent) of beneficiaries in the pilot area, comprising approximately 50 percent of beneficiaries in both Hodeida (49 percent) and Mukalla (51 percent). The percentage of beneficiaries in each group will be assessed over the duration of the pilot project to determine the impact of the SWF targeting policy implementation as well as the rolling out of the public information campaign.

Table 1. Existing Beneficiaries: # of cases in each economic category as determined by PMT

Governorate	Total # of SWF cases	Category A / % of total	Category B / % of total	Category C / % of total	Category D / % of total	Category E / % of total	Category F / % of total
Aden	32908	43 (negligible)	1502 (5%)	3646 (11%)	10404 (32%)	9443 (28%)	7870 (24%)
Hodeida	45605	605 (1%)	7798 (18%)	10502 (23%)	11953 (26%)	11476 (25%)	3271 (7%)
Hadramaut - Mukalla	21001	729 (3%)	3846 (18%)	3293 (16%)	7260 (35%)	3381 (16%)	2492 (12%)
Totals for Pilot area	99514	1377 (1%)	13,146 (13%)	17,441 (18%)	29617 (30%)	24,300 (24%)	13633 (14%)

150. The component will support the services of a long-term consultant to design BDP options with participation from SWF governorate/district staff. The consultant will provide “hands-on”

implementation support and facilitate SWF staff training to undertake the BDP pilot as designed. Training on monitoring and reporting on “lessons learned” will be an important capacity building focus.

151. This component will finance the following activities:

- a. Detailed design of Beneficiary Development delivery mechanisms;
- b. Staff capacity building to undertake pilot project activities (i.e., case management, partnership arrangements, support for micro-credit, etc.)
- c. Office infrastructure (IT, furniture, etc.)
- d. Provision of BDP services through outside providers
- e. Study tours to explore BDP options in similar settings
- f. A recertification survey in limited areas of the pilot districts.

152. Outputs will include:

- a. BDP pilot design report
- b. Training programs, capacity building, study tour reports
- c. “Lessons learned” reports
- d. MOUs/MOAs with training providers
- e. Assessments of BDP “Best Practices” including micro-finance.
- f. Quality assessments of service provider offerings
- g. Survey analysis of the recertification outcomes
- h. Beneficiary feedback on all aspects of the BDP carried out during the Pilot

153. ***Component 3: Project Management and Evaluation (Estimated IDA contribution US\$1.0 million)***. This component supports SWF to implement and evaluate the project. An impact evaluation for *Component 2* will be completed to assess pilot project results. The component will provide project implementation support through the recruitment of local technical and fiduciary consultants to complement the skills not available in-house and eventually build the capacity of SWF staff. The Project Support Team (PST) is to include a Technical Coordinator, Financial Management Specialist, Procurement Specialist, MIS Specialist, and an Executive Secretary. The component will finance consultancy services, training, goods, and operational costs.

154. Outputs will include:

- a. project progress reports including regular updates of the project monitoring table
- b. qualitative and quantitative impact evaluation report for *Component 2*
- c. contracts for the project support team members

Annex 5: Project Costs

REPUBLIC OF YEMEN

SOCIAL WELFARE FUND INSTITUTIONAL SUPPORT PROJECT

Project Cost by Local and Foreign Expenditures

US\$ million			
Project Cost By Component and/or Activity	Local	Foreign	Total
1. Improve the Cash Transfer Program	2.7	1.3	4.0
2. Design and Delivery of BDP	2.8	1.3	4.1
3. Project Management and Evaluation	0.7	0.3	1.0
Total Baseline Cost			
Physical Contingencies			0.4
Price Contingencies			0.5
Total Project Costs¹			10.0

¹Country Financing parameters for Yemen have been established allowing for 100 percent of financing from IDA. Project costs include all taxes.

Expenditure Accounts by Components

Component		Expenditure Category	Cost (US\$)
1.	Improve the Cash Transfer Program		
1.1	<i>Strengthen Targeting, Management and Administrative Processes</i>	Consulting Services (long term Technical Assistance)	1,500,000
		Consulting Services (Targeting Policy options)	70,000
		Workshops (two workshops to discuss Targeting Policy)	30,000
		Goods (furniture & equipments including generators for HQ & branch offices excluding 3 pilot offices)	700,000
		Operating Costs*	1,000,000
		Training	500,000
		Unallocated	200,000
Total			4,000,000
1.2	<i>Development of a Communication Strategy</i>	Consulting Services	200,000
		Goods (for communications)	100,000
		Consulting Services (Media)	100,000
Total			400,000
Total costs Component 1			4,400,000
2.	Design and Delivery of Beneficiary Development Program	Consulting Services (long-term TA)	250,000
		Goods (furniture & equipments including generators for pilot branch offices & 25 district offices)	800,000
		Training for SWF staff	200,000
		Training for Beneficiary Development	1,500,000
		Operating Costs**	1,200,000
		Operating Costs***	400,000
		Unallocated	250,000
Total costs Component 2			4,600,000
3.	Project Management and Evaluation	Consulting Services (PST)	484,000
		Consulting Services (Impact Assessment study)	300,000
		Incremental Operating Costs****	216,000
Total costs Component 3			1,000,000
TOTAL PROJECT COSTS			10,000,000

*operating costs for case management & performance monitoring (head office & branch offices)

**operating costs for recertification survey (25 districts)

***operating costs to follow up on BDP – beneficiaries, training providers, etc.

****incremental operating costs for PST

Annex 6: Implementation Arrangements

REPUBLIC OF YEMEN

SOCIAL WELFARE FUND INSTITUTIONAL SUPPORT PROJECT

Project Oversight

155. The project will be implemented for six years from October 1, 2010 – September 30, 2016 by the Social Welfare Fund (SWF). The SWF was established in 1996 by Presidential Law No.31, and is governed by the revised Presidential Law 39 (2008).

156. Its Board of Directors, headed by the Minister of Social Affairs and Labor, is composed of the Vice Minister of Finance, Deputy Minister of Social Affairs and Labor, Deputy Minister of Local Administration, Executive Director of the SWF (member and secretary), Executive Managers of Social Security Network Programs, community representatives of private sector and civil society organizations. The Board meets at least every three months, and reviews policy issues and approves important documents like annual plans, budgets, and annual audits. Additionally, the Board will review Project progress reports and take appropriate actions in support of implementation. The SWF is headed by an Executive Director who is responsible for day-to-day operations. As of December 2009, the SWF had 1,775 staff operating through a three-level organizational structure: head office in Sana'a with 197 staff; 22 branch offices covering all Governorates in Yemen, with 762 staff; and 210 district offices (out of 333 districts) with 816 staff.

Project Implementation and Coordination

157. The SWF will be responsible for implementing the project activities through departments at its head office and branch offices. A PST comprised of a team of consultants will be recruited by effectiveness to provide technical and fiduciary support to complement the skills not available in-house. The PST will report to the Executive Director, and administer the Grant funds and support the SWF's efforts in implementing the project.

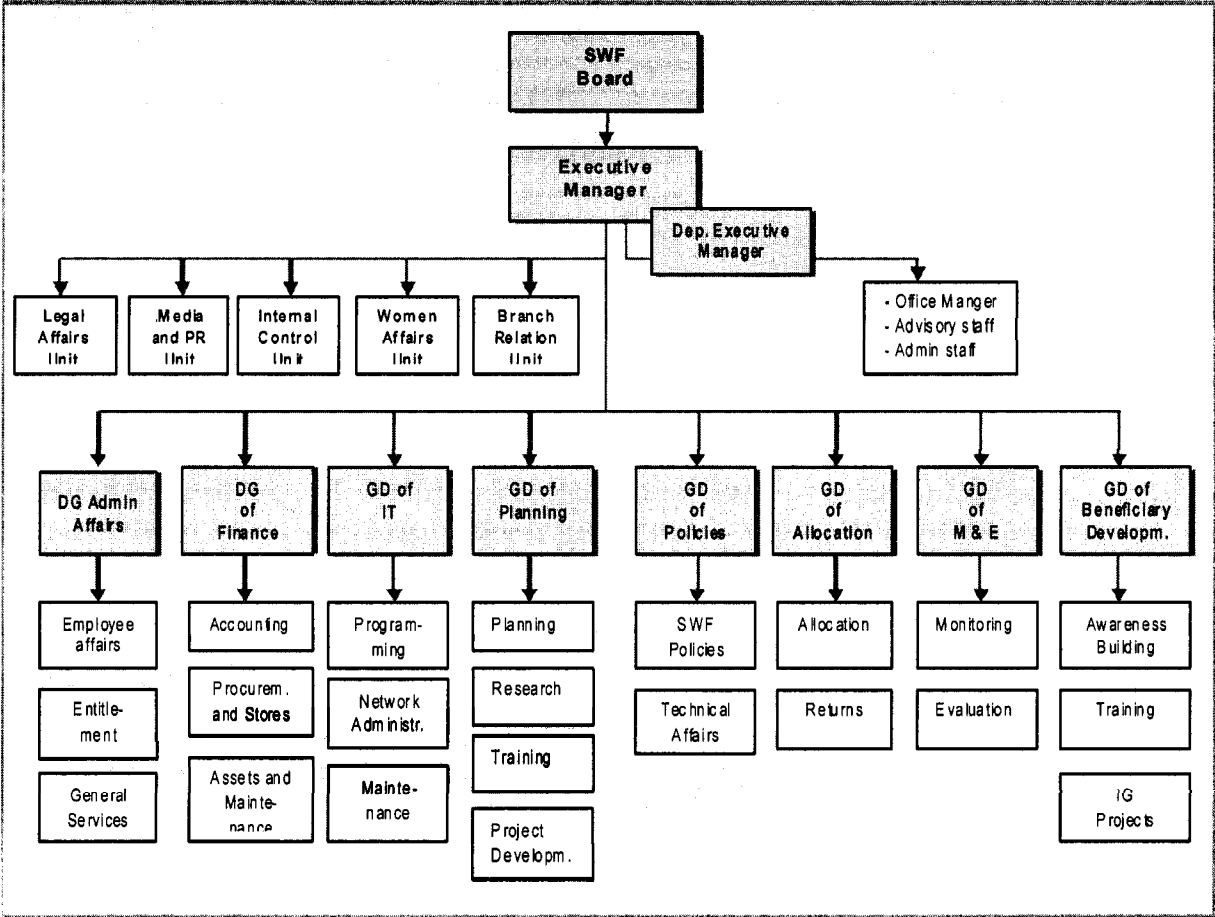
158. Specifically, the PST will: (i) coordinate between units, departments and branch offices responsible for implementation, (ii) facilitate the SWF in monitoring and evaluating the project targets and results; (iii) handle procurement, financial, and disbursement management, including the preparation of withdrawal applications under the project; (iv) facilitate the work of the international/national consultants providing technical assistance; (v) ensures that an independent audit of the project is carried out on an annual basis (vi) prepare the financial and procurement parts of the semi-annual Progress Report and consolidate with the technical part prepared by the relevant departments of the SWF for submission to the SWF Board and IDA; (vii) act as the liaison between the SWF and IDA; and (viii) ensure that all reporting requirements for IDA are met according to the project's legal agreement.

159. The PST would include a Technical Coordinator, Financial Management Specialist, Procurement Specialist, MIS Specialist and Executive Secretary. A short-term Procurement Advisor will be hired no later than two months after effectiveness to provide procurement support and build the procurement management capacity especially in the area of consultant contract management and procurement of goods.

160. *Component 1: Improve the Cash Transfer Program (Estimated US\$4.4 million) and Component 3: Project Management and Evaluation (Estimated US\$1.0 million)* will be implemented through relevant departments and units of SWF Head Office in Sana'a.

161. *Component 2: Design and Delivery of BDP (Estimated US\$4.6 million)* will be implemented through Aden, Hodeidah and Hadramaut Branch Offices with close monitoring and supervision of the Head Office. A number of BDP programs will be piloted through Branch Offices.

Structure of SWF Head Office in Sana'a



Responsibility Matrix

Activity by Component	Output	Resources Provided*	Responsible Unit/Department
Component 1.1 Strengthen Targeting, Management and Administrative Processes			
a. finalizing a poverty based targeting policy	A Poverty Based Targeting Policy	Component 1 Advisor/Firm	Policy Dept
b. developing and system wide implementation of tested cash transfer procedures	A new cash transfer program implementation procedures Operations Manual Technical Annexes Application of new procedures	Component 1 Advisor/Firm	Policy Dept
c. applying the PMT method to all new applications prior to enrolment	New applicant lists classified according to PMT poverty analysis	Component 1 Advisor/Firm	Allocation Dept
d. capacity building in the PMT method	All SWF staff trained in the PMT method	Component 1 Advisor/Firm	Planning Dept (with support of HR Dept)
e. establishing processes and building capacity in beneficiary enrolment (verification, ID card issuing, information of program details, monitoring of compliance, payment procedures, payment reconciliation, case management and complaint mechanisms)	Operations Manual Technical Annexes	Component 1 Advisor/Firm	Allocation Dept in coordination with other Depts
f. instituting M&E systems to track process, performance, evaluations	An M&E system	Component 1 Advisor/Firm	M&E Dept with IT and Policy Depts
g. developing an MIS responsive to departmental data needs	An MIS	Component 1 Advisor/Firm	IT Department in coordination with other related Depts
h. further developing the Operations Manual and its Technical Annexes	A complete Operations Manual	Component 1 Advisor/Firm	Policy Dept in coordination with other related Dept
Component 1.2: Development of a Communication Strategy			

Activity by Component	Output	Resources Provided*	Responsible Unit/Department
a. development of a comprehensive SWF communication strategy targeting internal and external stakeholders. b. rolling out of a public information campaign including technical assistance, materials, training, media services, etc.	Communication Strategy Campaign implemented	Communications consultant Communications consultant Media service expenses and materials for communications	Media and PR Unit Media and PR Unit in coordination with other relevant Depts
Component 2. Design and Delivery of Beneficiary Development Program			
a. Detailed design of Beneficiary Development delivery mechanisms	BDP pilot design	Component 2 Advisor/Firm	Beneficiary Development Dept in coordination with Branch Offices (Aden, Hodeidah and Hadramout)
b. Staff capacity building to undertake pilot project activities (i.e. case management, partnership arrangements, support for Micro-credit, etc.)	Staff in Beneficiary Development Department and participating Branch Offices and District Offices trained to undertake pilot BDP	Component 2 Advisor/Firm Resources for training activities.	Beneficiary Development Dept in coordination with Branch Offices (Aden, Hodeidah and Hadramout)
d. Provision of BDP services through outside providers	MOUs/MOAs with training providers signed and BDP services provided through these providers	Component 2 Advisor/Firm Resources provided to contract outside providers	Beneficiary Development Dept in coordination with Branch Offices (Aden, Hodeidah and Hadramout), relevant District Offices
e. Study tours to explore BDP options in similar settings	Study tours carried out	Component 2 Advisor/Firm Resources provided for study tours	Beneficiary Development Dept in coordination with Branch Offices (Aden, Hodeidah and Hadramout)
Component 3. Project Management and Evaluation			
a. qualitative and quantitative impact evaluation for Component 2	Impact evaluation carried out and report prepared	Consulting firm for impact evaluation	M&E Dept and Beneficiary Dept
b. Project administration	Project implementing units/depts./offices receive adequate administrative support. Regular project progress reports including M&E and financial reports	Project Support Team	Project Support Team

*Operating cost will be provided for carrying out actual implementation of activities mentioned above.

Monitoring and Evaluation Arrangement

162. In order for monitoring and evaluation to be completed, several different types of data will be collected during the six-year project period. This data will together allow for reporting of the results indicators and also be used for the purposes of impact evaluation.

163. For *Component 1*, the primary source of data will be the entry forms for new applicants and the assessments of beneficiaries who are due for recertification. The information on new applicants and also on beneficiaries due for recertification will be collected by the district offices, which will enter them into the electronic databases and then transmit the information to the branch offices and eventually the head office in Sana'a. The forms and assessments will obtain all the information necessary for the application of the PMT method. The district offices will collect the data on a timely basis and provide them to the branch offices without significant delay. The PMT method will be applied to the data at the main office in order to classify households in one of the six PMT groups. The Monitoring and Evaluation Department at the SWF will ensure that the data are tabulated in time to meet the monitoring requirements of the project.

164. There will also be regular monitoring to ensure that the cash transfer and beneficiary development processes are being implemented in a manner that ensures targets in the Results Framework (Annex 4) are met. Specifically, it will be the responsibility of the branch (i.e. Governorate) offices to compile monthly statistics on the number of beneficiaries it has had contact with, the number of new applications received and processes annually, the number of appeals received and responded to annually, and also the number of beneficiaries who receive various BDP services (including health and education services, skills training, and access to microcredit). The statistics will be provided by the district offices to the branch offices, which will then report the statistics to the Monitoring and Evaluation Department at the SWF Head Office. The data will be used for measuring whether process performance meets the targets specified in the Results Framework (Annex 4). Separately, a consultant will also be hired to ensure that the targeting policy paper is finalized by the agreed upon year of the project.

165. For *component 2*, an impact evaluation of the BDP services will be carried out, there will be baseline and follow-up data collection (the exact time of the baseline and follow-up to be determined) from a sample of beneficiaries who do and do not receive BDP services. The data are expected to be collected by an outside firm that will be contracted by SWF. The survey will collect information on several human capital indicators (malnutrition among children, school enrollment, adult literacy) as well as income and employment activities of adults. Process evaluation will be added to measure the improvement of the CT procedures and beneficiaries satisfaction with the BDP services and the communication campaigns. The consulting firm will be hired to develop the survey questionnaires, implement the surveys and conduct the analysis for process and impact evaluation. Efforts will also be made to build the SWF capacity in the evaluations.

166. ***Adoption of Rapid Results Approach (RRA) in Project Implementation.*** The RRA is a methodology that empowers teams to achieve results quickly. The methodology stimulates existing capacity and pushes teams to break through organizational constraints, provides a structured process to support implementation on the ground, communicates shared priorities and goals to stakeholders, and sets short-term measurable targets for tracking progress toward achieving impact. Based on the successful experience using this approach in implementation of the health sector project in Yemen, the ISP will adopt this method for timely implementation of project activities and to engage different stakeholders of the project.

Annex 7: Financial Management and Disbursement Arrangements

REPUBLIC OF YEMEN

SOCIAL WELFARE FUND INSTITUTIONAL SUPPORT PROJECT

A. General

167. The Project will be implemented by the Social Welfare Fund (SWF) through its departments in head office and branch offices. A PST comprised of a team of consultants will be recruited to provide technical and fiduciary support to complement the skills not available in-house. The PST will support the SWF's efforts in implementing the project and will report to the SWF's Executive Director. The PST will consist of a Technical Coordinator, Financial Management Specialist, Procurement Specialist, MIS Specialist and Executive Secretary.

168. The project's design is based on partial use of the country system, with some mitigating measures that follow the ring-fenced approach, as a result of the enhanced structure of the SWF. Procurement, contract management and financial management, including the disbursement process, will all be centralized at the SWF Head Office in Sana'a while the SWF's branch offices in Aden, Hodeidah and Hadramaut will participate in the non-fiduciary/technical aspects of *component 1* and will be responsible for the implementation of Project activities under *component 2*. The head office will provide close monitoring and supervision of the branch offices, and will also take on all fiduciary responsibility. Fiduciary arrangements are centralized at head office, through the PST; one important objective of the proposed Project is to build the fiduciary capacity of the SWF, including the branch offices, so that each office can be responsible for its own fiduciary responsibility in the future.

169. Accounting records will be maintained within the SWF's Head Office using the SWF's existing internally-developed automated accounting system. The SWF will complete the design of its recording and reporting function with project-specific recording and reporting arrangements satisfactory to the Association prior to project effectiveness. The SWF's Head Office will manage all the financial aspects of the Project, including transactions recording and reporting through the use of an automated accounting system and based on an acceptable Financial Management Manual (FMM); the head office will also manage the disbursement process. The SWF will prepare and submit to the Bank the Project's quarterly Interim Financial Reports (IFRs) and annual Project Financial Statements (PFS), reviewed and audited by an independent external auditor.

170. The SWF does not have prior experience with World Bank projects. However, through the recently prepared Emergency Social Safety Net Enhancement Project that is not yet effective, the following FM arrangements were carried out by the SWF which are applicable to the proposed Project: (i) hiring of a qualified Financial Management Specialist based on a TOR acceptable to the World Bank; (ii) developing the FMM which includes the FM procedures, controls, and safeguards including the role of the Internal Audit Department, such manual will be updated to reflect the new project's activities; (iii) establishing an accounting system that is able to record project transactions and generate timely project financial reports; and (iv) the SWF will engage an independent private-sector external auditor acceptable to the Bank and Central Organization for Control and Audit (COCA) to perform the Project's annual financial statement audits and quarterly reviews of the Project's IFRs.

B. Risk Assessment

Country Financial Management Risks

171. As reported and outlined in the Country Assistance Strategy (CAS) of 2009, poor governance remains a critical issue for Yemen. The Country Public Expenditure and Financial Accountability report (PEFA, 2008) indicated that there had been some progress in the fiscal area, particularly in terms of budget expenditure classification and consolidation of investment. However, a lack of progress was observed in achieving budget comprehensiveness and implementing a broader fiscal framework based on a multi-year expenditure framework. Efforts to move forward in reforming budget comprehensiveness, implementation, and cash management, accounting and reporting have been pinned on the design and implementation of the Accounting & Financial Management Information System (AFMIS) project, which is experiencing significant delays. These factors, as well as the poor quality of education and training in accounting, have contributed to the generally observed insufficiencies of the financial reporting and auditing systems in the country. The above Country Risks result in having higher potential exposure to corruption, which is mitigated through the Project's design.

172. An independent external auditor acceptable to the World Bank will be engaged separately to perform quarterly reviews of the Project's IFRs and annual audits of the Project's Financial Statements.

Inherent Risk

Issue / Risk	Risk Before MM	Mitigating Measures (MM)	Risk After MM
The findings of the various country assessments conducted recently indicated lack of progress on achieving sufficient public financial management reforms including governance, accounting and auditing systems in the country. Donors' funds are disbursed as off budget funds.	High	Country systems need to be enhanced. Thus the Project design is based on partial use of country system with mitigating measures following the ring-fenced approach based on the enhanced structure of the SWF.	Substantial

Project Financial Management Risks

Issue / Risk	Risk before MM	Comments / Mitigating Measures (MM)	Risk after MM
Implementing Entity The SWF does not have prior experience with World Bank projects.	High	The project implementation will be ring fenced and a qualified FM Specialist has already been hired whose duties will extend to manage the FM activities of the proposed project. Additionally, the project's accounts will be reviewed quarterly and annually by an independent private external auditor acceptable to the World Bank.	Substantial
Staffing Current FM department may not have required capacity.	High	The SWF has recruited FM Specialist who will be responsible for managing the FM activities of the project. For sustainability of FM arrangements in the SWF, 2 additional accountants have been assigned from the SWF to assist the FM Specialist in maintaining acceptable FM arrangements for the project. The project	Substantial

		FM specialist will also train the two assigned accountants in order to build capacity within the SWF.	
<p>Accounting System & Internal Controls</p> <p>The SWF has a recently internally developed automated accounting system and does not have a complete FM manual of procedures.</p>	High	The SWF's automated accounting system is deemed adequate for this project pending finalizing the project's chart of accounts and reporting capacity to meet the Bank's reporting requirements. The SWF will make such updates to their system and have it ready prior to effectiveness . The SWF has an operations manual approved by the World Bank, but is in the process of completing the FM section of the Manual which a draft has been prepared and submitted to the Bank for review and expected to be ready for the World Bank approval prior to effectiveness .	Substantial
<p>Flow of Funds and Disbursement</p> <p>The SWF does not have prior experience in the Bank's Disbursement Guidelines.</p>	High	All payments to the beneficiaries will be done centrally by the SWF's Head Office in Sana'a. A segregated Designated Account will be maintained at the Central Bank of Yemen (CBY) for the project's funds. The project will use the traditional disbursement methods applied by the Bank.	Substantial
<p>Retroactive Financing</p> <p>The project's Financing Agreement is expected to have a retroactive financing for a portion of the activities (US\$200,000) which will take place prior to effectiveness. SWF is not familiar with retroactive financing.</p>	High	Training the SWF on such expenditures financed retroactively and proper involvement of Bank Procurement and Financial Management Specialists through training and monitoring.	Substantial
<p>Financial Reporting</p> <p>Lack of prior experience with Bank reporting guidelines.</p>	Substantial	Project's interim and annual financial reports will be generated by the SWF's Head Office using the SWF's existing internally developed automated accounting system which the SWF will complete designing its recording and reporting function to be operational with project-specific recording and reporting arrangements satisfactory to the Association prior to project effectiveness. The content and format of the IFRs were discussed and agreed upon during project negotiation. The IFRs will be quarterly reviewed by the external auditor and will report project's source and uses of funds by expenditure of category and project components and activities and reconciliation of the project's designated account.	Moderate
<p>External Audit</p> <p>Audit profession in Yemen requires enhancement.</p>	High	An independent qualified private external auditor acceptable to the World Bank and COCA will be engaged to audit the project's accounts, quarterly and annually and according to TOR acceptable to the World Bank. The TOR will include a special provision for the Auditor to conduct field visits to SWF governorates offices to audit transactions incurred under component 2.	Substantial

Overall FM Risk Assessment

173. While the inherent risk in the Country is ***High*** and the project financial management risk assessment is also ***High***, implementation of the mitigation measures during the proposed project will bring the project financial management risk to ***Substantial***. The mitigating measures are documented in the risks assessment table above.

C. Financial Management Arrangements

Organization and Staffing

174. The SWF is headed by a board of directors, responsible for the overall policy of the Fund and the Minister of Social Affairs and Labor is the chairman of the board. The main executive agency is the SWF Head Office in Sana'a and it has 22 Branch Offices (one in each governorate) and 171 District Offices. The SWF Head Office is headed by its Executive Director who is also a member and secretary of the SWF Board. The Head Office has eight departments and five units dealing with all SWF affairs on the national level.

175. The Finance Department is managed by a Director General from the Ministry of Finance (MOF) who reports directly to the Executive Manager and is also accountable to the Internal Auditor, the MOF, and the Government's Supreme Audit Institution (COCA). This department is responsible for preparing the annual SWF Program budget, undertaking all procurement for the SWF, and maintaining the SWF entities. As a result of the finance department's low capacity and conflict of interest in its mandate (e.g., finance and procurement), the SWF has recruited an FM Specialist who will report to the SWF's Executive Director. The FM Specialist will be responsible for managing the FM activities of the project. For sustainability of FM arrangements in the SWF, two additional accountants have been assigned from the SWF to assist the FM Specialist in maintaining acceptable FM arrangements for the project. The project FM Specialist will also train the two assigned accountants in order to build capacity within the SWF.

Accounting System & Internal Controls

176. The SWF has recently developed an internal automated accounting system, through its IT department, that has 12 employees plus a consultant and reports directly to the Fund Director. This is deemed adequate for this project, pending finalizing the project's chart of accounts and reporting capacity to meet the Bank's reporting requirements. The SWF will make such updates to their system and have it ready prior to effectiveness. The Accounting system will be capable of recording project financial transactions, including allocation and disbursement of expenditures in accordance with respective sub-components, disbursement categories and source of funds. The system has controls over the preparation and approval of transactions ensuring all transactions are correctly made and adequately explained. The system is flexible enough to design chart of accounts that are adequate to properly account for, and report on, project activities and disbursement categories. The system is capable of proper record keeping and has a backup system in the SWF's server. The system is also equipped with security measures that enable passwords for each user as well as access restrictions for recording and posting of transactions.

177. The SWF has an operations manual, which has been approved by the World Bank, but is in the process of updating the FM Manual which will be ready for World Bank approval prior to effectiveness. The FM Manual will: (i) ensure proper segregation of duties in terms of authorizing and recording transactions, and custody of assets; (ii) describe the role of the internal audit department (iii) describe the project's accounting policies; (iv) describe the mechanism used for the

flow of funds to governorates; (v) describe controls applied over training and technical assistance expenditures; and (vi) outline procedures and internal controls. One of the SWF accountants who will be assigned to the project will prepare monthly bank reconciliations while the FM specialist will review and approve. The project will prepare quarterly IFRs showing the source and use of funds by component, expenditure category, and activities. Additionally, the IFRs will report the reconciliation of the Designated Account (DA).

178. There is a nascent internal audit department that operates as part of the SWF and reports to the SWF Executive Director. The department comprises five staff and performs ex-ante review on payment vouchers. A sample of the internal audit reports were reviewed during the assessment and found to be cursory with no clear description of the work performed and recommendations. Each SWF branch office in the governorates has an internal audit unit that reports to the head of the SWF governorate office. However, no coordination mechanism exists between the Internal Audit unit at the HQ with the decentralized units at either the planning or implementation levels. The Internal Audit department will be supported through technical assistance under Component 1 in conjunction with the project activities that support SWF's institutional capacity.

Flow of Funds and Disbursement Arrangements

179. To ensure that funds are readily available for project implementation, a Designated Account in USD will be opened and maintained for the project at the Central Bank of Yemen (CBY). Deposits into, and payments out of the DA, will be made in accordance with the provisions stated in the Financing Agreement. Disbursements under the Grant will be made according to transaction-based disbursement procedures that include withdrawal applications for direct payment, reimbursement and requests for the issuance of special commitments. Withdrawal applications and replenishments of the DA will be prepared by the assigned FM team and signed by authorized signatories as designated by the Recipient. The name and corresponding specimen of signature of each of the authorized signatories will be submitted to IDA.

180. The FM Specialist will review the payment package for completeness and accuracy in accordance with IDA guidelines and submit it for approval of the SWF's Director. Upon receiving the approval, the FM Specialist will prepare a bank transfer or a withdrawal application duly signed by authorized signatories.

181. Additionally, a sub-account will be opened and managed by the SWF. The sub-account will be denominated in Yemeni Rial and will also be opened at the CBY with a ceiling of US\$150,000 to be reviewed and adjusted during project implementation as needed. The SWF will fund the sub-account through transfers from the DA based on a request sent to the CBY, reviewed and approved by the MOF. Payments out of the sub-account will be made through checks signed by the SWF's Financial Management Specialist and Executive Director and can be replenished as disbursements occur and proper supporting documents are filed. Disbursements out of the sub-account are subject to the Project's internal controls as per the Operations Manual and will be subject to the quarterly financial reviews and the annual external audits.

182. Retroactive financing will be authorized for eligible expenditures incurred under the grant from May 1, 2010 until the date of signing the Financing Agreement in an amount not to exceed the equivalent of \$200,000. The retroactive financing will apply to expenditures related to categories (1), (2) and (4) under the grant, namely for consultant services, goods and operating costs. Preparatory and initial implementation activities for developing Terms of Reference and the request for proposal for long-term technical assistance to strengthen targeting, management and

administrative processes (component 1) will be authorized, as well as other activities related to the Project Support Team and fiduciary management functions of the SWF.

Statement of Expenditures (SOE)

183. During implementation, SOEs will be used as supporting documentation for disbursement of all expenditures relating to: (i) goods under contracts costing less than US\$500,000; (ii) consulting services under consulting firm contracts costing less than US\$100,000; (iii) individual consultant contracts costing less than US\$50,000; and (iv) all operating costs and training. Records evidencing eligible expenditures (e.g., copies of receipts, supplier invoices) will be used as supporting documentation for all other disbursement of expenditures, namely those against contracts exceeding the above indicated amounts. The supporting documentation will be maintained at the SWF and will be made available for review by the Bank supervision missions upon request.

Designated Account (DA)

184. One segregated separate DA will be opened at the CBY in Sana'a. The DA will be used to hold the grant funds and from which disbursements to vendors, consultants, and other project activities will be made. No payments for goods or services other than those related to the Project will be made from the account. An authorized allocation of US\$1,000,000 will be deposited in the DA, upon submission of the first withdrawal application. The recipient will send a letter of authorized signatories and their specimen of signatures to the Bank before submitting withdrawal applications (WA). IDA will deposit funds in the designated account opened by SWF. The recipient will submit to the Bank requests to replenish the account , on a monthly basis.

185. Chart A below summarizes the flow of funds from the Bank to the SWF's segregated DA through WAs to finance the Project's eligible expenditures. Payment requests from the DA for eligible expenditures will be approved by the SWF's Financial Management Specialist and Executive Director, and then the payment requests will be sent to the MOF for approval of payment from the DA.

186. Chart B below summarizes the flow of funds from the Bank to the SWF's sub-account at CBY Sana'a. Transfers from the SWF's DA to the sub-account will be through requests by the SWF to the MOF to transfer an initial advance of US\$150,000 from the DA to the sub-account. The same disbursement method applies to the sub-account (i.e., transactions based). Accordingly, the SWF will replenish this account through sending such requests to the MOF. The SWF is not entitled to claim the advance made from the DA to the sub-account until settlements are made and original supporting documents are available.

Chart A – Flow of funds through DA



Chart B – Flow of funds through sub-account



Allocations of the Grant Proceeds

Category	Amount of the Grant Allocated (expressed in USD)	Percentage of Expenditures to be Financed (inclusive of taxes)
(1) Goods	1,600,000	100%
(2) Consultants' Services	2,904,000	100%
(3) Training	2,230,000	100%
(4) Incremental Operating Costs	2,816,000	100%
(5) Unallocated	450,000	
Total	10,000,000	

Project Financial Reporting

187. **Interim Financial Reports (IFRs):** IFRs will be prepared by the SWF through the automated accounting system and submitted to the World Bank *quarterly*. IFRs will be submitted to the Bank no later than 45 days after the end of the quarter. The IFRs will be reviewed by an independent external auditor acceptable to the World Bank and the reports will consist of: (a) statements of sources and use of funds by Component/Activities and Expenditure Category comparing actual and planned expenditures; (b) statement of cash forecast for the following two quarters; and (c) a reconciliation of the DA.

External Audit

188. PFS will be prepared annually by the SWF following the cash basis of accounting with disclosure of the unpaid commitments at the report date and will be audited by the project’s external auditor. The required audit reports are as follows:

- **Entity:** Separate Annual Audited Financial Statements are required to be sent to the World Bank for the SWF Continuing Entity. The entity’s audited financial statements should be submitted to the World Bank within six months of the end of the fiscal year.
- **Project:** Separate Annual Audited Financial Statements of the project are required to be sent to the World Bank within six months from the end of the fiscal year.

- The annual audited financial statements will be audited by an independent external auditor acceptable to the World Bank and each report will cover the period of each fiscal yearend and is due to the Bank within six months from the end of each fiscal year.
- The Terms of Reference (TOR) for the external auditor and the required Project Financial Statements will be agreed by the World Bank.
- The external auditor report (in English) shall encompass all Project components and activities and shall be in accordance with internationally accepted auditing standards, e.g. International Standards on Auditing (ISA). The audit report and opinion will cover the Project’s financial statements, and reconciliation and use of the Designated Account (DA).
- The auditor is required to prepare a “management letter” indentifying any observations, comments and deficiencies, in the system and controls, that the auditor considers pertinent, and shall provide recommendations for their improvements.
- The cost for the external auditors will be funded from the proceeds of the Project.

189. **Corruption:** Fraud and corruption may affect the project resources. The above fiduciary arrangements, including the capacity building of the SWF, reporting and audit arrangements will reasonably reduce the risk of corruption from a technical perspective through the fiduciary arrangements but may not be effective in case of collusion.

190. **Supervision Plan:** Intensive supervision of the early phase of project implementation (three supervisions in year 1) of the SWF component will be carried out to ensure that adequate FM arrangements continue to be in place and the capacity of the FM unit is adequate. Subsequently, supervision will be conducted twice a year to monitor regularly the financial management arrangements for the SWF.

Financial Management Action Plan

The following FM action plan has been agreed upon with the Recipient:

No.	Action	Due date	Responsibility
1	SWF has adopted the updated Financial Management Manual satisfactory to the Association.	Project Effectiveness	SWF
2	SWF’s financial management accounting software is operational with project-specific recording and reporting arrangements satisfactory to the Association.	Project Effectiveness	SWF

Annex 8: Procurement Arrangements

REPUBLIC OF YEMEN

SOCIAL WELFARE FUND INSTITUTIONAL SUPPORT PROJECT

A. General

191. The Government of Yemen (GOY) launched a National Procurement Reform Agenda in 2006. The new procurement law adopted in 2007 (Procurement Law No.23) reflects international best practices in general. Furthermore, the revised executive regulations (the implementation arrangement for Law No. 23) were issued by Cabinet decree in February 2009. A comprehensive National Procurement Manual (NPM) to support GOY's public procurement management at all levels has been issued. The manual includes a national Standard Bidding Documents (SBDs) for Goods, Works and Consultant Services has also been issued.

192. Procurement for the proposed project will be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004, revised October 2006; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, revised October 2006 and the provisions stipulated in the Legal Agreement. In addition, procurement under the proposed project will be carried out in accordance with the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", known as the "2006 Anti-Corruption Guidelines". The various items under different expenditure categories are described in general below. For each contract to be financed by the Grant, the different procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame will be agreed between the Recipient and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

B. Procurement Arrangements

193. **Procurement of Goods:** Goods procured under this project include are but not limited to: IT equipment supporting development of an MIS responsive to departmental data needs, office equipment and furniture for the SWF at both Head Office and Branch Office levels as required during project implementation for building institutional capacity. The procurement will be done using the Bank's Standard Bidding Documents (SBD) for all International Competitive Bidding (ICB), and for National Competitive Bidding (NCB) documents satisfactory to the Bank will be used. Goods contracts estimated to cost more than **US\$50,000** or equivalent will be procured through **NCB** procedures, and goods contracts estimated to cost **US\$200,000** or more will be procured following **ICB** procedures.

194. The procedures to be followed for National Competitive Bidding under this paragraph shall be those set forth in the Recipient's Law No. 23 for 2007 concerning Government Tenders, Auctions and Stores, and its Regulations, subject to the following additional procedures:

- (A) A Recipient-owned enterprise in the Republic of Yemen shall be eligible to bid only if it can establish that it is legally and financially autonomous, operates under commercial law, and is not a dependent agency of the Recipient;

- (B) Bidding (or pre-qualification, if required) shall not be restricted to any particular class of contractors or suppliers, and non-registered contractors and suppliers shall also be eligible to participate;
- (C) Tenders shall be advertised for at least two (2) consecutive days in two (2) local newspapers of wide circulation;
- (D) Prospective bidders shall be allowed a minimum of thirty (30) days for the preparation and submission of bids, such thirty (30) days to begin with the availability of the bidding documents or the advertisement, whichever is later;
- (E) Until national standard bidding documents acceptable to the Association are available, bidding documents approved by the Association shall be used, and may be prepared in Arabic;
- (F) Registration shall not be used to assess bidders' qualifications; qualification criteria (in case pre-qualification was not carried out) and the method of evaluating the qualification of each bidder shall be stated in the bidding documents, and before contract award the bidder having submitted the lowest evaluated responsive bid shall be subject to post-qualification;
- (G) A foreign bidder shall not be required to register or to appoint an agent as a condition for submitting its bid and, if determined to be the lowest evaluated responsive bidder, shall be given reasonable opportunity to register, without let or hindrance; the registration process shall not be applicable to sub-contractors;
- (H) All bids shall be submitted in sealed envelopes and may be submitted, at the bidder's option, in person or by courier service;
- (I) All bids shall be opened at the same time in a public bid opening which bidders shall be allowed to attend and which shall follow immediately after the deadline for submission of bids;
- (J) Evaluation of bids shall be carried out in strict adherence to the criteria declared in the bidding documents and contracts shall be awarded to the lowest evaluated responsive bidder, without resorting to the rejection of bids above or below a certain percentage of the pre-bid estimate (bid price bracketing);
- (K) No bidder shall be requested or permitted to modify its bid after the bid closing date shall have elapsed and bids submitted after the deadline for submission of bids shall be returned to the bidder unopened;
- (L) Post-bidding negotiations with the lowest or any other bidder shall not be permitted;
- (M) Under exceptional circumstances, the procuring entity may, before the expiration of bid validity, request all bidders in writing to extend the validity of their bids, in which case bidders shall not be requested nor permitted to amend the price or any other condition of their bids; a bidder shall have the right to refuse to grant such an extension without forfeiting its bid security, but any bidder granting such extension shall be required to provide a corresponding extension of its bid security;

- (N) Price adjustment provisions may be included in contracts for works with duration of more than eighteen months;
- (O) Rejection of all bids is justified when there is lack of effective competition, or bids are not substantially responsive, however, lack of competition shall not be determined solely on the basis of the number of bidders; and
- (P) Each contract financed from the proceeds of the Grant shall provide that the contractor or supplier shall permit the Association, at its request, to inspect their accounts and records relating to the performance of the contract and to have such accounts and records audited by auditors appointed by the Association.

195. **Shopping:** Goods with estimated contract value less than US\$50,000 will be procured through Shopping procedures by soliciting at least three competitive quotations. SWF will utilize an updated Standard Document for Quotations for goods acceptable to the Association.

196. **Selection of Consultants:** Consultancy Services procured under this project will include but not be limited to the following: (a) technical assistance (TA) to strengthen targeting, management and administrative processes (long term); (b) TA to develop targeting policy options and development of a communications strategy; (c) impact evaluation; and (d) recruitment of a technical coordinator, external auditors, FM specialist, MIS specialist, and procurement specialist.

197. For firms, all contracts will be procured using Quality-and Cost-Based Selection (QCBS), Fixed Budget Selection (FBS), or Least-Cost Selection (LCS) methods except for small contracts of standard or routine nature estimated to cost less than US\$100,000 equivalent which may be procured using Selection Based on Consultant's Qualification (CQS). Single-Source Selection (SSS) for hiring firms for services that meet the requirements of paragraph 3.10 of the Consultant's Guidelines may be used on an exceptional basis, with prior agreement of IDA. Shortlist of consulting firms for services estimated to cost less than US\$200,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. All individual consulting assignments will be on the basis of comparison of qualifications or based on Sole-Source basis in accordance with Section V of the Guidelines for Selection of Consultants.

198. **Non-consulting services** related to the project implementation activities including training activities through three pilot branch offices to contract training providers available in the area, i.e. private and public, NGOs, and CSOs, workshops and study tours, financed by the Project will be procured using IDA procurement guidelines

199. **Selection of training partners/providers under Component 2.** With the technical assistance to be provided under Component 2 of the project, participating branch offices will establish a roster of qualified training providers (NGO, CSO, private and public, etc.) with the agreed rate based on established selection criteria, and the beneficiaries will be encouraged to take the relevant training courses from one of these providers.

200. **Operating costs related to the implementation of the project,** which will be financed by the project and procured using the implementing agency's administrative procedures, and reviewed and found acceptable to IDA, will include: maintenance of equipment, fuel costs, office supplies, banking charges, communication services, local travel cost, per diem, transportation, translation, and other implementation related expenses, but excluding salaries of officials of the Recipient and procurement of vehicles.

C. Assessment of the agency's capacity to implement procurement

201. The SWF has a Financial Department which is led by a Manager seconded from the MOF. The Financial Department has a procurement unit, responsible for all non-high value tenders, while the MOF takes responsibility for high-value contracts. The Department is staffed with two employees responsible for procurement who are not yet familiar with World Bank procurement procedures. Since the project's main focus is capacity building with substantial amount of consultant contracts and procurement of goods, capacity in this area will need to be built rapidly. A core Project Support Team staff including a Procurement Officer will be recruited by effectiveness to establish a procurement management system.

202. To mitigate the risk and ensure proper handling of procurement management, a short-term Procurement Advisor, with a TOR satisfactory to IDA, a short-term Procurement Advisor, with ToRs satisfactory to IDA, will be recruited no later than two months after the effectiveness. The Procurement Advisor will support: (i) quality control of project procurement documents and process and contract management particularly for the consultant services contracts; (ii) on-the-job capacity building for the procurement officer; and (iii) procurement planning, drafting of terms of reference, preparing guidelines and procedures.

203. The overall project risk for procurement is *High* as the proposed project is only the second IDA-financed project to be implemented through SWF. The procurement risk over the first year implementation period is expected to be mitigated and rated as "Substantial" through: (a) provision of capacity building training offered by the World Bank to all project units implementing IDA financed/administered projects, (b) recruitment of a short-term Procurement Advisor no later than two months after the effectiveness to assist SWF procurement management and train procurement staff, and (c) frequent supervision missions.

D. Procurement Plan

204. The SWF with the assistance of the Bank team has developed the Project Procurement Plan for the first 18 months of the project reflecting the major project activities and agreed upon during the negotiations. The Plan will provide the basis for the procurement methods and prior review thresholds for each contract, and will be updated annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

E. Frequency of Procurement Supervision

205. In addition to regular prior review of contract awards above thresholds indicated in the Procurement Plan, IDA supervision missions will take place at least twice a year to carry out post review of procurement actions.

F. Details of the Procurement Arrangements Involving International Competition

1. Goods and Non Consulting Services

List of contract packages to be procured following ICB and direct contracting:

1	2	3	4	5	6	7	8	9
Ref. No.	Contract (Description)	Estimated Cost	Procurement Method	P-Q	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Expected Bid-Opening Date	Comments
ICB-1.1-1	Furniture for 19 branch offices and head office	\$207,600	ICB			Prior	October 22, 2011	For component 1
ICB-2-3	Furniture for 3 pilot branch offices and 25 district offices	\$295,000	ICB			Prior	October 22, 2011	For component 2. This will be tendered together with ICB-1.1-1
ICB-1.1-2	Computers & peripherals for 19 branch offices and head office	\$315,000	ICB			Prior	October 22, 2011	For component 1
ICB-2-4	Computers & peripherals for 3 pilot branch offices and 25 district offices	\$379,000	ICB			Prior	October 22, 2011	For component 2. This will be tendered together with ICB-1.1-2

2. Consulting Services

List of consulting assignments with short-list of firms.

1	2	3	4	5	6	7
Ref. No.	Description of Assignment	Estimated Cost (US\$)	Selection Method	Review by Bank (Prior / Post)	Expected Proposals Submission Date	Comments
QCBS-1.1-1	Long-term technical assistance to strengthen targeting, Mgt and Admin Process	1.5 million	QCBS	Prior	September 4, 2010	For comp 1
QCBS-1.1-2	Consultancy	200,000	QCBS	Prior	July 31,	For component 1

	Services for Communication Strategy				2011	
QCBS-2-3	Long-term Advisor for Comp 2 Design & Imp	250,000	QCBS	Prior	January 6, 2011	For component 2

The prior review thresholds are as follows:

Goods	Above US\$100,000 plus first contract
Consultant Services	Above US\$20,000 for individual and US\$50,000 for firms plus first three contracts, TORs, EOI, short-list, and all single source selection

Post Review: All contracts not subject to prior review shall be subject to post review.

Annex 9: Economic and Financial Analysis

REPUBLIC OF YEMEN

SOCIAL WELFARE FUND INSTITUTIONAL SUPPORT PROJECT

206. This Annex presents the economic and financial analysis of the institutional support for the cash transfer program. The first section presents a brief background on global experience on cash transfer (CT) programs. The second section outlines the economic rationale for investing in the program. The third section details the expected benefits of the project, focusing both on the benefits of the cash transfer program and the beneficiary development program that will be piloted during the project.

207. There is a strong economic and poverty rationale for investing in institutional support for the Social Welfare Fund. A high level of poverty is one of the main challenges facing Yemen and its people, and it is crucial to support the poorest and most vulnerable in the country, not only to reach and sustain the desired growth rate but also to address inequality and achieve stability in the country.

208. **Background and Global Experience on CT programs.** Over the last decade, the number of CT Programs in the world has expanded substantially. The largest CT programs are in Latin America countries, such as Brazil, Mexico and Argentina, covering millions of households. However, recently both Africa and Asia have initiated CT pilots in several countries, such as Kenya, Tanzania, Zambia, Bangladesh and Pakistan. Most CT Programs have two main objectives: (a) to provide poor households with a minimum consumption level and reduce current poverty; and (b) to break the inter-generational transmission of poverty by imposing conditions to the transfers on beneficiary compliance with key human capital investments. Well-designed CT Programs can cost effectively reach the poorest and most deserving households and, where these are present, replace badly targeted and inefficient subsidies. There is mounting evidence that CT Programs are an efficient way of redistributing income to the poor, thereby raising their consumption levels. Moreover, robust impact evaluations of well-designed CT Programs are starting to provide sound evidence of positive impacts on school enrolment and attendance rates. The evidence on health outcome improvements is currently less clear, but some recent studies demonstrate that CT Programs have resulted in increased total food consumption and improved child growth.

209. Although direct cash transfers imply an opportunity cost for the Government in terms of alternative investments, there is growing evidence that they can be equitable and efficient. Fiszbein and Shady (2008) argue that among the evaluated programs there is a significant impact on the poverty gap and the poverty severity index, but that headcount poverty is only affected in programs for which transfers are large enough. Even if a large share of the transfers are used to cover food expenditure and costs related to sending children to school, in some cases the cash transfers are used for savings or investments in productive assets. Savings allow households to protect themselves from negative shocks that would otherwise have a long-term negative impact on a household's welfare and productive assets that might in future generate income for the household.

210. **Economic Rationale for Investing in the Program.** In a well-targeted CT program, the beneficiary households will be the poorest among the overall population. The high level of poverty is one of the main challenges facing Yemen and its people and it has become evident that it is crucial to support the poorest and most vulnerable in the country to not only reach expected growth, but to sustain it. Moreover, the Social Protection (SP) strategy for Yemen includes the Social Welfare Fund's cash transfer program as one of the key components.

211. The number of poor in Yemen has been rising due to a number of problems including the food and financial crisis, decreasing oil revenues, armed conflict in several regions, and climate change. This provides an added rationale for improving the targeting of the cash transfer program and improving its performance.

212. Adequate education and good health are key elements in reducing poverty in Yemen. Both offer high rates of return and promote future economic development. Since cash transfer programs are capable of increasing rates of school enrollment and improving health outcomes (through better nutrition and increased affordability of health services), the SWF can play an important role in reducing poverty through this mechanism.

213. The cash transfer program can be an integral part of Yemen's broader poverty reduction strategy - interacting with and working alongside health, education, and financial services; the provision of utilities and roads; and other policies aimed at reducing poverty and managing risk. In Yemen there are several key economic rationales for investing in a well-performing SWF

- Redistribution of income to the poorest and most vulnerable, with an immediate impact on poverty and inequality.
- Enabling households to make better investments in their future. In this role, the cash transfer program basically acts to remedy credit market failures, allowing households to take up investment opportunities that they would otherwise miss - both in the human capital of their children and in the livelihoods of the earners.
- Helping households to manage risk. At a minimum, the cash transfer program can help households facing hard times avoid irreversible losses, allowing them to maintain the household and business assets on which their livelihoods are based, and to adequately nourish and school their children. At best, they can provide an insurance element that lets households make choices about livelihoods that yield higher earnings. Safety nets thus both protect households and promote their independence.

214. **Expected benefits of the ISP and its effects on poverty.** It is in general difficult to quantify in monetary terms the social and economic benefits of a cash transfer program, as they typically influence health outcomes and other outcomes that are difficult to quantify in monetary terms. Since there has still not been a comprehensive impact evaluation of the SWF's cash transfer program, it is even more difficult to quantify expected program benefits. This section therefore provides descriptive explanations of expected gains to provide an idea of the overall scope of expected program impact.

215. **The importance of targeting in order to achieve maximum benefits.** Cost-effective cash transfer programs channel most program resources to their intended target group. They also economize the administrative resources required to implement the program in two ways. First, at the level of the whole safety net system, they avoid fragmentation and the subsequent need to develop administrative systems without realizing economies of scale. Second, they run efficiently with the minimum resources required to achieve the desired impact, but with sufficient resources to carry out all program functions well. As such, it is critical that SWF's targeting performance be improved in order for its expenditures on the cash transfer program to have the maximum benefits.

216. A review of the SWF's current targeting mechanism was recently conducted to examine whether the SWF is efficiently reaching households in extreme poverty. The analysis suggested that the cash transfer program does not successfully reach the poorest households, but that there is room for improvement to reach more households in extreme poverty as a result of a new proxy means testing

(PMT) method that has been put into place. On this basis, it has been decided that the program targeting mechanism should be revised based on data analysis from the beneficiary and applicant survey. The Program currently has 1 million beneficiaries and 600,000 applicants who are on the waiting list. If targeted correctly, the program can reach a very large fraction of the poor in Yemen.

217. Since the improvement of targeting is a key part of *component 1* of the ISP, the project can result in much larger benefits down the road if it succeeds in improving targeting procedures used at SWF. Also, by increasing the likelihood that better-off beneficiaries (particularly those in groups E and F) will not remain on beneficiary rolls, the ISP will result in the cash transfer program being more efficient in meeting its poverty targeting goals.

218. **Primary benefits of the program: Increased school enrollment and attendance, reduced rates of mortality, morbidity and malnutrition, and higher consumption.** Three of the main benefits of SWF's cash transfer program are likely to be: (i) increased school enrolment and attendance for children; and (ii) reduced rates of mortality, morbidity and malnutrition among 0 to 5 year old children; and (iii) increased consumption among beneficiary households. Improvements in the health and education outcomes of children and the wider family are expected due to the income effects of the transfer (e.g., increased food consumption, dietary diversity). In addition to the direct welfare benefits arising from improved health status, gains can also be expected through increased schooling levels, improved cognitive achievement as well as productivity, earnings and income for adults. Both adequate education and good health are key elements in reducing poverty in Yemen. Increasing the level of education and improving child health among the population are important from an economic perspective because, without an educated and healthy workforce, it would be difficult for Yemen to achieve desired economic growth. Improved education and health would increase individuals' earning and labor market potential and also their productivity. However, these are long-term benefits that are very difficult to measure. In the short-run, the results would be measured by level of enrollment in primary school and reduced rates of malnutrition.

219. **Health and nutrition benefits.** Unconditional cash transfer (UCT) programs such as Yemen's program have had positive effects on health and nutrition in Malawi, South Africa and Zambia. In Malawi, the cash transfer led to improvements in health care access for adults and children among the beneficiary households. The number of children under 18 who were sick in the previous month before the survey was 13 percent lower among intervention households compared to comparison households (42 vs. 55 percent). In addition, 81 percent reported that their children's health had improved compared to 15 percent among comparison households. The beneficiaries of South Africa's Child Support Grant (CSG) also reported a significant impact on their child's anthropometric growth. Children who first received the transfer after age two or who benefitted less than 20 percent of nutrition window of opportunity experienced no statistically significant impact. However, the children who received the transfer before age 2 and continued to receive benefits for at least two-thirds of their first three years of life experienced significant improvement in height attainment. A male child who received the CSG before age 1 and received benefits for the next two years experienced an increase in height for age of 0.4 or approximately 3.5 cm leading to a 2.1 percent gain in adult height. In addition, the evidence also suggests that cash transfer programs targeted to the elderly particularly if they are female have positive impacts on children's nutritional status.

220. **Consumption benefits.** Evidence from various programs suggests that UCT's have made substantial impacts on consumption mostly related to expenditures on food, the quantity and quality of food consumed and changes in children's nutrition. In most programs beneficiaries spend substantial amounts of the transfer on food and this has led to increased food consumption in the beneficiary households. Impact evaluation of Ethiopia's safety net program found that 80 percent of the beneficiaries used cash transfers on staple foods and 11 percent used some of the transfer for other food items. In

addition, participating households consumed more and better quality food after receiving the transfer and 60 percent of the beneficiaries were able to keep more of the food they produced for their own consumption. The Malawi Cash Transfer Program also showed improvement in food consumption where 93 percent of the intervention households reported improved food consumption. In addition, in Malawi and Zambia, the transfer also increased dietary diversity and number of meals consumption per day. In Malawi, average meals per day among beneficiaries significantly increased from 1.5 meals per day for children and adults at baseline to an average of 2.4 meals per day meals per day. In addition, impact evaluations from these programs also suggest that UCTs can be appropriate responses to acute food crisis; long term cash transfers as part of a social protection strategy are feasible and help to alleviate chronic poverty and increase the resilience of households to deal with periodic shocks.

221. **Education benefits.** UCT programs in South Africa, Malawi and Zambia show a positive impact on education. In Zambia and South Africa, the largest impacts indentified on enrollment rates concern very young children, suggesting that improved nutrition and health may have increased school attendance. Evidence from the Zambia scheme shows that between the baseline data and program evaluation, school enrollment for children between the ages of 5-18 increased significantly with the largest increase between 14-15 years. In terms of gender disparities, girls were disadvantaged compared to the boys, indicating that with a low transfer level, parents often send only one child and it is usually a boy. The Malawi program provided a protective function with respect to schooling: after one year, children in beneficiary households had doubled their enrollment rates compared to comparison households, with drop rates half as large as children in comparison households. The beneficiary group also had fewer school absences per month.

222. **Expected benefits from the Beneficiary Development Program.** *Component 2* of the ISP aims to pilot the Beneficiary Development Program in 25 districts. By linking health education services as well as skills training to the cash transfer program, the BDP will help ensure that the SWF has the maximum possible impact that a well-functioning cash transfer program would typically have. In this sense, the BDP ensures that results from the well-known cash transfer programs in Latin America are replicated in Yemen as well. This is likely to be due to the following key aspects of the BDP:

- ***Focus on health and education for the poorest groups (groups A and B under the PMT).*** By complementing the cash transfer programs with health (especially nutrition) and literacy services to the poorest beneficiary households, the BDP is likely to result in reduced malnutrition, improved maternal health and higher education outcomes. This part of the BDP will maximize the chances that the cash transfer program is used to promote better health and education in poor households. As indicated earlier, these outcomes also happen to be the ones that generate the largest long-term returns in terms of better adult labor productivity and better schooling performance.
- ***Focus on skills training and access to microcredit for beneficiaries in groups C and D.*** This part of the BDP will ensure that the cash transfer program is used as a vehicle for helping beneficiaries raise their future income and employment possibilities, while also serving as an opportunity for the cash transfer program to eventually target only the poorest Yemeni households. In the long-term, it is hoped that this part of the BDP will enable the beneficiaries to graduate from the cash transfer program. This would mean improved targeting in the years to come and a more cost-effective cash transfer program overall.

223. There is evidence from some cash transfer programs that program beneficiaries make more use of health services than they would have in the absence of the intervention. In the case of Yemen's SWF cash transfer program, it is also possible that growth monitoring for children, as well as immunization rates among young beneficiary children, would improve.

224. **Conditionality vs. unconditionality.** Whether the cash transfers provided by SWF must be conditional on certain behaviors (such as sending children to school, attending education sessions, etc.) in order to result in large economic benefits is an open question. Currently, there is limited evidence internationally on whether cash transfers are more effective in improving health and education outcomes and changing behavior. While many countries have implemented conditional and unconditional cash transfer programs, few have done both and rigorously compared the effectiveness of the two types of programs. A smaller pilot impact evaluation in Malawi conducted recently suggests that school attendance increased by the same amount in households that received conditional and unconditional cash transfers.

225. Unconditional Cash Transfers (UCTs) give poor families more flexibility and are administratively less challenging to implement. However, conditions reassure governments and donors that money will be spent on desired goals. In practice, compliance with conditions is not always enforced rigorously. The Kalomo Cash Transfer Program in Zambia found that recipients made rational spending decisions, including on health and education for families. UCTs are likely to impact on human development where vulnerable groups have sufficient access to information to make informed choices about health and education. This is also confirmed by findings in the broader literature. Significantly, cash transfers have been found to have an indirect benefit in terms of empowering women and socially excluded groups through increased control of household finances.

226. UCTs tend to be smaller in scale, developed without control groups and implemented in lower income contexts where analysis can be constrained by weaknesses in data, administration and contextual facts. Despite these limitations, a body of supporting evidence is emerging, particularly in the African contexts, which shows that unconditional cash transfers have had an impact on consumption and human capital, even if the magnitude of those impacts and isolation of program impacts are not definitive.

227. **Poverty effects.** Reaching the program objectives would contribute to a greater reduction in poverty and inequality and mitigate their intergenerational transmission. The impact of the cash transfer program on poverty will depend very much on the extent to which the program is successful at targeting the poorest households. In this sense, using the PMT as opposed to the previous categorical targeting method will enhance the impact of the cash transfer program on poverty rates. By receiving regular cash transfers, households are likely to increase their food intake, thereby resulting in less food insecurity and the maintenance of productive assets. This is expected to have a positive effect on consumption smoothing. This will reduce both income poverty and income inequality due to the redistributive effect of targeting the transfer to the poorest families within the households.

Annex 10: Safeguard Policy Issues

REPUBLIC OF YEMEN

SOCIAL WELFARE FUND INSTITUTIONAL SUPPORT PROJECT

A. Targeting and Inclusion of the Poor and Vulnerable

228. Yemen is an overwhelmingly rural country with over 70 percent of the population living in rural areas. Yemen suffers from structural poverty (chronic poverty) where households in certain areas have continuous difficulty in meeting acceptable levels of food consumption (i.e., those who do not have enough resources for a sufficient basic needs basket). To ensure an effective safety net, targeting methods must be designed to find and to protect the poorest households in the population. The poor in Yemen are particularly concentrated in governorates with high population density and very small land holdings. In addition to the small size of agricultural holdings, the population suffers from inadequate access to services, largely due to the very rough terrain and the dispersal of very small settlements.

229. To implement a CT program that covers the basic needs of the poorest, it is necessary to identify who the poorest are and how to support them as potential beneficiaries. Given that full information about the household welfare is not available on a regular basis for all of the population in Yemen, and that data collection is costly and time-consuming, an alternative way to identify the poor population must be found. The suggested approach is to predict the household welfare (proxy means) based on a number of easy-to-verify variables such as gender of the head of household, number of children in the household, type of house construction material, type of water connection, etc.

Proxy Means Test (PMT)

Selection and Development of the PMT as the SWF Targeting Method¹³

230. The proposed SWF targeting method, the Proxy Means Tests (PMT), is being used in many countries for targeting their cash assistance programs, either conditional cash transfers linked to human capital accumulation or unconditional cash transfers, to the poorest of the poor households. The PMT method was chosen to improve pro-poor targeting based on specific features which make this method most suitable for the Yemeni context (i.e., where household income is based on a large share of non-verifiable sources of income (informal sector and own production)). In the PMT method, observable variables such as individual/household characteristics and household ownership of durable goods (known as an asset index) are collected and a series of “weights” applied to predict household welfare. The weights are derived from the standard HBS information on household consumption and household characteristics. Statistical models are developed and applied to applicant data to predict household welfare and rank applicants/beneficiaries according to income relative to the regional poverty line.

231. The proposed PMT weights to apply to SWF applicant/beneficiary data are presented in the table below:

¹³ Project Note. Phillippe Leite, Economist, Social Protection & Labor (Safety nets team). The World Bank, October 2009.

Geographical characteristics		Characteristics of the head	
Urban Area	0.062	Gender: male	0.043
Governorate		Age	0.003
Ibb	0.000	read and write: yes	0.067
Abyan	-0.184	Primary education: yes	0.109
Sana'a city	0.107	Secondary education: yes	0.169
Al-baida	-0.283	Married: yes	-0.064
Taiz	-0.026		
Al-jawf	-0.102	Housing Characteristics	
Hajja	0.067	Floor type: mud	-0.244
Al-hodeida	-0.022	Floor type: flagstone/cement	-0.165
Hadramout	-0.120	House type: Luxury apartment/vila	0.082
Dhamar	0.191	Fuel: Gas	0.024
Shabwah	-0.163	Water system	0.057
Sa'adah	0.160	Household size	-0.063
Sana'a region	0.033	Number of members 6-25	
Aden	0.039	attending school	-0.012
Laheg	-0.229	Number of members 6-25	
Mareb	0.026	that attend school	0.030
Al-mahweet	-0.027	Number of members 6-25	
Al-maharh	0.417	that never attended school	-0.019
Amran	-0.298	Family property	
Al-dhale	-0.029	Fixed/Mobile telephone	0.234
Remah	0.104	TV	0.095
		Washing Machine	0.071
		Sewing machine	0.032
		Taxi Bus	0.302
		House for rent	0.130
		Own agricultural Plot	0.098
		Constant	11.550

Testing of the PMT Method for Accuracy and Improved Targeting

232. The PMT ranks SWF applicants and existing beneficiaries according to the following categories:

- a. A&B groups – income below the regional poverty line;
- b. C group – income close to the regional poverty line. At risk of becoming poor;
- c. D group – income approximately 25 – 50 percent above regional poverty line. Subject to income risks;
- d. E and F groups – income substantially above (+55 percent) regional poverty line. Should not be included to receive CTs.

233. In a series of micro-simulations on existing SWF beneficiary and survey data from 2008, the PMT targeting accuracy in increasing the coverage of the poor was compared to the previous Score Card targeting method used by SWF. The SWF 2008 survey included income level information as well as PMT/Score Card indicator data, allowing comparison of actual income reported with the PMT and Score Card scores for each applicant.

- a) The simulations showed that using the Score Card targeting method would extend coverage to only 8.4 percent of the population and reach only 10.8 percent of the lowest HBS decile (i.e., the poorest 10 percent).
- b) By applying the PMT weights, the coverage for Group A remained approximately the same (9 percent), but reach was extended to cover 26.9 percent of the poorest 10 percent.
- c) By including Group A&B data in the simulation, 35 percent of the Yemeni population would be covered and the program would reach 77.5 percent of the poorest 10 percent.
- d) In considering budget allocation to the extreme poor, the Score Card method was found to reach approximately 19 percent of the poorest, while the PMT Group A method reached approximately 50 percent of the poorest.

234. These results suggest higher targeting errors (inclusion and exclusion errors) under the Score Card targeting method, leading to the recommendation that SWF use the PMT method to increase the targeting accuracy of the program to include poor and vulnerable households.

Process of beneficiary selection and enrollment – reaching out to the poor

235. Reaching the ultra-poor is a challenge: they are often widely dispersed in small settlements, have no means of communication with authorities and lack basic skills (i.e., literacy, numeracy, etc.) and resources. Multi-pronged methods such as surveys, community consultations, CSO contacts, SWF staff knowledge, knowledge of other program staff, etc., must be utilized to identify them. The SWF process of beneficiary selection and enrollment is carried out in the following steps:

- a) *Identification* - Obtain a list of potential beneficiaries developed from community sources as well as from new applicant lists. Community committees/leaders can help to identify and inform households that they can apply to the CT program. Community leaders or social workers at the time of application inform households concerning the program rights, obligations and rules via an orientation meeting.
- b) *Registration* – Register and collect survey data/information on potential beneficiaries. Registration can also be open to people from the community not previously identified, but still deemed to be poor.
- c) *Selection* - The selection of potential beneficiaries is made using a proxy means testing approach based on the information collected from each household registered for the program. The PMT formula is designed to capture one dimension of the economic status of the household, i.e., the economic welfare of the household. The PMT represents the “predicted (potential) household per capita expenditure” according to household characteristics. The final list of selected applicants can be verified by the community or by community leaders during consultations.
- d) *Enrollment* – beneficiaries are enrolled in the program (after selection of potential beneficiaries based on the previous steps) to receive a certain amount of cash. As part of the enrolment process, families receive information about the entitlements of the Program and payment method, and are provided with identity cards.

Successful Application of the PMT for Pro-poor Targeting Results

236. There are very clear steps and processes that lead to successful application of the PMT, resulting in CT program resources going to those in most extreme need. These are:

- a) *Clarification of objectives*: Clear orientation sessions for community leaders and beneficiaries on the objectives of the Program as part of a comprehensive communication strategy.
- b) *Co-responsibilities*: Clarification of the co-responsibilities of community leaders for good implementation of the program, i.e., ensuring that eligible households are enrolled.
- c) *Qualified staff with computer skills*: A comprehensive data registration and an application of PMT require staff with good computer skills.
- d) *Management Information System (MIS)*: A comprehensive and well-designed MIS system helps administrators to apply the PMT weights to generate the PMT score formula to determine eligible beneficiaries in addition to supporting accountability throughout the full CT program cycle.
- e) *Operations Manual*: A comprehensive OM with instruments and guidelines guides all operational and organizational activities related to the Program.

B. Gender Considerations – Inclusion of Female Household Members

237. The Yemen Country Assistance Strategy points out that 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.

238. 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.

239. Poverty does not appear to be worse among female-headed households than others, according to both the WB and FAO. Only 8% of households are officially female-headed, and a further 10% can be considered de-facto female-headed as the male head is away for 6 months a year or more. Poverty incidence is not significantly different between these and other households; however the Household Budget Survey (HBS) established that resources are better allocated in female-headed households, which spend more on education and food than on tobacco and qat.

240. Yemen's DPPR recognizes the challenges faced by Yemeni women and discusses the need to tackle the complex web of economic, social, cultural, and legal obstacles to women's empowerment. In particular, one of the aims of the DPPR is 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.

241. Discussions were held during project design concerning the possibility of CT payments going to women in the HH rather than men to achieve better outcomes for families. This dialogue will continue at the governorate level to explore options. The involvement of female household members in proposed ISP basic education, numeracy, nutrition awareness, and health improvement activities will be essential. Based on WB project experience in similar cultures, male leaders have been used as the channel to involve women in project activities. Through ISP Component 2 pilots, a practical gender approach will be developed to:

- a. engage women in BDP human capital, training activities and
- b. engage women and men as responsible partners in using both the CT and SWF services to improve health, nutrition and basic literacy within the family.

C. Program Transparency – Community Consultation and Information Disclosure

242. Successful cash transfer programs build broad credibility and accountability among beneficiaries and other stakeholders. SWF needs to establish and apply clear and transparent rules on beneficiary selection criteria, established benefit levels, rights and obligations of beneficiaries, grievance and complaint systems. The credibility of the program also rests on SWF's ability to keep an ongoing communication with, and receive feedback from, participating households. The role of community members to identify poor households not yet receiving benefits, verify that those receiving benefits are deserving, and to act as a "check and balance" mechanism concerning falsification of information will be strengthened through pilot activities.

243. The ISP will assist the SWF to develop and maintain an ongoing dialogue with key stakeholders to build the constituency for reform throughout project preparation and implementation. The project through its pilot will support overall participation by a wide range of stakeholders in aspects of project preparation, design and implementation. Potential training providers will include local CSOs, NGOs, agencies and training institutions. Through the inclusion of CSOs, such as the Midwives Association and the National Network for Motherhood and Children, the project will strengthen SWF's gender focus at the community level. Individuals and community groups will be invited to participate in the basic education, numeracy and nutrition information/training sessions offered through the SWF BDP in the pilot governorates/districts. It is expected that sessions of this nature will build Yemeni human capital as well as promote awareness and increase the demand for health and nutritional services from other providers. The project will also involve CSOs and NGOs to identify eligible households not yet receiving benefits as well as to increase CT program information dissemination.

244. The project will assist the SWF to strengthen CSO/NGO partnerships to most effectively engage in policy dialogue concerning poverty alleviation and household needs, as well as to provide feedback on results at the household/community level of the CT program. The SWF has established a CSO Coordination Unit in order to maximize resources and build social accountability for the SWF practices and procedures at the household level. Additional information on the CSO networks and associations in Yemen will be gathered during the life of the project to assess up-scaling options and CSO best practices.

Annex 11: Project Preparation and Supervision

REPUBLIC OF YEMEN

SOCIAL WELFARE FUND INSTITUTIONAL SUPPORT PROJECT

	Planned	Actual
PCN review	January 2010	January 13, 2010
Initial PID to PIC	February 1, 2010	March 26, 2010
Initial ISDS to PIC	February 1, 2010	March 26, 2010
Appraisal	April 5-11, 2010	April 5 -11, 2010
Negotiations	April 24-25, 2010	April 26-27, 2010
Board approval	June 8, 2010	
Planned date of effectiveness	October 1, 2010	
Planned date of mid-term review	April 15, 2013	
Planned closing date	March 31, 2017	

Key institutions responsible for preparation of the project:

- Yemen Social Welfare Fund

Bank staff and consultants who worked on the project included:

Name	Title	Unit
Afrah Al-Ahmadi	Senior Human Development Specialist ,TTL	MNSSP
Trina Haque	Lead Economist	MNSHH
Mira Hong	Operations Officer	MNSSP
Harsha Thirumurthy	Economist	MNSHD
Danielle Malek	Counsel	LEGEM
Phillippe Leite	Social Protection Economist	HDNSP
Mike Mengesha	Sr. Procurement Specialist	MNAPR
Samira Al-Harithi	Procurement Specialist	MNAPR
Moad Alrubaidi	Financial Management Specialist	MNAFM
Akram El-shorbagi	Senior Financial Management Officer	MNAFM
Saleh Qasem Al-Manary	Financial Management Analyst	MNAFM
Marget Davis	Social Development Specialist	Consultant
Khaled Al-Duais	Training Specialist	Consultant
Judith Brandsma	Micro Finance Specialist	Consultant
Renata Lukasiewicz	Program Assistant	MNSHD
Afifa Alia Achien	Sr. Program Assistant	MNSHD
Maha Assabalani	Team Assistant	MNCYE

SWF Bank funds expended to date on project preparation:

1. Bank resources: US\$120,000
2. Trust funds: N/A
3. Total: US\$120,000

Estimated Approval and Supervision costs:

1. Remaining costs to approval: US\$30,000
2. Estimated annual supervision cost: US\$120,000

Annex 12: Documents in the Project File

REPUBLIC OF YEMEN

SOCIAL WELFARE FUND INSTITUTIONAL SUPPORT PROJECT

Selected documents available with the World Bank and/or with SWF are the following:

- An Integrated Approach to Social Sectors Towards a Social Protection Strategy, Phase I Report, June 2007
- Yemen Poverty Assessment Report, November 2007
- Country Social Protection Strategy, Phase II, June 2008
- A Social Protection Strategy, Phase III, *Strategy, Action Plan and M&E Framework*, June 2009, by Marget Davis
- Review of Program Practices, Mission Report, June 2007, by Christina A. Shafi
- Targeting and Evaluation in Yemen: the SWF PMT targeting approach, October 2009
- Beneficiary Development Program, Status Report
- Assessment of the Credit-Component of the Beneficiary Development Program (BDP)
- Social Welfare Fund Law No. 35, Republic of Yemen, 2008
- Social Welfare Fund Reform Policy Paper (draft), European Commission, October 2007

Annex 13: Statement of Grants and Credits

REPUBLIC OF YEMEN

SOCIAL WELFARE FUND INSTITUTIONAL SUPPORT PROJECT

Project ID	FY	Purpose	Original Amount in US\$ Millions					Cancel.	Undisb.	Difference between Expected and Actual Disbursements	
			IBRD	IDA	SF	GEF	Orig.			Frm. Rev'd	
P050706	2000	RY - Civil Service Modern	0	44	0	0	0	19.53	1.94	1.94	
P005906	2001	RY - Rural Water Supply & Sanitation	0	40	0	0	0	3.99	-18.74	-2.69	
P070092	2002	RY - Taiz Municipal Dev. & Flood Protection	0	100.2	0	0	0	38.95	-22.19	3.6	
P057602	2003	RY - Urban Water Supply & Sanitation APL	0	130	0	0	4.74	40.9	26.01	13.83	
P065111	2003	RY - Port Cities Development Program	0	23.4	0	0	0	3.34	-0.01	0	
P064981	2003	RY - Sana'a Basin Water Management	0	24	0	0	0	2.96	0.2	-1.42	
P082976	2004	RY -Third Public Works	0	74.84	0	0	0	9.67	-21.48	-8.83	
P074413	2004	RY - Groundwater & Soil Conserv Proj	0	70	0	0	0	27.39	-2.1	1.29	
P076185	2005	RY - Basic Education Development Program	0	65	0	0	0	17.05	13.27	-1.39	
P086886	2006	RY - Fisheries Res. Mngmnt & Conservation	0	25	0	0	0	19.94	8.82	0	
P086865	2006	RY - Power Sector	0	50	0	0	0	53.76	46.58	0	
P085231	2006	RY - Second Rural Access	0	80	0	0	0	50.76	9.37	0	
P086308	2007	RY - Second Vocational Training Project	0	15	0	0	0	14.99	5.02	3.02	
P089259	2007	RY - Rainfed Agriculture and Livestock	0	20	0	0	0	15.89	8.57	0	
P101453	2008	RY - Institutional Reform Credit (DPL)	0	50.93	0	0	0	25.55	-1.53	0	
P089761	2008	RY - Sec. Educ. Dev. and Girls Access	0	20	0	0	0	19.81	3.62	2.62	
P092211	2009	RY - Rural Energy Access	0	25	0	0	0	26.35	0.3	0	
P107037	2009	RY - Water Sector Support	0	90	0	0	0	87.78	8.95	0	
P113102	2010	RY - Schistosomiasis Control Project	0	25	0	0	0	24.67	0	0	
P117949	2010	RY - Social Fund for Development IV	0	60	0	0	0	60	-	-	
		Total:	0	1,032.37	0	0	4.74	503.28	66.6	11.97	

STATEMENT OF IFC's Held and Disbursed Portfolio (In Millions of US Dollars)

Status as of February 28, 2010

Commitment	Institution	Committed						Outstanding						
		Loan		Equity		Quasi		Guarantee		ALL		ALL		
		Cmtd - IFC	Cmtd - IFC	Cmtd - IFC	Cmtd - IFC	Cmtd - IFC	Cmtd - IFC	Cmtd - IFC	Cmtd - Part	Out - IFC	Out - IFC	Out - IFC	Out - IFC	Out - IFC	Out - Part
1999	ACSM	1.97	0	0	0	1.97	0	1.97	0	0	0	0	1.97	0.00
2003	Ahila Water	1.36	0	0	0	1.36	0	1.36	0	0	0	0	1.36	0.00
2006	NCC Yemen	35.00	0	0	0	35.00	0	0	0	0	0	0	0	0.00
2007	S Y Healthcare	18.95	0	0	0	18.95	0	18.95	0	0	0	0	18.95	0.00
2007/ 2008	AYCC	70.00	0	0	0	70.00	55.00	47.60	0	0	0	0	47.60	37.40
2007/ 2008/ 2009/ 2010	Saba Islamic Bnk	0	0	0	1.86	1.86	0	0	0	0	1.86	1.86	0.00	0.00
2008	Al-Maw arid	8.00	0	0	0	8.00	0	8.00	0	0	0	0	8.00	0.00
2008	Magrabi Yemen	10.00	0	0	0	10.00	0	0	0	0	0	0	0	0.00
Total Portfolio		145.28	0	0	1.86	147.14	55.00	77.88	0	0	1.86	79.74	37.40	

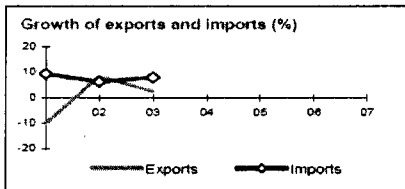
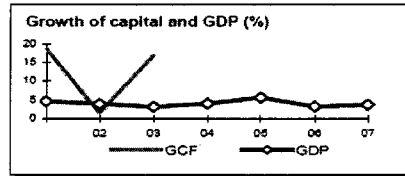
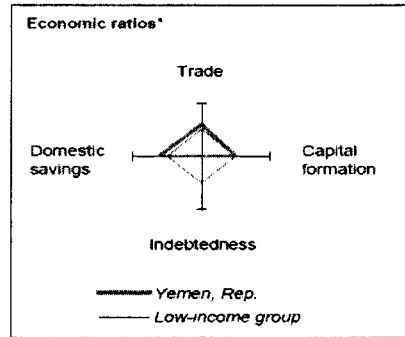
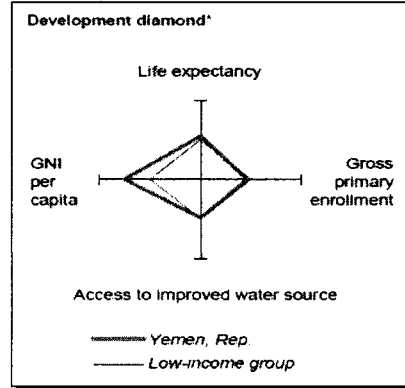
Annex 14: Country at a Glance

REPUBLIC OF YEMEN

SOCIAL WELFARE FUND INSTITUTIONAL SUPPORT PROJECT

9/24/08

POVERTY and SOCIAL	Yemen	M. East & North Africa	Low-income	
2007				
Population, mid-year (millions)	22.4	313	1,296	
GNI per capita (Atlas method, US\$)	870	2,794	578	
GNI (Atlas method, US\$ billions)	19.4	876	749	
Average annual growth, 2001-07				
Population (%)	3.0	1.8	2.2	
Labor force (%)	4.2	3.6	2.7	
Most recent estimate (latest year available, 2001-07)				
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	30	57	32	
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	
Access to an improved water source (% of population)	66	89	68	
Literacy (% of population age 15+)	54	73	61	
Gross primary enrollment (% of school-age population)	87	105	94	
Male	100	108	100	
Female	74	103	89	
KEY ECONOMIC RATIOS and LONG-TERM TRENDS				
	1987	1997	2006	2007
GDP (US\$ billions)	..	6.9	19.1	22.5
Gross capital formation/GDP	..	24.7	..	..
Exports of goods and services/GDP	..	35.8	..	..
Gross domestic savings/GDP	..	16.0	..	..
Gross national savings/GDP	..	25.0	..	..
Current account balance/GDP	..	0.3	..	..
Interest payments/GDP	..	0.4	0.3	..
Total debt/GDP	..	55.8	29.2	..
Total debt service/exports	..	2.6	..	..
Present value of debt/GDP	..	..	19.5	..
Present value of debt/exports	..	..	..	..
	1987-97	1997-07	2006	2007
(average annual growth)				
GDP	6.0	4.1	3.2	3.6
GDP per capita	1.5	1.0	0.1	0.6
Exports of goods and services	27.2	8.6	..	..
STRUCTURE of the ECONOMY				
	1987	1997	2006	2007
(% of GDP)				
Agriculture	..	16.3	..	..
Industry	..	43.2	..	..
Manufacturing	..	10.3	..	..
Services	..	40.5	..	..
Household final consumption expenditure	..	71.0	..	..
General govt final consumption expenditure	..	13.0	..	..
Imports of goods and services	..	44.5	..	..
	1987-97	1997-07	2006	2007
(average annual growth)				
Agriculture	4.7	3.3	..	..
Industry	8.4	4.5	..	..
Manufacturing	5.0	9.9	..	..
Services	5.4	4.3	..	..
Household final consumption expenditure	3.0	1.5	..	..
General govt final consumption expenditure	-0.1	8.7	..	..
Gross capital formation	14.6	0.8	..	..
Imports of goods and services	15.9	3.0	..	..



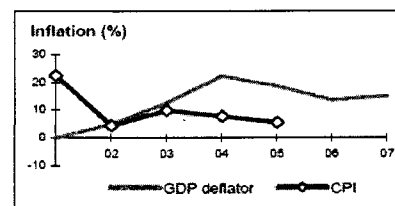
Note: 2007 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

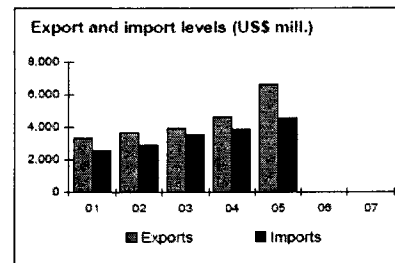
PRICES and GOVERNMENT FINANCE

	1987	1997	2006	2007
Domestic prices (% change)				
Consumer prices	..	2.2	..	..
Implicit GDP deflator	..	11.8	13.6	15.0
Government finance (% of GDP, includes current grants)				
Current revenue	..	32.0	..	..
Current budget balance	..	4.8	..	..
Overall surplus/deficit	..	-1.5	..	..



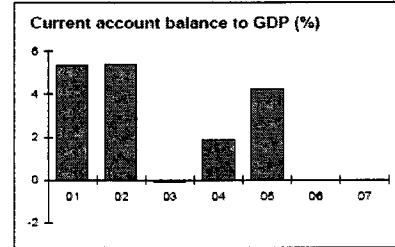
TRADE

	1987	1997	2006	2007
TRADE (US\$ millions)				
Total exports (fob)	..	2,274	..	..
Crude oil (government share)	..	1,012	..	..
Crude oil (company share)	..	933	..	..
Manufactures	..	26	..	..
Total imports (cif)	..	2,407	..	..
Food	..	992	..	..
Fuel and energy	..	231	..	..
Capital goods	..	440	..	..
Export price index (2000=100)	..	71	..	..
Import price index (2000=100)	..	107	..	..
Terms of trade (2000=100)	..	67	..	..



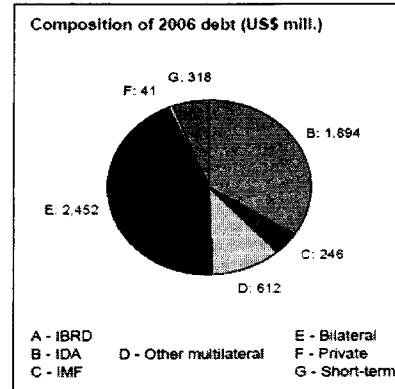
BALANCE of PAYMENTS

	1987	1997	2006	2007
BALANCE of PAYMENTS (US\$ millions)				
Exports of goods and services	..	2,482	..	..
Imports of goods and services	..	3,084	..	..
Resource balance	..	-602	..	..
Net income	..	-601	..	..
Net current transfers	..	1,226	..	..
Current account balance	..	22	..	..
Financing items (net)	..	-50	..	..
Changes in net reserves	..	28	..	..
Memo:				
Reserves including gold (US\$ millions)	..	1,222	..	..
Conversion rate (DEC, local/US\$)	..	129.3	197.1	199.0



EXTERNAL DEBT and RESOURCE FLOWS

	1987	1997	2006	2007
EXTERNAL DEBT and RESOURCE FLOWS (US\$ millions)				
Total debt outstanding and disbursed	4,585	3,874	5,563	..
IBRD	0	0	0	0
IDA	473	934	1,894	2,058
Total debt service	268	98	226	..
IBRD	0	0	0	0
IDA	6	16	45	49
Composition of net resource flows				
Official grants	241	133	139	..
Official creditors	94	87	245	..
Private creditors	174	0	7	..
Foreign direct investment (net inflows)	1	-139	1,121	..
Portfolio equity (net inflows)	0	0	0	..
World Bank program				
Commitments	66	149	98	30
Disbursements	41	89	160	122
Principal repayments	1	10	31	34
Net flows	39	79	129	88
Interest payments	4	7	15	15
Net transfers	35	72	115	73



MAP SECTION

