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INTERNATIONAL FINANCE CORPORATION
MULTILATERAL INVESTMENT GUARANTEE AGENCY**

COUNTRY ENGAGEMENT NOTE

FOR

THE REPUBLIC OF YEMEN

FOR THE PERIOD FY20-FY21

April 16, 2019

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

**The International Finance Corporation
Middle East and North Africa Department**

The Multilateral Investment Guarantee Agency

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CURRENCY EQUIVALENTS
(Exchange Rate Effective March 24, 2019)
1 US\$ = 578 YR

FISCAL YEAR
July 1 – June 30

Abbreviations and Acronyms

| | | | |
|------|---|--------|--|
| AF | Additional Financing | IDP | Internally Displaced Person |
| ASA | Advisory Services and Analytics | IFC | International Finance Corporation |
| CBY | Central Bank of Yemen | MENA | Middle East and North Africa |
| CEN | Country Engagement Note | MIGA | Multilateral Investment Guarantee Agency |
| CRW | Crisis Response Window | NDC | National Dialogue Conference |
| DDR | Disarmament Demobilization and Reintegration | PWP | Public Works Program |
| DFID | United Kingdom Department for International Development | RAWFD | Rural Advocates Working for Development |
| ECRP | Emergency Crisis Response Project | RPBA | Recovery and Peace Building Assessment |
| EHNP | Emergency Health and Nutrition Project | SFD | Social Fund for Development |
| FCV | Fragile, Conflict, and Violence-affected | SME | Small and Medium Enterprise |
| FMFA | Financial Management Framework | SORT | Systematic Operations Risk-rating Tool |
| FPA | United Nations Fiduciary Principles Accord | TA | Technical Assistance |
| FY | Fiscal Year | TPM | Third Party Monitoring |
| GCC | Gulf Cooperation Council | UN | United Nations |
| GDP | Gross Domestic Product | UNDP | United Nations Development Programme |
| GoY | Government of Yemen | UNICEF | United Nations Children's Fund |
| GTFP | Global Trade Finance Program | US | United States |
| IBM | Iterative Beneficiary Monitoring | WBG | World Bank Group |
| IDA | International Development Association | YR | Yemeni Riyal |

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FY20-21 COUNTRY ENGAGEMENT NOTE FOR THE REPUBLIC OF YEMEN

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I. Introduction

1. The Republic of Yemen is in the midst of a complex conflict that is causing massive physical damage, devastating the economy, weakening institutions, and generating an unprecedented humanitarian crisis. The country is entering its fifth year of conflict, and there are substantial security and political challenges on the ground. Immediate prospects for peace remain uncertain.

2. Within this context, this Country Engagement Note (CEN) outlines the World Bank Group's (WBG) program of support for Yemen, building on the expanded WBG regional strategy for the Middle East and North Africa (MENA). The MENA strategy provides a comprehensive framework for responding to the challenges of Yemen today, targeting peace and stability by engaging during active conflict to both address the underlying causes of conflict and mitigate the consequences of that conflict for citizens and the economy. During the conflict, top priority is given to preserving institutional capacity, improving service delivery resilience, and providing support to conflict-affected poor and vulnerable Yemenis. In alignment with the MENA strategy, the WBG aims to engage in Yemen by harnessing human capital and private sector solutions while building the foundations of a stable and inclusive economy. As part of maximizing finance for development, the World Bank, International Finance Corporation (IFC), and Multilateral Investment Guarantee Agency (MIGA) will seek to identify private sector-led solutions, including through the cascade approach, to meet infrastructure needs and support employment generation. The CEN recognizes the need to address drivers of conflict and fragility, including by renewing the social contract and building resilience among refugees and internally displaced persons (IDPs) and by promoting the inclusion of women and youth.

3. Building on its long-standing history of support for Yemen, the WBG's engagement under the new CEN will provide critical support at the frontier of the humanitarian-development nexus. The WBG adapted its engagement in Yemen during the previous CEN, working in innovative ways to deliver effective interventions in the midst of conflict. The current working arrangement is a shift from conventional supervision, which was utilized in the country prior to outbreak of war. Standard project supervision by the WBG has been replaced with an operational partnership with the United Nations (UN) under which the WBG contributes financing (channeled through the UN) as well as technical and operational expertise, and UN agencies carry out on-the-ground project implementation in coordination with national institutions and provide supervision of project implementation. Moving forward, the CEN will continue to frame the WBG's envisaged interventions during conflict to bridge humanitarian response with institutional preservation and service delivery, in lieu of a conventional medium-term development engagement. A new strategy may be considered should there be sustained conflict.

4. The CEN for FY20–21 aims to sustain the WBG's current program of basic service delivery while progressively supporting economic development and human capital priorities. The CEN comprises two objectives: (a) continued support for basic service delivery and institutional preservation; and (b) extending support to livelihoods, human capital, and basic economic recovery. These objectives support the overarching goals of laying the foundations for peace, building social cohesion, and targeting structural dimensions of fragility. The CEN objectives govern the principles for engagement and prioritization of activities in FY20–21. By driving engagement through objectives rather than through sectors, the CEN's design allows the WBG to respond flexibly to the country's needs, while remaining calibrated to the availability of funds and the security context. The CEN envisions support through targeted lending, technical assistance (TA), and advisory services and analytics (ASA) to prepare for and help shape the post-conflict environment.

5. Issues of vulnerability and food insecurity must be addressed through a balance of physical recovery and reconstruction with interventions that strengthen social cohesion and address the

structural dimensions of fragility. Alongside the humanitarian actors currently working in Yemen, the WBG's developmental value-added lies in its expertise and focus on institutional preservation and the utilization and involvement of local communities in service delivery and reconstruction. WBG assistance is channeled through strong national institutions that engage youth, create jobs, and preserve capacity for post-conflict engagement. This contrasts with humanitarian assistance, which is typically reliant on parallel institutions for provision and which have less coverage and less sustaining power.

6. The WBG, through the International Development Association (IDA), has assumed a formative agenda-setting and convening role among the international donor community. WBG operations in Yemen, conducted in partnership with the UN, are considered the most advanced illustration of how humanitarian and development actors can collaborate in a much-needed "*new way of working*". The WBG, as an institution, has an important role in establishing the foundations and priorities for broader development assistance in Yemen. During the conflict, WBG senior management has maintained bilateral strategic dialogue with Yemen's major players and donors, including the UN, United Kingdom (UK), Germany, Kingdom of Saudi Arabia (KSA), United Arab Emirates, United States (US), France, and Japan. WBG developmental interventions also complement and reinforce large amounts of international humanitarian support. Humanitarian aid totaling US\$2.1 billion was pledged at the High-Level Pledging Event for Yemen held in Geneva in February 2019, with top contributions from KSA (US\$750 million), UAE (US\$750 million), and the UK (US\$260 million).

7. The WBG is recognized for decades of experience in the country and for having supported the build-up of key national institutions. Despite initial IDA suspension due to the conflict, it currently has a US\$1.36 billion portfolio that was innovatively re-programmed to pivot from a conventional peace-time portfolio to an adaptive and effective crisis response. Over the past two decades, projects implemented by Yemeni national institutions such as the Social Fund for Development (SFD) and Public Works Project (PWP) have benefited from the Bank's leadership, involvement in mobilizing donors, and implementation facilitation. These national institutions continue to operate today to provide essential lifesaving services in lieu of centralized government service delivery.

8. A CEN is a necessary and suitable strategy vehicle at this time to outline the principles of WBG engagement in Yemen in FY20–21. Funding under IDA18 will be exhausted with the completion of ongoing projects in the portfolio, and funding under IDA19 will not be confirmed until June 2020. Faced with a shrinking resource envelope, priorities must be set now to shape future engagement based on recent outcomes and emerging lessons. Considering that a CEN is designed to inform a shorter-term strategy in the midst of uncertainty and conflict, and that the previous CEN period ended last year, the timing is opportune for a new Yemen CEN. Moreover, given the WBG's critical role in the donor community, a CEN at this time serves a dual purpose to guide the strategic engagement of the WBG as well as to reanimate a call to the international community to increase the share of developmental assistance to take Yemen forward, rather than to hold the country in a humanitarian aid equilibrium.

9. Although engagement in Yemen under the current context presents IDA with multiple risks, results are significant and the risk of inaction is exponentially greater. Operating in active conflict challenges the WBG's traditional business model, but the Yemen experience shows how effective the WBG's development agenda can be in a context of fragility, conflict, and violence (FCV). IDA interventions since 2016 have achieved dramatic results along the humanitarian-development nexus in a short period of time, whereas inaction would have had immediate and significant impacts on Yemen's poorest and most vulnerable citizens. Moreover, it would make eventual reengagement much costlier and more time-consuming. The Yemen example provides critical lessons for investment project financing during conflict that can aid WBG teams in designing and supervising operations differently in FCV contexts.

10. **Peace is the only sustained outcome that would halt further institutional deterioration, human capital decline, and humanitarian catastrophe.** The WBG and other international donors can play an important role in supporting basic service delivery and livelihoods, but they cannot offer a comprehensive solution to the crisis in Yemen. The WBG remains steadfast in its call for an end to the war, while it continues to push for economic transformation in the country.

II. Country Context

11. **The current conflict in Yemen stems from decades of long-standing grievances and violence over corruption; elite capture of resources; and tribal, regional, and sectarian divisions** (Box 1). Yemen's modern-day political contours took shape at the beginning of the 19th century, when British and Ottoman spheres of control were agreed upon in the north and south. Despite attempts to establish a viable central authority following the unification of North and South Yemen in 1990, the state continues to be divided along these fault lines today. Although there have been periods of relative and partial (regional) stability, the country has rarely experienced a complete absence of violence. In this context, to address deep-rooted issues related to fragmentation and disenfranchisement, the WBG has made efforts to promote inclusion, participation, and resilience within Yemen's traditionally vibrant civil society.

12. **Since the outbreak of widespread conflict in 2011 and the revolt against former President Ali Abdullah Saleh, Yemen has failed to regain stability and cement a durable political transition.** Following these events, the National Dialogue Conference (NDC) was launched in 2013 to address entrenched social, economic, and political grievances. This well-intentioned, but flawed effort was ultimately captured by well-established and opposing elites. An influential outcome of the process was the recommendation for the delineation of six distinct regions to support a federal structure. Yet, without a recommendation on how to share resources between the new regions, the recommendation elicited discontent among many groups and became a divisive rather than stabilizing contribution. Living standards continued to deteriorate, fomenting citizen dissatisfaction with the government. The NDC process collapsed in June 2014 as political divisions along old fault lines came to the fore, and full-fledged conflict erupted in early 2015 (Annex 1).

13. **Authority in Yemen remains fragmented, with parallel institutions divided along geographic lines.** The internationally recognized Government of Yemen (GoY) led by President Adbrabbuh Mansur Hadi has declared Aden as its interim capital while Sana'a remains held by the Houthis (Annex 2). Parallel authority has resulted in two separate branches of the Central Bank of

Box 1. Drivers of Fragility and Resilience in Yemen

Interrelated historical and latent factors have contributed to persistent cyclical conflict in Yemen. Understanding these factors is fundamental to any effort to end the repeated cycles and establish lasting peace and political stability.

Identified factors include: (1) weak state legitimacy, authority, and capacity; (2) decades of elite capture based on (co-opted) tribal structures; (3) dwindling natural resources, which create additional economic pressures; (4) social fragmentation (tribal, geographic, and sectarian) that complicates national identity and prospects for a unifying vision for the state; and (5) social inequalities and political and economic exclusion, which have contributed to fragility.

These factors are compounded by emerging drivers that threaten political and social stability. These include the rise of radical groups and the evolution and growth of the AQAP and ISIL groups, which are further destabilizing the country's social and political harmony. These violent extremist groups view disenfranchised youth as a pool of potential recruits. The situation is complicated by growing internal displacement and migration and the long-standing oppression of women.

Yet, the prevalence of a growing vibrant civil society and a geographic and social identity specific to Yemen form a critical backbone for societal and institutional resilience.

Source: Yemen Dynamic Fragility Assessment, July 2016

Yemen (CBY) and has led to administrative bifurcation. In addition, the large number of international stakeholders adds increased complexity to political economy dynamics in Yemen (Box 2). There are signs that the conflict in Yemen is worsening, and international aid is desperately needed to support basic service delivery while government authority continues to be divided.

Box 2. The Political Economy of Disaster—Economic Distortions, Rents, and Oil

As formal mechanisms for service delivery have largely disappeared and Yemen’s central government functions have disintegrated, informal institutions for the provision of social services have proliferated. The suspension of civil service salaries since 2015 has accelerated institutional decline and compromised the government’s ability to provide public services. Informal economic arrangements and networks are being formed and are, in some cases, thriving, fueled by remittances, the remnants of the oil sector, and the war economy in general. Long-standing vested interests, combined with control of economic rents by traditional and political forces and networks, have hindered and complicated a transition toward a more market-driven economy and a more inclusive system of governance.

The oil economy and its rents have financed an unsustainable use of resources, provided a diverse set of incentives for conflict, and created the proximate causes of the events in 2011—the prelude to the current conflict. Since the early 1990s, the oil economy offered rents and a broad range of options for patronage, deepening previously existing distortions in the economy and adding new ones.

Long-standing grievances over a rentier economic state, as well as tribal, regional, and sectarian divisions, have been exacerbated by the emergence of a war economy in Yemen, with all sides of the conflict profiting from disorganization and violence. Yemen’s war “profiteers”—namely, its violent extremist organizations and local militias—undermine efforts to end the conflict and stabilize the country. A recent WBG (2017) report on Syria, *The Toll of War: The Economic and Social Consequences of the Conflict in Syria*, finds that such disruptions in economic organization can have knock-on impacts on economic and political incentives. Outcomes can include an increase in cronyism, erosion of trust between and within communities, and the loss of social capital. These factors not only reduce economic growth potential, but also represent one of the most difficult challenges to future stability in Yemen.

III. Sector Impact and Recovery Needs

Humanitarian and Poverty Context

14. Violent conflict, mass displacement, and multiple shocks over the past few years have had a devastating effect on Yemen. The current situation has been described by the UN as the “world’s worst humanitarian crisis,” and despite ongoing peace talks, the toll of the conflict continues to rise. Yemen was already the poorest country in MENA prior to the conflict, and more than four years of fighting have devastated the economy and destroyed critical infrastructure, leading to chronic food insecurity and creating the conditions for the world’s largest cholera epidemic. The UN estimates that 80 percent of the population—24.4 million people—require humanitarian assistance, of which roughly 14.4 million are in acute need. The population relies heavily on food assistance, with the World Food Programme (WFP) providing emergency food assistance to 6.9 million people each month (Box 3).

15. An estimated 40 percent of households have lost their primary income source. Welfare analysis suggests that the conflict and related factors have led to an overall increase in poverty, now estimated in the range of 71 to 78 percent (with women more severely affected than men). About 1.25 million civil servants—including critical health, education, and water supply staff—have gone unpaid or received only intermittent salary payments since 2015. This has eroded the country’s purchasing power and significantly deteriorated the capacity and functionality of Yemen’s public institutions. This expansion in poverty, food insecurity, and disease constitutes a dire structural deficit that will affect human capital development over

the long term. The Human Capital Index shows that a child born in Yemen today will be 37 percent as productive when she grows up as she could be, if she completed her education and achieved full health.

16. The conflict is estimated to have resulted in the forced displacement of around 3.3 million Yemenis, of which two-thirds are residing in the northwestern region. The mobility crisis is complex, as Yemen simultaneously serves as a country of origin, transit, and destination for refugees, IDPs, returnees, and economic migrants to Gulf Cooperation Council (GCC) countries. The UN estimates that, despite the conflict, more than 100,000 migrants and refugees arrived in Yemen between 2017 and 2018, exceeding 2014 and 2015 levels. While movement is fluid, pockets of IDP and refugee settlements require concerted attention and tailored, multisectoral assistance. Basic humanitarian needs are significant for these populations and are compounded by psychosocial needs associated with trauma and displacement.

Gender and Youth

17. The toll of the conflict has exacerbated gender inequality in the country. Yemen ranks at the bottom of the World Economic Forum's gender gap index for economic participation and opportunity, down from 138th of 142 countries in 2014 and 132nd of 136 countries in 2013. The overall gender gap index declined from 0.52 in 2014 to 0.48 in 2015. The significant escalation of violence and security concerns resulting from the ongoing war have further limited women's already limited opportunities to access economic activities, as their mobility and participation in the public sphere have been further restricted.

18. Vulnerability of women and young people continues to grow as the conflict wears on. Some 76 percent of IDPs are women and children, and nearly 21 percent of IDP households are headed by women under the age of 18. The consequences of economic devastation are exacerbated for women by issues such as increased rates of child marriage, decreased educational opportunities, and a climate of intensified gender-based violence. Women and children account for the largest percentage of civilian victims of war. Reported gender-based violence increased by 36 percent in 2017 alone, and child marriage rates have escalated to an estimated 66 percent in 2017.

Box 3. Yemen's Humanitarian Crisis in Numbers

Yemen's humanitarian crisis, the worst in the world, has been driven by conflict, economic collapse, and the breakdown of public institutions and services.

- **Close to 10 million people are on the brink of famine and starvation.** Of Yemen's 333 districts, 230 (69 percent) are food insecure. This includes 148 districts that are classified by the Integrated Food Security Phase Classification (IPC) system as Phase 4 (emergency) and 45 districts with families in IPC Phase 5 (famine).
- **Acute malnutrition rates exceed the World Health Organization (WHO) emergency threshold of 15 percent in five governorates and 37 districts.** Close to 30 percent of districts record critical levels of malnutrition. 2 million malnourished children under five and 1.1 million pregnant and lactating women require urgent treatment to survive.
- **Less than 50 percent of health facilities across the country are fully functional.** Those that are operational lack specialists, equipment, and medicines. Immunization coverage has decreased by 20 to 30 percent since the conflict started, and most health personnel have not received salaries for two years or more.
- **Only 22 percent of rural and 46 percent of urban populations are connected to partially functioning public water networks.** Less than 55 percent of the population has access to safe drinking water.
- **Among school-aged children, 36 percent of girls and 24 percent of boys do not attend school.** Half (51 percent) of teachers have not been paid since 2016. Hundreds of schools have been destroyed, and more than 1,500 have been damaged by air strikes or shelling.

Source: UN OCHA, February 2019.

19. The conflict has severely disrupted the financing and operation of the public education system.

At least 2 million children (a third of the school-age population) are out of school, and 4.1 million children need financial assistance to attend school. Even among those in school, completion rates are low; for example, Grade 6 completion was just 69.8 percent in 2012 and has likely worsened during the ongoing conflict. The Dynamic Needs Assessment (DNA) Phase III, conducted in 2017–18 (Box 4), revealed that one-third to one-quarter of schools across 16 cities in Yemen were unfit for use for educational activities due to the conflict. Three-quarters of education infrastructure in Taiz has been damaged or destroyed, whereas in some cities, such as Dhamar and Rada'a, the damage is under 10 percent. In many cases, schools that remain functional are overcrowded, face shortages of qualified teachers, and lack sanitation facilities and basic equipment, including desks, chairs, and textbooks. This poses enormous challenges to delivering education, particularly for girls, internally displaced children, and children from rural areas.

Education commitments made during the 2018 Yemen High-Level Pledging conference cover only 2 percent of total needs in education.

Box 4: Yemen DNA III

The Yemen Dynamic Needs Assessment is a multiphase, in-conflict assessment that relies primarily on remote data sources, including satellite imagery and social media analytics, to provide insights on damage, functionality, and pockets of resilience. To the extent possible, these data sources are triangulated with information available from the GoY and other partners on the ground. The Yemen team also uses a Geographic Information System (GIS)-based expenditure tracking and information dissemination system to provide updated GIS maps of project areas to help monitor progress and enhance project supervision. The DNA has informed estimates of the country's reconstruction and recovery needs and acted as an alternative data source to update the WBG, GoY, and international community on the impact of the crisis on assets, service delivery, and institutions.

Institutions and Basic Service Delivery

20. The crisis in Yemen has caused the disintegration of core government functions. As the conflict enters its fifth year, total known domestic revenue collection has dipped below 5 percent of gross domestic product (GDP), due mainly to depressed direct and indirect tax collection, declining customs administration performance, and an overall decline in economic activity. During the conflict period, the CBY moved its headquarters to Aden while leaving much of its existing capacity in Sana'a, thereby creating new uncertainties in the Yemeni financial sector. This duplication of systems and lack of resource sharing between the branches has caused an economic institution that was already performing poorly before the conflict to become even less reliable. As a result, no approved budgets were produced between 2014 and 2019,¹ multiyear revenue and expenditure planning no longer takes place, budget execution and credibility have suffered significantly, no financial reporting information is available for 2016 and 2017, internal audit operations are restricted by staffing constraints, and no externally audited financial statements have been produced since December 2014. Resumption of payment of civil servant salaries is a critical priority under the new CEN. A joint WB-UN discussion note on civil servant salaries is currently being finalized, and a TA is planned under the new CEN to support CBY capacity-building for salary payment systems.

21. The conflict has exacerbated service gaps and institutional limitations on water and sanitation.

Even before the crisis, access to improved water sources declined from 66 percent to 55 percent nationwide between 1990 and 2010 (dropping from 96 percent to 72 percent in urban areas and from 59 percent to 47 percent in rural areas during the same period). Water service delivery—already intermittent in most cities before the conflict—has become even more uneven, forcing consumers to seek alternative sources of water supply, including private water tankers and mosques. In addition, there has been a dramatic increase in the number of sewage system breakdowns since the conflict began, owing to the lack of maintenance caused mainly by the reduction and cessation of salaries for sanitation workers. Given that groundwater resources

¹ The GoY released a new, approved budget for 2019 in early March 2019.

were already being depleted at an alarming rate in the main basins of the highlands, including Sana'a, Taiz, Amran, Saadah, and Rada'a, the continued unmonitored and uncontrolled extraction of limited groundwater resources is a cause for significant concern, especially in light of the link between water resources, fragility, conflict, and violence. The deteriorating water supply and sanitation situation has also been linked to the recent cholera crisis.

22. Conflict, poverty, hunger, and unsafe drinking water have exerted a heavy toll on the health care sector. According to DNA Phase III, 29 percent of Yemen's health facilities have sustained some degree of damage, and 45 percent of health facilities are currently nonfunctional. Yemen's dire humanitarian situation has been exacerbated by successive outbreaks of diseases such as cholera and diphtheria over the last year. Between January 1, 2018, and February 3, 2019, a cumulative total of 413,770 suspected cholera cases have been recorded, with 543 associated deaths. Children under five represent 32 percent of all suspected cases. The cholera outbreak has affected 22 of 23 governorates and 311 of 333 districts in Yemen.

23. Disruptions to transport have had far-reaching impacts. Although Yemen's road network had grown substantially in recent decades—making a major impact on the population and the economy by promoting internal and external trade, connecting a growing share of the population to public services and markets, and ensuring that food imports reach remote areas—more than 24 percent of the overall road network has now been either partially or fully destroyed due to the crisis. Restoring the road network is a precondition for the full resumption of service delivery by transport service providers. Damages to the road distribution network play a critical role in the determination of food prices. Damage to key road corridors such as Aden–Sana'a, Hodeida–Sana'a, and Safer–Marib–AlBaydha–Dhamar has forced costly and lengthy detours. The journey between major ports to Sana'a and large population centers now takes more than five days, as compared to one or two days before the conflict. As a result, the transport cost of key commodities such as wheat, flour, and steel has roughly tripled between 2015 and 2019, thereby increasing the end price of transported products.

Recovery Needs

24. Country recovery and reconstruction needs are vast, urgent, and rising. According to DNA Phase III, short-term (first-year) recovery needs for the 16 cities studied are estimated to amount to about US\$2–3 billion, medium-term (two- to five-year) needs range from US\$9–11 billion, and longer-term (over five years) reconstruction needs are estimated to reach US\$14 billion in the 16 cities alone. Extrapolated to the entire country, total reconstruction needs over five years would reach US\$32 billion. The housing sector has suffered the worst damage, with 32 percent of houses partially damaged and 1 percent fully destroyed. The education, health, transport, and water supply, sanitation, and hygiene (WASH) sectors have experienced damage ranging from 27 to 31 percent. Of total reconstruction needs, 59 percent are estimated to relate to housing sector recovery, 20 percent to the power sector, and 10 percent to the health sector.

25. The costs of the conflict extend far beyond the destruction of infrastructure. As demonstrated in recent analytical work, such as the WBG's 2017 *Toll of War* report on Syria, the effects of war on social fracture and economic collapse far outweigh infrastructure costs and will take far longer to restore. In Yemen, public service delivery and social welfare systems are no longer operating, and the suspension of public service salaries since 2015 has interrupted incomes and led to a serious decline in the government's institutional capacity to provide public services. The resulting collapse of public services has opened the door to informal decentralized service provision. The internal power vacuum, the ascendant power of local elites and armed militia groups, and the rise of war "profiteers" have had far-reaching effects on economic and political incentives and behavior. Moreover, the conflict has intensified regional antagonisms and revived secessionist movements.

26. ***Pathways for Peace* report (2018), co-authored by the WBG and the UN, shows that peace does not necessarily accompany social, economic, and political advancement.** This means that not only should the WBG pursue conventional, developmental indicators of progress, it must also accelerate efforts at preventing the outbreak, escalation, recurrence, or continuation of conflict. Given Yemen's immense structural constraints, any recovery will have to encompass institutional rebuilding and take into consideration the country's unique and intensely complex political economy situation. Internationally, spending and efforts on prevention represent only a small portion on what is spent on crisis response and reconstruction. Building foundations for sustainable, inclusive, and collective wellbeing is critical to Yemen's recovery and for the country to escape the current cycle of conflict.

IV. Economic Context

27. **Repeated waves of currency depreciation in 2018 created inflationary pressures that have exacerbated the humanitarian crisis.** The Yemeni rial (YR) has depreciated significantly against the US dollar, from its (nominal) annual average of YR 320 in 2017 to YR 750 in mid-October 2018 and back to YR 586 per US dollar in the second week of March 2019. A 10 percent devaluation of the YR is estimated to increase the poverty rate by 2.3 to 5.6 percentage points, depending on the increase in non-food prices (Box 5). Financial assistance from the KSA, including a US\$2 billion deposit and a US\$200 million grant to the CBY in Aden, has been critical in restoring the CBY's authority and stabilizing the exchange rate since late 2018. Peace talks in December 2018 were unable, however, to broker a political consensus on reunifying the CBY between Aden and Sana'a.

Box 5. Food Insecurity Deepened by Conflict

Yemen is at the brink of famine. According to the latest IPC assessment, conducted in December 2018, 20.1 million people in Yemen are currently "food insecure," of which 9.6 million are "severely food insecure." For the first time, pockets of "catastrophic hunger" have been identified in 45 districts, with 238,000 people facing starvation.

Unlike traditional situations of food insecurity, contemporary famine in Yemen is driven by high inflation resulting from conflict rather than the lack of food availability. Yemen depends almost entirely on imports to fulfill local market demand for staple food commodities. Food importers have consistently flagged the increasing cost and scarcity of foreign currency as a top constraint in recent years. Increased costs for importers and shipping as a result of conflict have increased sale prices for food goods. The cost of a survival food basket rose by 121 percent between February 2015 and end-December 2018, with a 60 percent increase in 2018 alone. Food insecurity is most severe in areas with active fighting and particularly affects IDPs, their host families, marginalized groups, and landless wage laborers. Armed conflict remains the main driver of food insecurity in the country, curtailing food access, depleting savings and assets, and depressing employment levels and income. Given this context, food assistance has been a critical component of both humanitarian and development strategies to address hunger.

The WBG is a key partner in the fight against food insecurity, as humanitarian food assistance alone will not prevent further deterioration of famine conditions. Humanitarian aid must be accompanied by actions that address the key drivers of food insecurity, through an integrated response focusing on livelihoods restoration and enhancement of purchasing power. The WBG can offer technical support and sustained, development-oriented dialogue to combat the drivers of food insecurity. WBG interventions have aimed to extend project benefits beyond temporary income opportunities to multiple dimensions of human development and well-being.

The issues around food insecurity and price inflation require concerted efforts beyond the WBG. The drivers of food insecurity and malnutrition are multifaceted. They include challenges for the food import supply chain such as the decline in purchasing power, difficulties and delays in obtaining clearances to enter ports, rising costs and difficulties in accessing foreign currency, a shortage of domestic banknotes, and rising costs and risks associated with domestic and international payments (low liquidity and depletion of paper money). WBG TA/ASAs must call on other international players in trade, the private sector, and beyond. Given high volatility and conflict-related developments, the food insecurity and nutrition situation will need to be monitored frequently.

Source: Securing Imports of Essential Goods to Yemen. World Bank Group, 2017.

28. The banking sector is experiencing a major liquidity crisis, with a loss of external and domestic confidence in domestic banks leading to widespread deposit withdrawals. The halting of oil and gas exports during the conflict has exerted a significant strain on public finances, which formerly relied on hydrocarbons for revenue. As most banks depended on treasury bills for the bulk of their income prior to the war (more than 60 percent of banking system assets are in government paper), the sector has been left highly exposed. The country's small banking sector (16 banks) remains partially functional and is focusing on small consumer transactions and import of critical commodities.

29. Available preliminary data estimate the level of Yemen's public debt stock in 2018 at approximately 94 percent of GDP. The estimated increase in the debt stock is due largely to increased domestic borrowing (in addition to the nominal currency revaluation of the debt stock). Domestic borrowing through the central bank credit has increased from around YR 761 billion in 2014 to an estimated YR 3,752 billion in 2018, reflecting an accumulated growth of around 393 percent. This increase is linked largely to the ongoing conflict, including the government's failure to meet its fiscal needs and the sharp economic contraction since 2015, on top of nominal valuation effects due to a significantly depreciated exchange rate.

30. Yemen's private sector continues to be significantly affected by the ongoing conflict. The country's investment climate was already difficult before the conflict, driven by weak governance and compounded by an exchange rate policy that favored the supply of cheap imports. Since the eruption of conflict, the operating environment has become even more constrained due to a lack of access to input markets (for energy, labor, intermediate goods, and services) and deteriorating financial and export markets. According to a WBG survey conducted in October 2018, around 25 percent of businesses in the country have closed, and over 51 percent of surviving firms have decreased in size and scaled down operations. Around 73 percent of closed firms cited security and financial constraints as the main reason for closure. As a result, already-high unemployment levels worsened, business costs increased, revenue and customer bases decreased, and significant private sector capital migrated overseas. Trading operations have become more difficult as well, negatively affecting prices of imported basic food commodities and medicines.

V. World Bank Group Response in Yemen to Date

31. At the outbreak of conflict, an unpredictable and deteriorating security situation prompted the WBG to close its country office in Sana'a in February 2015 and to evacuate staff to Cairo and Amman. The decision to trigger OP 7.30 (the operational policy on "Dealing with De Facto Governments") on March 11, 2015 resulted in the suspension of all disbursements under IDA-financed projects and recipient-executed trust funds (RETF) to the GoY and precluded standard in-country supervision.

32. Despite this initial suspension of all ongoing projects, the WBG reengaged in Yemen through an innovative strategy under OP 2.30 (the operational policy on "Development Cooperation and Conflict"). This allowed IDA to engage in Yemen on the basis of a request from the international community in lieu of an official request from the government. The official request for reengagement was received from the UN Representative in Yemen. Under this approach, the WBG's engagement in Yemen deploys a unique partnership model, whereby the WBG provides funding and technical expertise, and specialized UN agencies contribute operational experience for in-country project supervision. In addition to the UN, national institutions, private sector actors, and local communities are also engaged in the implementation of IDA-funded projects. This unique engagement strategy was pursued in close collaboration with, and benefitted from support from, multiple units across the WBG (including Legal, Operations Policy and Country Services, and Development Finance). The flexibility and eagerness on the part of these units to remain involved in a high-risk, high-reward context like Yemen has both enabled and sustained the success of WBG engagement in the country to date. This horizontal working model exemplifies an agile and adaptive response by the WBG to challenges imposed by operating in conflict.

33. Following reengagement, the portfolio was consolidated into core strategic areas of the WBG's comparative advantage that addresses basic service delivery, institutional preservation, and resilience-building needs. In December 2015, given critical health needs on the ground, the WBG lifted—on an exceptional basis—the suspension of disbursements for two health projects, the Schistosomiasis Control Project and the Health and Population Project, to allow for a continuation of arrangements with the WHO and United Nations Children's Fund (UNICEF) for procurement and distribution of essential drugs, medical supplies, and related activities. In November 2016, with the emergence of food and health crises, most of the suspended portfolio was cancelled and resources were consolidated into two (still ongoing) emergency interventions: the Emergency Crisis Response Project (ECRP) and the Emergency Health and Nutrition Project (EHNP). In addition to these two projects—which commit a combined total of US\$1.12 billion (with proposed US\$400 million of additional financing)—the WBG's Yemen portfolio has expanded to include three more projects: the Smallholder Agricultural Production Restoration and Enhancement Project (US\$36 million), Integrated Urban Services Emergency Project (US\$150 million), and Emergency Electricity Access Project (US\$50 million). Both the programmatic and analytical focus of the portfolio has been on strengthening emergency relief efforts by providing support for basic services and maintaining functional institutions (Annex 3).

34. WBG support for food assistance has mobilized an anti-hunger strategy. Recognizing the need to rapidly increase the purchasing power of the most vulnerable, the ECRP distributes an average of YR 5,000 a month to 1.5 million families, reaching approximately 9 million individuals. The latest post-distribution monitoring report (December 2018) showed that 86 percent of beneficiaries spent most of their cash on food. The ECRP has successfully demonstrated the ability to provide a sustainable response to economic and human development challenges during conflict that prioritizes purchasing power, employment generation, and participatory development. Through a wide range of interventions, encompassing public works programs, essential services, youth employment, local development, community infrastructure, small and micro enterprise development, and social assistance through cash transfers, the ECRP is able to address multiple needs and vulnerabilities, including food security, consumption smoothing, insurance against shocks, human capital preservation, and labor market activation.

35. WBG support to basic service delivery in the health care and water and sanitation sectors also operates at the humanitarian-development nexus. The WBG is helping to sustain basic service delivery and institutional capacity in the health care sector by training nearly 8,000 health personnel and providing cost support to close to 3,000 health facilities, representing 50 percent of public sector primary health care facilities and 30 percent of public hospitals. The WBG is helping to tackle the root causes of cholera through the provision of basic health and essential nutrition, energy, water and sanitation, and solid waste management services. To date, over 664,000 out of the one million suspected cholera cases have been treated, reducing the case fatality rate from 2.3 percent to 0.21 percent and saving an estimated 18,000 lives. WBG support to urban services helped install the country's first solar rooftop generator in a hospital and oncology center in Sana'a, visited by 4,000 patients daily. The Integrated Urban Services Project is expanding to 11 additional large hospitals in three cities and will provide small solar solutions for 49 health centers. This type of intervention enhances sustainable electricity supply to the health system and reduces its dependency on diesel-based energy generation. The Emergency Electricity Access Project is contributing to the cholera response by providing critical service providers—including health clinics and rural water corporations—with access to electricity through grant-financed solar electricity systems, and by restoring service delivery in rural and peri-urban areas to strengthen water, transport, and energy services in urban areas.

36. Expanding youth and community participation has been, and will continue to be, a distinguishing operational feature of the WBG's response in Yemen. The WBG-supported SFD program, Rural Advocates Working for Development (RAWFD), was developed in 2004 and targets students from remote areas by providing them with development-related programs in parallel to their university studies. The RAWFD program continues to operate and even expand within the current crisis, as training programs were

diversified to include development tools in the context of conflict. RAWFD youth directly implement components of the ECRP and carry out initiatives ranging from awareness campaigns, community training programs on water and personal hygiene awareness to combat cholera, and reforestation campaigns to promote the preservation of natural resources. Youth participation in program implementation allows for local and community participation in otherwise externally run projects, creates avenues for skills development and jobs training, and builds the foundations for civic participation for sustainable development. A stronger emphasis on youth and community participation will be an integral piece of the long-term resilience-building activities envisioned under the new CEN.

37. Another comparative advantage of WBG engagement has been support to the private sector, a critical means of targeting resilience and sustainable development that is often unaddressed under a traditional humanitarian response. The ECRP has supported nine targeted microfinance institutions, which have to date indirectly benefited 11,775 small and medium enterprises (SMEs) and directly provided grants to 2,655 SMEs, relieving them from outstanding loans, supporting the rehabilitation of their enterprises, and ultimately contributing to increased purchasing power. The WBG has also provided substantial assistance to Yemen's SFD with the development of a partial credit guarantee program (LGP). WBG support has enabled the LGP to sign partnership agreements with six microfinance institutions and banks (NMF and AZAL) and allowed for the extension of loans to over 153 SMEs to date. The Integrated Urban Services Emergency Project and especially the Emergency Electricity Access Project work primarily with private sector suppliers.

38. Despite the conflict context, the WBG continues to support the continued operation and resilience of private firms in the country. In support of Yemen's private sector, the IFC has an investment portfolio of around US\$52 million in two manufacturing projects: a cement plant and water bottling company. Due to increasing demand, the cement plant is seeking an additional line of credit from IFC to extend a solar power solution for the plant. IFC is also supporting several microfinance institutions, including a domestic one as it transitions into a licensed bank. IFC is also developing a risk-sharing facility to enhance lending to SMEs that use solar energy. Just-in-time TA and ASAs implemented by IDA have informed the design of WBG operations and enabled further support to SMEs and the private sector in the country. IFC has supported these efforts by launching a Corporate Governance SME program, which provides corporate governance training to family businesses through the Yemen Institute of Directors. Since 2017, IFC has been working with other development partners to develop a Trade Finance Facility to support Yemeni imports of basic food commodities through local banks. The process has been challenging due to limited involvement from international banks and the way current mechanism food imports are handled. Due to renewed interest, however, IFC will continue to identify ways to support the proposed facility with assistance from bilateral donors and the GoY. Increased private sector engagement will be key to livelihood support and basic economic recovery under the new CEN.

39. The WBG is the only international actor in Yemen that has programmatic coverage in all 333 districts. A total of 28 international nongovernmental organizations (NGOs) and 10 UN agencies are working in Yemen, focusing mostly on social protection, WASH, and health. While the ECRP and EHNP are working on critical services in health, WASH, and food security, the agriculture, urban services, and electricity projects as well as private sector engagements are delivering sustained support to the longer-term development agenda in an otherwise sparsely populated donor landscape.

40. Despite risks and the complex operating environment, project performance under the previous CEN has remained strong. The portfolio has performed well, with projects being rated moderately satisfactory and satisfactory (Annex 3). Total disbursements of the emergency portfolio have reached US\$1.06 billion (73 percent). The portfolio has effectively resolved fiduciary challenges, monitored through stringent fiduciary oversight; monthly risk review meetings; transparent and efficient communication between the WBG, UN, and implementing partners; and community-centered grievance redress mechanisms. Yemen is a complicated, high-risk, high-return engagement. The portfolio has faced

a sizeable number of challenges (fiduciary, safeguards, social, security), many of which are external to the program and cannot be managed comfortably. Yet the engagement has achieved success in preserving basic services, sustaining institutional capacity, and building the foundations for shared and inclusive prosperity in a post-conflict environment.

41. The WBG's robust analytical portfolio and knowledge products represent unique contributions to the international community working on Yemen and will remain a central feature of the new CEN.

The WBG has used innovative and technically robust ASA engagements (Annex 4) in Yemen to: (i) help prepare and support the technical design of operations; (ii) maintain a presence in sectors/areas where operations were not possible; and (iii) keep an eye toward developing a technical agenda for long-term sustainable reconstruction. The multiphase DNA, for example, incorporated innovative approaches to collect data in the absence of an on-the-ground presence (Box 4). The Yemen Welfare Analysis (Table 1) has provided the country team with valuable and timely welfare information to inform project design and implementation, focusing on data collection and analytical work and engaging the Yemen Central Statistics Organization (YCSO) as a key data collection partner. This type of institutional support has ensured that the YCSO remains operational, allowing for future in-house statistical collection in peacetime. This analytical work is a hallmark of the WBG's engagement in the country and showcases the type of engagement in FCV situations envisioned under IDA.

42. WBG has taken on a convening role among donors and international agencies and is helping to set the agenda and priorities for Yemen's recovery.

The WBG continues to establish the foundations for broader development assistance in Yemen. The CEN aims to reiterate a call to the international community to increase the share of developmental assistance. The WBG is well placed to assume a central role in the donor coordination and dialogue space, enabling resource mobilization and steering donor dialogue on recovery and reconstruction going forward. The WBG will maintain its role in convening donors, promoting dialogue, and supporting coordination structures under the new CEN.

Table 1: Welfare Analysis Has Informed Current Operations

| Component | Output | How it informed operations |
|--|--|---|
| Exploring alternative data sources for welfare measurement | Modules on employment and access to services inserted into WFP phone survey. | <p>Provided information on prevalence and regional distribution of solar use used to inform program appraisal document for energy project.</p> <p>Provided information about water, energy, and municipal services sectors to DNA III.</p> <p>Provided estimates to education team for project preparation.</p> |
| Reporting of poverty impacts of conflict-related shocks | Simulation of poverty impacts of rising food prices, non-payment of public salaries, and currency depreciation. | <p>Quarterly inputs to social protection team on effective size of cash transfer relative to poverty line.</p> <p>Provided inputs to country management team for presentations to the humanitarian community (2 presentations in Geneva).</p> <p>Inputs to country management team for CEN.</p> |
| Analysis of the effects of restricting access to ports | Note and presentation describing increase in deprivation faced by households surveyed immediately after the Saudi blockade in November 2017. | <p>Provided inputs to DNA Phase III.</p> <p>Informed the discussion of how the assault on Al Hodeida might affect welfare in the country.</p> |
| Analysis of how the conflict might have affected women differently from men | Note and presentation describing how women have suffered more than men in terms of food security and autonomy following the start of the conflict. | <p>Results will inform better targeting of women headed households under new CEN.</p> <p>Highlights the need for additional evidence regarding gender-specific effects of conflict, and findings for these to inform future operational design.</p> |

43. **The criticality of WBG support in Yemen cannot be understated.** Since 2016, the Yemen portfolio has addressed the maintenance of institutional capacity despite economic and political decline, helped to combat hunger and cholera, and served as a platform for the GoY and donors to explore mechanisms for international collaboration in support of resilience and peacebuilding. Looking forward, the WBG’s long history of working in Yemen, combined with its neutrality and credibility, will be a highly valuable asset when the country and conflict parties are ready to work toward ending the conflict and beginning a sustainable development dialogue.

44. **It is important to note, however, that engagement in Yemen presents the WBG with multiple operational challenges that demand continuous monitoring and high risk tolerance.** The WBG’s lack of staff field presence and the deteriorating security environment are challenges common to many FCV countries. To date, IDA has effectively managed these limitations. Significant engagement between WBG staff and UN counterparts at senior management, strategic, and operational levels has helped navigate differences in organizational practice and mandate. Frequent “reverse missions,” in which IDA provides those on the ground with substantive technical and operational support, have created a constructive partnership with the UN and third-party monitoring (TPM) agencies (Box 6). This partnership ensures that operational and implementation issues are identified and addressed effectively. Moving forward, engagement in Yemen will continue to demand a high degree of agility, risk tolerance, and flexibility.

Box 6. Third-Party Monitoring

TPM is widely used in projects to independently verify design, compliance, governance, and accountability, or to monitor project implementation. TPM can be used for quantitative and physical verification, as well as to validate the quality and outcomes of interventions. Third parties may be contracted by the borrower or directly by the WBG, either on a specific topic where skill sets are internally lacking or where staff cannot travel to the project area (as in the Yemen case).

TPM is increasingly being used by development partners in volatile or insecure environments. TPM agents may come from the private sector or may be local or international NGOs. Engaging local groups and communities in the independent verification process, whether through direct contracting or through the involvement of intermediary groups, has proven valuable in many instances.

In Yemen, the WBG implements its emergency project portfolio through UN agencies. For the first two emergency projects, the then-available Fiduciary Principles Agreement (FPA) guided WBG-UN cooperation. Under the FPA, fiduciary oversight is passed on to UN agencies, which carry out due diligence per their own requirements and send TPM reports to the Bank. However, the majority of the current emergency portfolio in Yemen (four projects) is governed by the Financial Management Framework Agreement (FMFA), which will also apply to new projects and project extensions if the UN is chosen as implementing agency (the new, fourth additional financing of ECRP is being pursued under FMFA). Under the FMFA, the Bank has full supervisory and monitoring obligations to fulfill its fiduciary responsibilities. The terms of reference for TPM are discussed and agreed with the Bank. In some cases, there is an informal agreement for the TPM agent to send reports directly to the Bank. In both cases, the Bank maintains a close and detailed dialogue with the recipient agency on monitoring and outcomes, as well as on risk assessments and mitigating measures.

In Yemen’s insecure operational context, only a few operators offer independent and professional monitoring services, despite high demand for TPM services. Better use of TPM options is needed, including by using communities, NGOs, or other adequately qualified groups and actors. It will also be important to build capacity of TPM agents to help maximize the availability of competent TPM capacity in Yemen.

VI. The New World Bank Group Country Engagement Note

45. **Under the overarching goal of building the foundations for peace in Yemen, the new CEN will address the primary objectives: (a) continued support for basic service delivery and institutional preservation; and (b) extending support to livelihoods, human capital, and basic economic recovery.**

These objectives are underpinned by cross-cutting principles that preserve resilience, such as youth engagement, gender inclusion, and peacebuilding, that are crucial for laying the groundwork for recovery and reconstruction. The CEN will maintain the principle of working across the country for the benefit of all Yemenis. The CEN aligns closely with the WBG expanded MENA strategy and aligns in particular with the continued focus on the fundamentals of recovery, reconstruction, and renewing the social contract, as well as a stronger focus on human capital development. In line with the strategy, the WBG will seek opportunities to maximize finance for development by leveraging sources of finance, expertise, and solutions to promote sustainable growth in Yemen. The WBG will continue to implement innovative mechanisms to increase responsiveness and effectiveness, including work with the Poverty Global Practice on Learning and Adaptive country partnership frameworks and iterative beneficiary monitoring.

Objective (a): Continued support for basic service delivery and institutional preservation

46. Under the first objective, the WBG program will maintain current engagement to support the delivery of basic services, including health, electricity, urban services, income generation, and agriculture. IDA18 core resources were programmed strategically to build resilience and complement crisis interventions through two projects: The Integrated Urban Services Emergency Project (US\$150 million) and the Emergency Electricity Access Project (US\$50 million). Implementation of ongoing projects will continue under the new CEN. These project allocations exhaust the remainder of Yemen's IDA18 core funds.

47. The preservation of institutional capacity will continue to be a principle underpinning of WBG engagement in Yemen. A large share of IDA support is channeled through resilient service delivery institutions, such as the SFD and the PWP, which the World Bank helped establish during more than two decades of prior engagement. If sustained and strengthened, these institutions are expected to play an essential role in the immediate term and throughout Yemen's transition to peace and stability. Under the new CEN, the World Bank will continue to work with SFD and PWP, while also exploring new avenues for partnering with other national institutions (Box 7). Reliance on additional institutions (such as project implementation units (PIUs) and project management units (PMUs) and procedures could be explored if complemented by appropriate fiduciary and technical monitoring and oversight mechanisms. Reengaging these institutions, such as those in the transport and water sectors, would help maintain their implementation

capacity, enable a smoother transition once the crisis ends, restore the service delivery system, and support operations and maintenance functions.

Box 7: Key National Institutions in Yemen

Despite weak government capacity, Yemen has a significant presence of national partners, which have shown substantial resiliency and capacity during the conflict. Prior to the conflict, the country had more than 20 PIUs/PMUs, created through the support of the WBG and other international donors. These PIUs/PMUs boast years of accumulated experience in implementing donor investments. Despite the ongoing conflict, they have continued to support the implementation of the WBG's ongoing projects, leveraging sector-specific knowledge, relationships with local entities throughout the country, and on-the-ground experience. These local institutions have played a significant role in improving access to water, sanitation, roads, education, irrigation, and other services in poor communities. The WBG's experience with these PIUs/PMUs has shown that these institutions have a good reputation for fiduciary due diligence, effective delivery of results, and political neutrality.

Examples of national partners to engage under the new CEN:

Transport sector: The Rural Access Program-Central Management Office (RAPCMO) and the Road Maintenance Fund-Implementation Unit (RMF-IU) employ highly qualified technical and professional staff with in-depth knowledge of WBG procurement and financial management guidelines and procedures. Since their creation in 2000 and 2005, respectively, the Bank has invested in building their capacity to secure quality works and timely implementation. Their decentralized planning and participatory methods have significantly contributed to smooth implementation of projects and diminished social problems during project implementation.

Water sector: The Urban Water Project Management Unit (UW-PMU) implemented several projects in Yemen. It was established in 2002 as a financially and administratively independent PMU to manage activities related to implementation of the World Bank Urban Water Supply and Sanitation Adaptable Program Loan. The UW-PMU attracted funds from various donors and implemented projects including 1,000 km of water supply networks, 250 km of sewer lines, reservoirs with a total capacity of 40,000 m³, three wastewater treatment plants, drilling and construction of 65 production and investigation boreholes, and several emergency rehabilitations works.

Capacity development and gradual integration of PIUs/PMUs into line ministries is critical. The WBG aims to approach national institutions as vital partners, both in the current conflict phase and in the post-conflict peace phase. As such, capacity building and development of a plan for strategically integrating capacities built in the PIUs/PMUs into line ministries will form an important area of emphasis under the new CEN.

48. If additional resources can be mobilized, the first objective of the new CEN may include rebuilding the transportation system, WASH service delivery, and basic education access, with additional needs likely to arise. While the CEN does not identify explicit sectoral priorities at the outset, it defines the principles that will shape decisions about potential projects and ASA as clarity emerges on available resources and the evolution of the country context.

Objective (b): Extending support to livelihoods, human capital, and basic economic recovery

49. Basic livelihood support will be sustained and extended under the new CEN. The selection of activities and new projects will prioritize those that contribute to protecting the livelihoods of vulnerable households and their ability to respond to crises such as cholera, food insecurity, and other external shocks. This prioritization is being pursued under the fourth additional financing (AF4)² of the ECRP, under which coverage of wage employment and livelihood support interventions will be scaled up and cash transfers to

² An additional IDA special allocation of US\$400 million was granted in November 2018 to sustain lifeline interventions under the ECRP and EHNP. These AFs are to be presented to the Board of Executive Directors at the same time as this CEN.

existing beneficiaries will be extended for two additional quarters to provide relative income stability and livelihood support. In addition to ECRP interventions, the ongoing Smallholder Agricultural Production Restoration and Enhancement Project for Yemen plans to increase the use of productivity- and nutrition-enhancing agricultural practices by smallholders, contributing to basic livelihood support. Increasing purchasing power and food availability have knock-on effects of improving health outcomes and reducing the effect of malnutrition on child development.

50. The formation and preservation of human capital is a central objective of the IDA crisis response.

Basic livelihood support through cash transfers and agricultural production assistance is necessary to contribute to the longer-term objective of preserving human capital. Health and education systems will take time to recover, and the effects of the conflict on human social capital will continue to be felt by Yemenis long after stability returns. As such, engagements must address the underlying drivers of peace, stability, effective institutions, and the preservation of human capital, including addressing unresolved grievances and exclusive institutions.

51. Support to the private sector will continue to be a key component of the WBG's program for Yemen's economic recovery.

The country's private sector, while suffering, is showing resilience. It is vital to maintain and support private sector capacity and delivery in Yemen, which will be the backbone for recovery in the country. IFC will continue to work to strengthen private sector institutional capacity building, helping to create a conducive investment climate to foster job creation, attract foreign direct investment, and support local entrepreneurship. Building on joint WBG efforts to enhance the private sector operating environment in Yemen, MIGA will look for opportunities to provide political risk insurance for cross-border investments, including through utilizing the IDA Private Sector Window MIGA Guarantee Facility (MGF). Through the cascade approach, the WBG will continue to seek private sector solutions to enhance service delivery and increase opportunities for employment creation. The World Bank recently organized a roundtable discussion and established a structured platform to bring together the private sector and chambers of commerce from across the country to play a more proactive role in the country's recovery and reconstruction process.

52. Recognizing the importance of youth and women to stability, prosperity, and human development, the CEN program will pay specific attention to their needs and aims to fortify their role in peacebuilding and reconstruction. To better serve vulnerable youth and women, upcoming projects and activities will include gender- and youth-disaggregated indicators and upcoming ASAs will give particular consideration to gender and youth dimensions of development topics. For example, the CEN proposes ASA examining the link between gender, participatory decision making, and peacebuilding in Yemen. The CEN will also prioritize consultations with women in current and future engagements and build an evidence base for a more participatory peace process. In the health sector, increased support for psychosocial services can be particularly helpful for youth in an FCV context. For women, specialized health support can include reproductive and post-natal services, as well as care following gender-based violence. The new CEN will explore education as a critical means to target youth unemployment and illiteracy, provide psychosocial services, and distribute health and gender-related resources. This deliberate focus on women and youth can inform where and how the WBG intervenes, especially in regard to designing participatory long-term development initiatives in peacetime. See Box 8 for more on cross-cutting topics such as climate, gender, youth, and resilience.

Box 8. Cross cutting topics—climate, gender, youth, and resilience

Yemen is highly vulnerable to natural resources deterioration and environmental shocks. Climate change effects are adding to societal tensions in many ways. Climate factors—in combination with deficient governance, exclusive rights or outright land capturing, and distorted economic incentives (such as through the former energy subsidies)—have deprived many Yemeni households of productive factors like land, water, and energy, thereby limiting their income potential. The region of Tihami, for example, is known for its many landless citizens who are living in extreme poverty, dependent on large land owners, and suffering more than others in Yemen from food insecurity.

The GoY made some progress on gender and social inclusion in the years leading up to the conflict, especially with regard to girls' access to education, but inclusion gaps remain important constraints to equitable and sustainable development. With persistent gender gaps existing prior to the conflict (for example, with regard to education, legal restrictions on mobility and decision making, barriers to female participation in the labor force and in political life, and few opportunities for voice, paid work, and entrepreneurial activity), women are more vulnerable to the economic, social, and security challenges that result from the conflict. Stark gender gaps in Yemen are influenced by and set within the context of conservative and strict gender norms.

Youth dissatisfaction with the government was a contributing factor in the 2011 uprising. Students and unemployed graduates have repeatedly called for good governance and more secure rights. However, when the NDC process failed and entrenched political elites retained control over power structures, the youth movement fractured. There is no longer an effective, sustained effort to build platforms for youth civic engagement in Yemen. Lack of employment is rampant, as are illiteracy and high fertility among young women. Youth bulges can exacerbate preexisting political and socioeconomic problems, and research has found a strong link between youth economic prospects and social unrest. Engagement with youth in Yemen is therefore a critical component of the effort to build the foundations for peace.

Resilience has traditionally been strong in Yemen, especially at the community level, and development initiatives should build on the society's resilient traits. Yemenis have experienced conflict conditions and suboptimal income and development opportunities to varying degrees, for many generations. The current conflict period is one of many, albeit more intense in terms of destruction.

Effective peacebuilding and recovery require a multidimensional and multisectoral response that addresses political, security, humanitarian, and development priorities in a holistic manner. Recognizing that climate change, gender, youth, and resilience building are cross-cutting factors that are critical to reinforcing recovery and peacebuilding in Yemen, the CEN includes these factors as selection and prioritization criteria for upcoming interventions.

Advisory Services and Analytics

53. Under the new CEN, the WBG will deepen its utilization of ASA to support ongoing projects and inform future investments in recovery and reconstruction. ASA can be used strategically to deepen knowledge, anticipate needs, and explore potential priorities. While it cannot necessarily influence other development partners to follow the WBG's lead, high-quality ASA can help make the case for others to become engaged. Several ongoing ASA activities that are nearing completion, including the Yemen Welfare Analysis, will inform the development of the WBG engagement set out in this CEN.

54. A new program of ASA activities has been proposed for FY20–21. Topics include mitigating fiduciary risks, TA to the CBY, agriculture value chains, private sector reengagement, supporting recovery readiness, and gender and peacebuilding. Decisions on future ASA will continue to be made with the aim of improving the availability, production, and use of reliable data to support operations and strategy (both for the WBG and international donor community). This will entail a dynamic approach that will allow the WBG to respond quickly to material changes in the operating context. If additional multilateral resources can be mobilized, the ASA program may expand to include other critical investments in recovery and reconstruction.

A Responsive and Adaptive Strategy Framework

55. Experience indicates that the frontier between the end of conflict and the start of recovery is often difficult to distinguish. As a result, there is a premium on agile, adaptive assistance that expands to meet emerging development needs, as either a complement or an alternative to humanitarian assistance. Given the fluid nature of the conflict and the necessity of the CEN to adapt to situational needs and priorities, a framework for the sequencing and selectivity of projects is proposed (Table 2).

Table 2: Sequencing and Selectivity Options

| | No additional funding | Additional funding of up to US\$500 million | Additional funding up to US\$1 billion |
|--|---|---|---|
| Continued conflict | <ul style="list-style-type: none"> • Implementation of the existing portfolio of five projects, until core funding is exhausted | <ul style="list-style-type: none"> • Implementation of the existing portfolio of five projects • Additional financing will support the continuation of key components and the scaling up of current interventions • In sectors, where WBG is unable to support lending, ASA and TA will be relied upon | <ul style="list-style-type: none"> • Implementation of the existing portfolio of five projects • Additional funding finances continuation of key components, scaling up of current interventions, and allows for expansion into human capital priorities such as education, WASH, and transportation |
| Confidence-building indicators of peace as set forth in Sweden agreement are achieved | <ul style="list-style-type: none"> • Implementation of the existing portfolio of five projects, until core funding is exhausted • WBG to facilitate the inclusion of women in the peace process | <ul style="list-style-type: none"> • Implementation of the existing portfolio of five projects • Additional financing will support the continuation of key components and the scaling up of current interventions • WBG to facilitate the inclusion of women in the peace process. | <ul style="list-style-type: none"> • Implementation of the existing portfolio of five projects • Additional funding finances continuation of key components, scaling up of current interventions, and allows for expansion into human capital priorities such as education, WASH, and transportation. |

| | | | |
|---|--|---|--|
| | | <ul style="list-style-type: none"> • TA and ASA to reflect peacebuilding priorities | <ul style="list-style-type: none"> • TA and ASA reflect peacebuilding priorities and support to financial system |
| Reliable signs of countrywide peace and relatively sustained non-fighting in key areas | <ul style="list-style-type: none"> • Implementation of the existing portfolio of five projects, until core funding is exhausted • WBG to facilitate the inclusion of women in the peace process • WBG to develop new strategy note and identify ways to reengage and finance traditional in-country supervision | <ul style="list-style-type: none"> • Implementation of the existing portfolio of five projects, until core funding is exhausted • Additional financing will support the continuation of key components and the scaling up of current interventions • WBG to facilitate the inclusion of women in the peace process • TA and ASA to reflect peacebuilding priorities and institutional strengthening • WBG to develop new strategy note and identify ways to reengage with traditional in-country supervision | <ul style="list-style-type: none"> • Implementation of the existing portfolio of five projects • Additional funding finances continuation of key components, scaling up of current interventions, and allows for expansion into human capital priorities such as education, WASH, and transportation. • TA and ASA to reflect peacebuilding priorities, support to financial system, and institutional strengthening. • WBG to develop new strategy note and identify ways to reengage with traditional in-country supervision |

56. Depending on the political and security situation, the CEN will follow three potential scenarios of support. They are: (1) focus on maintaining the core of Yemen’s institutional capacity to deliver a minimum of services, (2) maintain core institutional capacity to delivery minimum services and support one or two new human capital sector priorities, while utilizing TA/ASAs opportunistically in other areas, or (3) launch a more robust recovery and reconstruction program in human capital sectors with TA/ASAs support focused on peacebuilding priorities. In the first scenario, where there is no change in the level of conflict, the WBG would continue to focus on critical interventions in health and livelihoods, including social protection, to stem the further erosion of human capital, while continuing to leverage the Bank’s investments over the past two decades by working to preserve institutional capacity.³ If an opportunity should arise to support peacebuilding—signaled, for example, by the achievement of confidence-building measures in support of the Hodeida agreement—a second scenario could be realized, under which the CEN would support a expanded recovery program in Yemen that would maintain all current portfolio projects, scale-up of ongoing interventions in health, nutrition, and urban services, and roll out interventions to target priority human capital needs. The engagement would be accompanied by a set of ASA interventions (Annex 4) to strengthen the CEN’s approaches with regard to vulnerable groups (such as women, youth, and IDPs). In the third scenario, if reliable signs of peace are signaled, the approach pursued would include support for critical medium- to long-term investments in sectors such as education, transport, WASH, the financial system, health, nutrition, and urban service delivery, with a diverse set of ASAs to reflect peacebuilding priorities. IDA’s Scale-up Facility and Turn-around Regime windows could potentially be accessed, although even these resources would be unlikely to be sufficient given the expected demand. This approach would be appropriate as a means of mobilizing and coordinating donor contributions to a World Bank-managed trust fund. A light adaptive monitoring framework (Annex 5) will help identify key indicators of progress under the new CEN and provides a set of guiding principles and sub-objectives to frame the selection and prioritization of projects moving forward.

³ WBG experience in Iraq and elsewhere has underscored the importance of being ready to expand support beyond immediate needs and establish the foundations for medium-term development.

57. **As in many other conflict situations, the situation in Yemen is characterized by uncertainty and unpredictability given the complexity and multiplicity of interests, players, and both internal and external conflict drivers.** It is increasingly clear that any foreseen peace agreement would need to be followed up by numerous and active local efforts to mediate the multitude of localized conflicts that have erupted over the past three years. Doing so will require a flexible approach that can accommodate the unpredictable evolution of the conflict, especially locally. While this CEN focuses on the strategy for in-conflict engagement, Annex 6 makes some initial recommendations to help inform dialogue and preparations for reengagement in post-conflict Yemen.

VII. Financing

58. **IDA18 core resources for Yemen were programmed strategically to build resilience and to complement crisis interventions through two new emergency projects: Integrated Urban Services Emergency Project (US\$150 million) and Emergency Electricity Access Project (US\$50 million).** The third ECRP additional financing was also approved in December 2018, with co-financing from DFID and the US State Bureau for Near Eastern Affairs (NEA), and is expected to be fully exhausted by April 2019. These three projects exhausted the remainder of Yemen's IDA18 core funds. Yemen had previously accessed US\$200 million through the Crisis Response Window (CRW) for the ENHP second additional financing. In light of the severity of the crisis experienced by the country, a special allocation of US\$400 was granted at the IDA18's Mid-Term Review (MTR) meeting held in Zambia in November 2018. The special allocation is meant to cover two projects: the fourth ECRP additional financing (US\$200 million), presented to the Board of Executive Directors together with this CEN, which will extend financing for the cash transfer component under ECRP for two more quarters, as well as the additional financing of the EHNP (US\$200 million), which will help scale up activities to respond to short term health needs, prevention of chronic malnutrition and disease, as well as institutional and capacity-building for local health systems and staff. The ECRP and EHNP serve largely to sustain basic and lifesaving services to the most vulnerable in Yemen.

59. **Potential sources of financing over the next two years include IDA19 and possible external donor-financed trust fund contributions.** The CEN period spans IDA18 (FY20) and part of IDA19 (FY21). While Yemen has exhausted all financing resources for IDA18, it will receive a new Performance-Based Allocation (PBA) at the beginning of IDA19, which could, in principle, be topped up through one of IDA's special regimes for country in or at risk of conflict and violence⁴. Yemen will also remain eligible for any of IDA's special financing windows. This CEN has been designed to lay out overarching objectives of engagements and principles for the selection and prioritization of activities under a variety of potential funding scenarios.

VIII. Partnerships

The WBG-UN Partnership

60. **IDA's innovative implementation model in Yemen rests on an effective relationship with the UN.** The Yemen experience has shown how the UN and WBG can deliver complementary support in an FCV context. In the absence of direct in-country supervision, the WBG's ongoing emergency operations rely on a balanced collaboration between the WBG and the UN, through which the WBG contributes financing and technical and operational expertise, while UN agencies provide on-the-ground implementation support. The success of this partnership depends on an effective division of labor based on the comparative advantages

⁴ Actual PBA allocations will be determined annually during the replenishment period and will depend on: (i) total IDA resources available; (ii) the number of IDA-eligible countries; (iii) the country's performance rating, per capita GNI, and population; and (iv) performance and other allocation parameters for other IDA borrowers.

of each institution, the management and early detection of risks, and engagement of local partners to preserve national systems in view of long-term development objectives. Other success factors have included evidence-based project formulation, careful negotiation of operational procedures, timely Board approvals, rapid funds disbursement, and an intervention model that builds on existing programs and infrastructure to scale up delivery capacity. Leadership to maintain these good practices is critical. New modalities of World Bank operations in Yemen exemplify how humanitarian and development actors can work together in the much-needed “New Way of Working,” as outlined by the UN Office for the Coordination of Humanitarian Affairs (OCHA). One example of collaboration among the UN, the WBG, and other humanitarian partners is the recently launched Famine Action Mechanism, which seeks to formalize, strengthen, and incentivize the links between early warning, financing, and implementation arrangements of international famine mitigation efforts. Yemen is participating in this initiative as a “first mover.” Emblematic of the tailored engagement in FCV envisaged under IDA18, the IDA’s current operational model in Yemen shows that development funding in active conflict can reinforce humanitarian relief efforts.

61. A study of lessons learned in Yemen is being finalized to assess WBG effectiveness in executing its development mandate and value proposition in a country in active conflict. The study identifies successful policy approaches that can be replicated in other FCV contexts; analyzes the WBG operational approach, risks, challenges, and complementarity to humanitarian actors; considers the nature of the Bank’s policy framework for operations in active conflict; and discusses challenges for sustaining financing. The study builds on the growing recognition that humanitarian, development, and peacebuilding efforts need to reinforce each other to effectively tackle crisis situations and address drivers of fragility. This study elaborates on and complements the lessons that have been identified through the WBG’s recent experiences in Yemen, and which have been incorporated throughout this CEN—such as leveraging a successful partnership with the UN, use of TPM in the absence of an on-the-ground presence, working through local institutions to preserve capacity, the critical need to be responsive, selective, and pragmatic, an emphasis on sequencing operations to build on previous experience and gradually enlarging the span of sectors supported, how to build on value-addition in non-humanitarian sectors, and the innovative use of risk mitigation measures. This CEN takes into account all the emerging findings of the study, which will be finalized in the coming weeks.

Donor Dialogue and Coordination

62. IDA’s synergy with other donors is critical to ensure maximum financing impact in peacemaking and peacebuilding in Yemen. IDA has a convening advantage in the donor coordination and dialogue space, enabling resource mobilization and steering donor dialogue on recovery and reconstruction. Over the past two decades, projects implemented by SFD and PWP have benefited from the Bank’s involvement in mobilizing donors and facilitating implementation. Senior WBG management has maintained bilateral strategic dialogue and exchange with Yemen’s major players and donors. The WBG works closely with DFID, the United States Agency for International Development (USAID), the Kingdom of the Netherlands, the German Federal Ministry for Economic Cooperation (BMZ), the Islamic Development Bank (IsDB), the Saudi Fund for Development, the Government of the UAE, various UN agencies, and the International Monetary Fund (IMF).

63. Under the new CEN, the WBG remains committed to maintaining its convening power and playing a lead role in partner dialogue and coordination structures. Such structures would become even more relevant and effective once there is peace. The WBG is uniquely positioned to fill the gap in economic development dialogue, complementary to humanitarian and political dialogues. Strong donor coordination mechanisms and partnerships with the broader community have enabled the WBG to coordinate annual or biannual plenary donor meetings, monthly donor calls, and “deep dives” around planning and engagement in Yemen. There have been challenges with regard to engaging regional donors, such as the GCC, and creating a conducive environment and incentives for their proactive participation in mainstream donor dialogue platforms. Some WBG-led donor dialogue and coordination meetings were

moved to Riyadh in early 2018 to allow GCC donors to participate in the plenary donor dialogue and coordination on Yemen. Opportunities exist to work directly with other donors as well. For example, there is the potential for collaboration between the WBG and Germany on recovery and reconstruction, especially in water (GIZ assessment), health, education, and support for the private sector, as well as joint analytical work. Humanitarian partners should continue to be engaged in development coordination forums to maximize synergies across humanitarian, development, and peacebuilding interventions. Looking forward, the new CEN will continue to leverage and amplify the WBG's technical expertise and value-added in the donor space, while supporting a robust analytical portfolio—a unique WBG contribution to the international community working on Yemen.

Stakeholder Consultations

64. **This CEN has benefited from the WBG's regular dialogue with the GoY, with development partners, and with nongovernmental actors.** The WBG usual approach to in-country consultations is difficult to achieve in Yemen given the absence of a country office at this time and holding consultations with only the Yemeni diaspora would exclude many stakeholders. Still, the WBG has taken opportunities to consult with the GoY, development partners, and at times also with the wider public to learn about the country's needs and how the WBG could most usefully position its instruments of support vis-à-vis those rolled out by other actors and partners. While the circumstances for engagement are complex, the WBG has gained critical endorsement of strategy from the GoY, national institutions, and development partners on the proposed engagement. Moreover, to underpin the agility and flexibility of this strategy, targeted online consultations will be pursued on a regular basis and on a range of concerns among various stakeholder groups (including the general public, young people, social subgroups, and regional groups) to ensure continuous feedback on priorities and inform the implementation of this strategy.

IX. Risks and Risk Mitigation

65. **The overall risk rating for the WBG's engagement in Yemen remains high, but inaction would be costlier from a reputational, strategic, institutional, and developmental point of view.** Engaging during the conflict phase will help to preserve critical institutional capacity, support service delivery for conflict-affected populations, and accelerate the WBG's ability to provide post-conflict assistance when peace emerges. This section provides a brief discussion of the risks to the WBG program (Table 3),

Table 3: Systematic Operations Risk-Rating Tool (SORT)

| Risk Categories | Rating (H, S, M or L) |
|--|------------------------------|
| Political and Governance | H |
| Macroeconomic | H |
| Sector strategies and policies | H |
| Technical design of project or program | H |
| Institutional capacity for implementation and sustainability | H |
| Fiduciary | H |
| Environment and social | H |
| Stakeholders | H |
| Other (Security) | H |
| Overall | H |

Security, Political, and Governance Risks

66. **High risk ratings stem largely from the current conflict context, which presents significant challenges to the WBG program.** Peace negotiations have stalled despite recent political consultations in Sweden on early confidence-building measures. The ability of institutions to conduct effective and inclusive political decision making and deliver on obligations has been undermined, adding to governance risks. The WBG has no instruments to address the tremendous security and political risks, whose mitigation depends on the concerted efforts of the international community under the auspices of the UN. The WBG engagement in Yemen does, however, offer critical support to the UN negotiations. The WBG provides technical and analytical support for international engagement, and coordinates with partners to inform and lead on the economic and social aspects of the peacebuilding process. On the operational side, security and political risks are mitigated by the suspension of disbursements of non-essential and high-risk portfolio projects, as well as the closure of the Sana'a country office.

67. **To overcome issues related to weak government capacity in Yemen, the WBG program relies on UN agencies and national partners for high-quality implementation, sustainability, and oversight.** The weak governance environment and the lack of social accountability in Yemen have affected service quality, even before the conflict erupted. Yemen's institutional capacity has weakened further because of the conflict, although there are national institutions that have shown resiliency and capacity during the conflict. The choice of UN agencies to implement the WBG's portfolio was determined in part by the UN's long history of operation in the country, its established track record of service delivery, and its continued active presence in the country despite the conflict. In practice, the experience of UNICEF, WHO, the United Nations Development Programme (UNDP), the Food and Agriculture Organization (FAO), and UNOPS in identifying eligible households in conflict-affected settings through partnerships with local NGOs and community-based organizations has enabled IDA to provide comprehensive program coverage despite its inability to have a direct, on-the-ground presence. Using the extensive experience and professional standards of the SFD and PWP to help deliver well-targeted, community-based services throughout the country significantly mitigates implementation risks and ensures that the financed services are delivered effectively and address local needs. The community-based approach and the use of simple, standard designs provide reasonable mitigation measures. Under the circumstances, sustainability is not given and cannot be mitigated.

Macroeconomic Risk

68. **The risk of further macroeconomic deterioration is high.** While currency depreciation has been largely controlled in recent months, the country remains at high risk of further currency crisis and inflation. This is exacerbated by a major liquidity crisis in the banking sector, a CBY that remains divided, a deteriorating financial and export market, accumulating public debt, and poor private sector performance. These risks strengthen the case for WBG engagement, however, as the WBG is considered a leading partner on economic recovery. Mitigation measures include an emphasis on private sector solutions, including through direct support to SMEs and microfinance institutions as well as by using private sector suppliers in project procurement. The WBG is preparing TA to the CBY, which aims to strengthen payment systems, oversight, and efforts on anti-money laundering and countering the financing of terrorism (AML/CFT). There are, however, signs that warrant cautious optimism in the macroeconomic context; in March 2019, the CBY in Aden published its first budget in five years, and precipitous currency depreciation has largely been controlled.

Sector-specific Implementation Risk

69. **Sector-specific implementation risks are high, but have been managed through incremental, bottom-up, participatory sector engagements.** The health project follows long-established and shared

health sector policies and objectives, while the ECRP and projects on agriculture, urban services, and emergency electricity access are designed on the basis of well-tested experience with labor-intensive public works and national institutional capacity. Unique to the FCV context is the need to rely on TPM and partner implementation (Box 6). In all of IDA operations in Yemen, the UN agencies involved in implementation have long-standing experience in the relevant sectors and are thoroughly familiar with sector policies in Yemen. In-country contracted implementation agencies (such as the Ministry of Public Health and Population's certified medicine distribution units) and local implementation partners (the SFD and the PWP) have long, satisfactory track records in implementing policies and using inclusive and bottom-up approaches. Risks are further mitigated by the diversity of interventions and implementation modalities applied (including community engagement, NGOs, SMEs, and contractors).

Technical Design Risks

70. Technical design risks are high. Given the uncertain security situation, poor basic service delivery, and inaccessibility of some areas due to conflict, there is substantial risk that programs may be difficult to implement, thereby posing a risk to CEN objectives. Operating in conflict necessitates an open-mindedness and appetite for risk in technical design. Throughout the CEN program, there will be an emphasis on simplicity and flexibility given the complex operating context. Risk mitigation also lies in the WBG's strong partnership with local and international counterparts. The UN has decades of experience in Yemen and has continued a strong and effective operational presence in the midst of conflict. In addition, strong national institutions such as the SFD and PWP are providing basic services in lieu of a government entity. The WBG has built up the capacity of these institutions over the past two decades, and they are among the most competent institutions in the country. Sectoral analyses in areas of engagement are adequate and, where there are gaps, ASA has been developed and/or planned.

Institutional Capacity Risks

71. Institutional capacity for implementation and sustainability risk is high. Implementation capacity by the current authorities is extremely weak and made weaker by prolonged instability, a complex political economy, the buildup of public sector wage arrears, non-existent budget planning over the past four years, and a division of governmental authority. Lack of accountability and transparency in institutions and widespread capture by vested interest groups have been fracture points precipitating country conflict for decades. The current political, administrative, and institutional bifurcation has created further opportunities for corruption and war profiteering. Mitigation will be focused on building the capacity of national institutions and PIUs/PMUs with the aim of transitioning technical and personnel capacity to line ministries when reconstruction begins. The reintegration of institutions (such as the CBY) is another critical element of longer-term institutional sustainability. The CEN will conduct analysis of public and sectoral administration with the aim to develop action plans for the systematic inclusion of stakeholders to build the basis for reintegration of line ministries when the context allows.

Fiduciary Risk

72. Fiduciary risk is high. Given the Bank's limited ability to provide on-the-ground fiduciary oversight due to political and security risks, there are high risks of misappropriation and/or diversion of funds, fraud, and corruption across large geographical areas. Ongoing projects directly engage the WHO/UNICEF/UNDP/FAO/UNOPS to implement project activities through project agreements between the government and UN agencies, which reflect the scope of services, general obligations, reporting requirements, and transparency provisions. Risks are mitigated through: internal and external audits in accordance with the UN Financial Regulations and Rules; oversight and monitoring conducted via TPM; submission of periodic financial and progress reports; and annual audited financial statements. Detailed fiduciary and reporting requirements contained in the FMFA include: a joint resolution mechanism for issues, including fraud and corruption; appropriate remedies (including the right to suspend or terminate disbursements); and a clear delineation of responsibilities between UN and the WBG.

Environmental and Social Risk

73. Environmental and social risks are high. The FMFA covers environmental and social safeguards, and the UN's environmental implementation mechanisms will be applied to the ongoing operations. The UN environmental and social guidelines are broadly consistent with those of the Bank. They will help mitigate potentially high, adverse environmental and social impacts stemming from the selection and implementation of subprojects. TPM arrangements for these projects include monitoring environmental and social safeguards and helping to ensure compliance. One key risk that has materialized during implementation of the two existing projects is social risk related to significant gaps in compliance with occupational safety and health measures, which have led to a number of work-related fatalities under the ECRP and, more recently, under the Smallholder Agricultural Production Restoration and Enhancement Project. Fatalities reported under the ECRP and the agriculture project have been addressed by reviewing Operational Health and Safety Plans and toolkits. In addition, in response to a recommendation to strengthen its safeguards, the UNDP has added an internationally recognized staff and dedicated staff member on operational health and safety. The conflict context may produce social tensions during project implementation, concerning the prioritization of subprojects, locations, and selection of participants. Discussions will be held between UN agencies and their implementation partners to agree on possible measures to be undertaken to address these risks. Agreed measures will be codified for the purpose of project management to ensure community engagement, accountability, and transparency.

Stakeholder Risks

74. Stakeholder risks are high. Consultations conducted to date with Yemeni stakeholders—including government authorities, private sector, civil society organization, and implementation partners—show that the CEN objectives are in line with the goals of stakeholders. Yet the complex political economy means that there are risks that vested interests may obstruct reforms. Mitigation of such risks requires a better understanding of the interests of other groups and may include continual outreach to Yemeni stakeholders, especially those that the WBG does not frequently engage with or consult.

Institutionalized Operational Risk Monitoring

75. The WBG has put in place its own internal redress mechanism for risk management and risk mitigation across the entire portfolio. The risk management mechanism has proven effective in flagging emerging risks and ensuring overall risk monitoring. The mechanism uses a biweekly risk monitoring matrix covering SORT risks. This monitoring tool helps the team flag and address potential and emerging risks in a timely manner. A similar joint risk management and risk mitigation matrix is in place with the UN agencies involved.

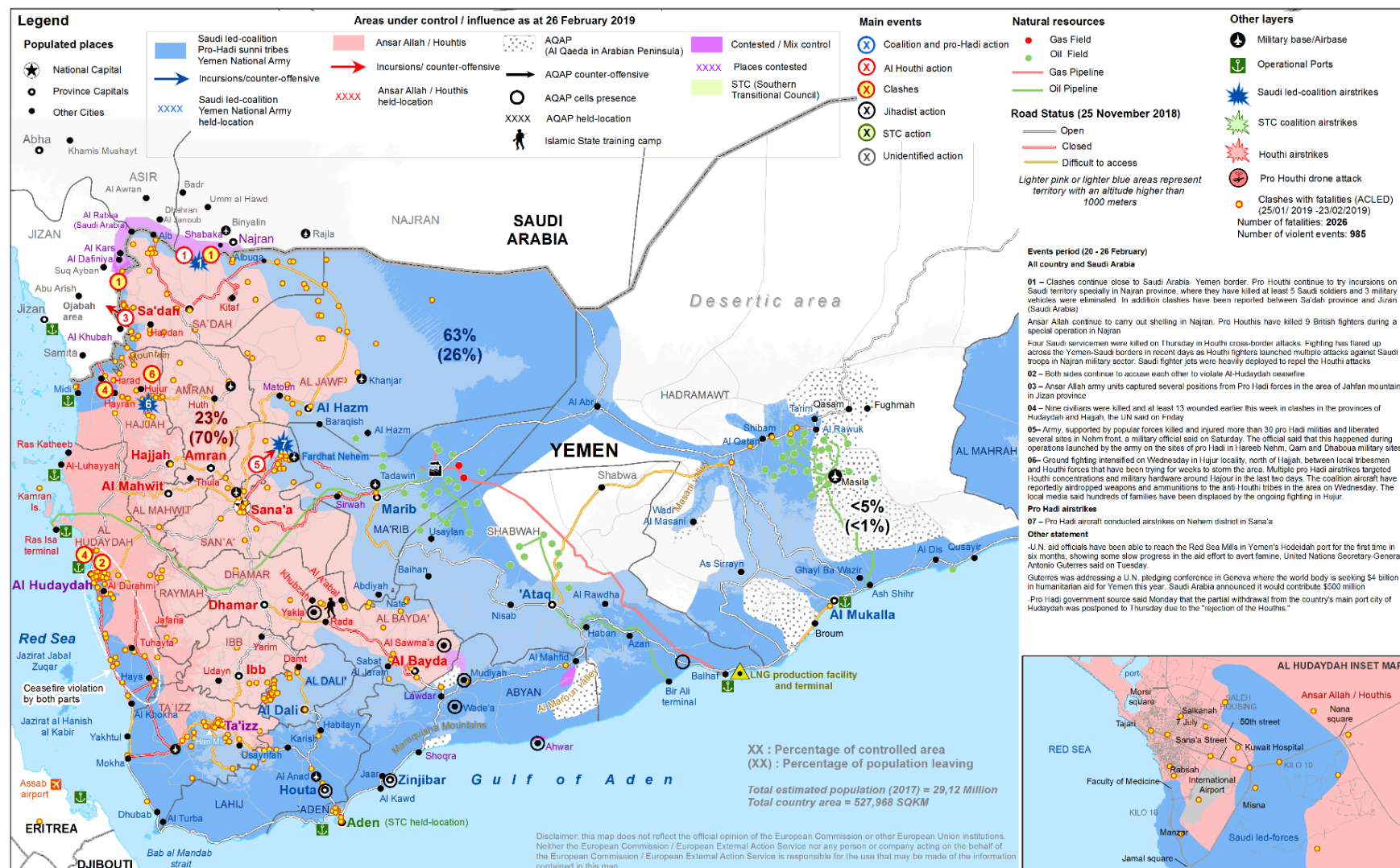
76. The ongoing projects follow a systematic project management and monitoring mechanism that supports implementation, management, monitoring, and evaluation. It allows for the consultancy services required for TA and implementation support, and the use of TPM for grievance redress mechanisms, communication and facilitation, community verification, beneficiary verification, and project assessment. The WBG's Yemen country management unit also produces a monthly snapshot summarizing overall portfolio delivery status in terms of disbursement, implementation progress, and results.

Annex 1: Yemen Conflict Map

Yemen Situation map as at 26 February 2019



Feedback info to be sent to: EC-GLOBAL-ATLAS@ec.europa.eu



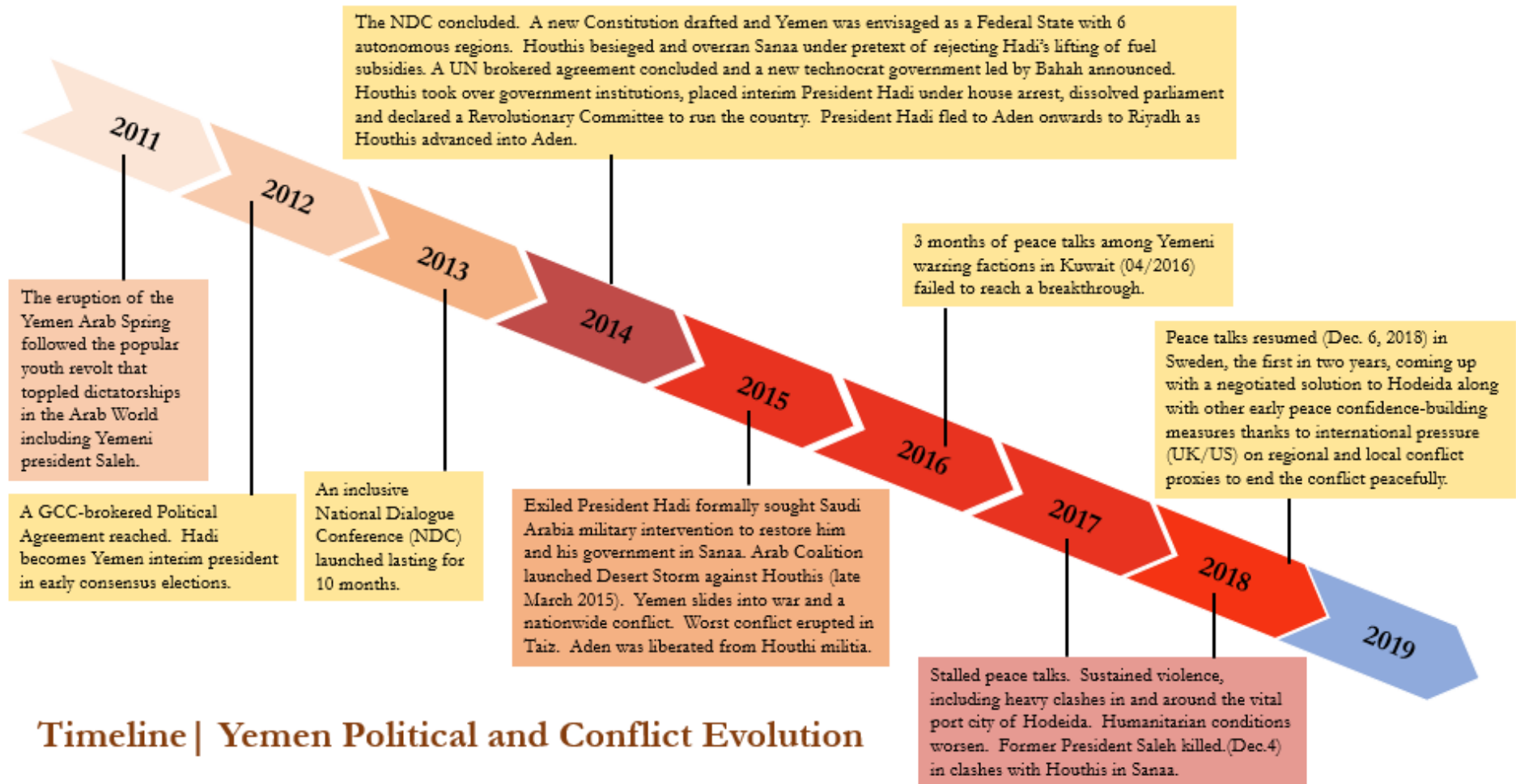
Map ID: 2459
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 Map Catalogue: <http://global-atlas.jrc.ec.europa.eu/>

Source data: Southfront.org, eia.gov, criticalthreats.org, mideast.liveuamap.com, logcluster.org, newsnow.co.uk, risk intelligence, clashes with fatalities from Armed Conflict Location & Event Data Project (ACLED); acledata.com

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Annex 2: Yemen Political and Conflict Evolution



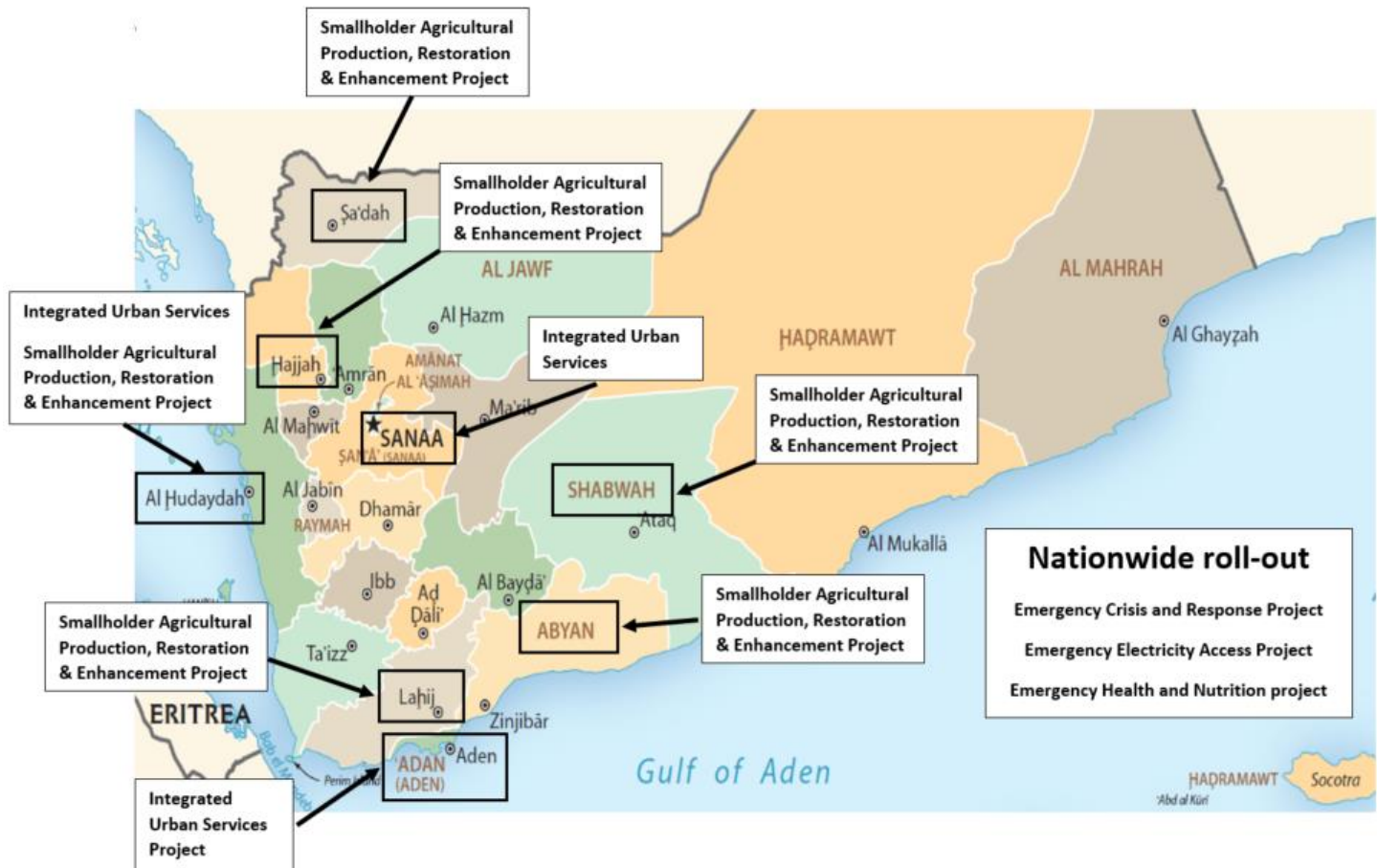
Annex 3: Current World Bank Portfolio Results in Yemen

The World Bank has been working in Yemen for more than half a century, and since July 2016, has been supporting a crisis response portfolio amounting to US\$1.36 billion implemented through innovative partnerships with UN agencies and national institutions. These projects have been part of an integrated IDA famine response and visible illustration of IDA's capacity to coordinate and respond to multi-dimensional development challenges in FCV as they evolve over time. IDA engagement model delivers at the humanitarian-development nexus, aiming to preserve human capital and institutional capacity while addressing immediate needs.

Table A.1. World Bank Portfolio in Yemen

| Project Name | Summary |
|---|--|
| Emergency Crisis Response Project (ECRP, US\$640 million) | ECRP has successfully demonstrated the ability to provide an effective development response to economic and human development challenges during conflict through a wide range of interventions that address multiple needs and vulnerabilities for a total 1.9 million households (roughly 40 percent of the population). Its constituent activities encompass public works programs, essential services, youth employment, local development, community infrastructure, small and micro enterprise development, and social assistance through cash transfers. Together, they address multiple needs and priorities including food security, consumption smoothing, insurance against shocks, human capital preservation and labor market activation. The ECRP deploys a unique model for partnership, bringing together the World Bank's technical expertise, institutional engagement, resources, and capacity with diverse actors including specialized UN agencies, strong national institutions, private sector actors and local communities. This partnership model has proven to be critical for providing a development response to the challenges imposed by continuing conflict. |
| Emergency Health and Nutrition Project (EHNP, US\$483 million) | EHNP is providing access to health, water, sanitation, and nutrition services. To date, EHNP has reached more than 14.6m Yemenis with basic health and nutrition services. The EHNP cholera emergency response has helped treat 640,000 out of the one million suspected cholera cases in the country, reducing the case fatality rate from 2.3 percent to 0.21 percent. The project has also helped maintain critical capacity of the health sector by funding in-part or in-full 40 percent of public sector primary healthcare facilities and 30 percent of public hospitals. |
| Integrated Urban Services Delivery Project (US\$150 million) | The Integrated Urban Services Emergency Project focuses on critical service delivery and will support up to 1.4 million Yemenis by creating 1.5 million days of employment, building 400 km of roads, and generating an estimated 600,000 megawatts of energy. In September, the project installed off-grid solar energy in Sana'a's largest public hospital, allowing the hospital to provide services to 4,000 Yemenis every day. |
| Smallholder Agricultural Production Restoration and Enhancement Project (US\$36 million) | The Smallholder Agricultural Production Restoration and Enhancement project aims to restore agricultural production in seven most food insecure governorates. Some 47,300 beneficiaries have received startup packages of staple seeds and poultry to resume agricultural production. |
| Emergency Electricity Access Project (US\$50 million) | The Emergency Electricity Access Project consists of engaging microfinance institutions through financing windows for high-quality, small-scale solar solutions for households, health clinics and schools. |

Figure A.1 Geographic Coverage of Ongoing Projects



Annex 4: Yemen Advisory and Analytical Portfolio

Ongoing World Bank Advisory and Analytical Portfolio in Yemen

| Task | Objectives | Planned Completion |
|--|---|---|
| Enterprise Revitalization and Employment Pilot Project Technical Assistance Program (P146030) | The activity aims to advise the Social Fund for Development on micro, small, and medium enterprise (SME) development and employment strategies, prepare for scaled-up SME development and employment projects, and contribute to the knowledge base on challenges to SME development and employment in Yemen. | May 2019 |
| Technical Assistance on DDR in Yemen (P164767) | To establish a technical foundation for integrating DDR into the peace process in terms of planning, design and implementation of DDR programming in Yemen. | May 2019 |
| Bringing Back Business in Yemen (P164924) | To help catalyze private sector activity in recovery and reconstruction (R&R) in Yemen by identifying concrete opportunities for private sector actors to contribute to R&R and the interventions needed to realize those opportunities. | June 2019 |
| Yemen: Community-Led Service Delivery for Strengthened Resilience (P164190) | To inform citizen engagement for Yemen Integrated Urban Services Emergency Project. | June 2019 |
| Yemen Post- Conflict Multimode Transport Review Study: stakeholders consultations (P165203) | The objective of the study is to propose a decentralization strategy for Yemen's transport sector that can be implemented once the country reaches peace and stability. | First stage completed as of December 2018. Next step is to carry out phase 2 of the analysis which will include in-country consultations. Expected delivery in June 2019. |
| Yemen Recovery & Development Vision - Projecting the Future (P162031) | To assist and advise the future Government of Yemen in driving an inclusive recovery and anchoring its own longer-term recovery & development vision, future dialogue and aid coordination with partners. | June 2019 |
| Yemen Welfare Analysis (P164726) | To fill key gaps in the understanding of welfare in Yemen and to produce analytical work that supports the Yemen recovery and reconstruction process. | Component papers delivered, final completion summary due in September 2019 |

| | | |
|--|---|--|
| Strengthening Natural Hazard Resilience in Yemen's Major Cities (P167087) | The objective of the project is to strengthen the understanding of natural hazards in selected cities in the Republic of Yemen and to incorporate natural hazard-resilient engineering designs into critical urban infrastructure investments undertaken under the Yemen Integrated Urban Services Emergency Project. | January 2020 |
| Recovery of the Electricity Sector in Yemen (P163777) | To develop a vision and implementation plan for the full recovery of the electricity sector in Yemen. | June 2020 |
| Proposed Approach for Facilitating the Payment of Civil Servants in Yemen (P166506) | This is a joint World Bank/UN Discussion Note (i) to take stock of the current challenges and opportunities in civil service payroll management in Yemen; (ii) to provide recommendations for the international community on support to the government of Yemen with recurrent costs to ensure that key civil servants receive their salaries and provide social services country-wide; and (iii) to stimulate discussion on the existing institutional challenges related to the payroll system, which need to be resolved in the medium-term. | Note was submitted for donor working group comments in mid-March 2019. Paper currently undergoing revisions accordingly. |

Completed World Bank Advisory and Analytical Portfolio in Yemen (2015 onwards)

| Task | Objectives |
|--|---|
| Strengthening youth participation and building trust in Yemen through a human rights-based approach (P159053) | To identify the causal impact of the Youth Training (RAWFD) program on youth aspirations, trust and cooperation between youth participants from different regions of the country, with the aim of understanding the potential for rebuilding social capital in Yemen through social protection and jobs interventions under the ECRP. |
| Delivering Social Protection in the Midst of Conflict and Crisis: The Case of Yemen | This paper aims to capture the experiences and the emerging lessons learned from the Emergency Crisis Response Project to better understand the complexities of operating in such a context. |
| Yemen Dynamic Needs Assessment FY19 (P168720) | The activity aims to generate analysis on the scale and consequences of conflict in Yemen and provide the WBG, the GoY, and the international community with an update on the impact of the crisis on the population, physical assets, infrastructure, service delivery, and institutions of the Republic of Yemen. |
| Securing Imports of Essential Goods to Yemen: Obstacles and Solutions (P163099) | The objective of this report is to assess the financial and logistical obstacles to the import of essential food commodities to Yemen and propose solutions for their resolution. |
| Yemen Poverty Notes (P153045) | The task has three main objectives: (1) to fill key gaps in the understanding of the state of welfare in Yemen; (2) to provide an important baseline on which a more current analysis of well-being along various dimensions can be conducted using simulation/projection techniques; and (3) support and build local capacity to collect household survey data, poverty measurement, and analysis. |
| Yemen Policy Notes Series (P159636) | The notes aims to: (1) advice the government on policy steps required to restore quickly operations and service delivery immediately following ending the conflict, the immediate post conflict period, (2) offer content for a policy dialogue to assist the Government also in its dialogue with non-state actors as well as with its development partners, and (3) aim for entry points into institutional or regulatory strengthening, reaching out beyond the immediate post conflict period (institution building and re-building). |
| WASH Diagnostic: The Crisis Surrounding Poverty, Conflict, and Water in the Republic of Yemen (P152686) | The report aims to develop a better understanding of the current picture of poverty and the manner in which it interacts with the levels of WASH access and service delivery in the Republic of Yemen. |
| Yemen: Restoring and Expanding Energy Access (P158449) | The project development objective is to develop an updated, empirically grounded understanding of the options for restoring, expanding, and sustaining energy access as part of the reconstruction and recovery of the Yemeni economy. |

| | |
|--|--|
| Republic of Yemen #A017 Improving Financial Infrastructure (P149118) | The objective is to develop Yemen's financial infrastructures, specifically: (i) Modernization of the Payment and Settlement System; (ii) Help to improve safety, efficiency, and inclusion within the financial infrastructure; (iii) Increase depth, breadth, data quality, sufficiency and timeliness for the Credit Registry/Bureau. |
| Yemen Decentralization of Education: Lessons for Selected Countries (P152824) | The development objective is to produce an in-depth analytical study of the education decentralization structures in a sample of federal states, and of the application of these systems and experiences to Yemen. This research will assist the MOE in its development of a direction for the adaptation and development of the education system in the context of Yemen's transition to a federal system based on the conclusion of the NDC (March 2013-January 2014). |
| Yemen Country Economic Memorandum (CEM): Growing Faster and Better, and Creating Jobs (P147059) | The objective of Yemen CEM is to analyze the key obstacles to unlocking Yemen's economic growth potential, provide Yemeni policy makers with a prioritized set of specific policy recommendations to remove binding constraints to growth, and ensure policies are rooted in political reality. The CEM will provide the analytical underpinning for the new 5-year Socio-Economic Development Plan for Poverty Reduction (DPPR). |
| Support for the Development of Aden Port, Airport, and Free Zone (P147304) | The project development objective is to provide the Government of Yemen and local authorities in Aden with a plan of concrete actions designed to increase business activities in, and attractiveness of, the city of Aden. More specifically, the activity seeks to achieve the following: (i) Identification and consensus-building on the overall strategy and the concrete actions to develop Aden's Port, Airport and Free Zone; (ii) Establishment of business case scenarios for the Port, Airport and Free Zone, and combining these into a comprehensive assessment of development options; (iii) Definition of the governing parameters and of the goals to be envisaged in the short, medium, and long-term (next 5 to 30 years). |

Annex 5: Adaptive Monitoring Framework

| Overarching Goal: Building the foundations for peace in Yemen through sustaining the WBG's current program of basic service delivery while extending support to preserving institutional capacity and human capital priorities as resources arise and the political climate allows. | |
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| CEN Main Objectives: The CEN comprises two objectives: (a) continued support for basic service delivery and institutional preservation; and (b) extending support to livelihoods, human capital, and basic economic recovery. | |
| Objective (a): Continued support for basic service delivery and institutional preservation | |
| CEN Sub-objective | Potential Indicator(s) |
| <ul style="list-style-type: none"> • Provide lifesaving services and service delivery in critical areas • Sustain national service delivery and institutional capacities | <ul style="list-style-type: none"> • Percent decrease in travel time as a result of roads reconstruction and estimated decrease in cost of minimum food survival basket; • Number of national institutions supported/partnered with; • Increase in number of families able to self-sustain, as a result of agricultural production restoration packages, in 2 years. |
| Objective (b): Extending support to livelihoods, human capital, and basic economic recovery | |
| <ul style="list-style-type: none"> • Promote resilience and sustain livelihoods • Preserve human capital • Economic recovery and stabilization | <ul style="list-style-type: none"> • Number of private sector representatives reached by Yemen Private Sector Cluster; • Number of private businesses revitalized; • Percent increase of cash transfers going towards non-food items (i.e. towards business loans and educational expenses). |

Annex 6: Reengagement: Approach and Preparation

1. **Among the first priorities of reengagement will be to focus on reinforcing the social cohesion that has been seriously eroded by recent events.** This means that priority must be given to programs that foster collective action and activities that stimulate local cohesion and reinforce community ties. It is also important to help local communities deal with restoration of services and address the multiplicity of local needs that have emerged from years of conflict. This will probably be better achieved by local governments, districts, or decision making at a similar level. Therefore, it would be important to feature activities at this level that allow the involvement of various groups from inside a subregion. Local planning (versus central-level planning) is a significant way to ensure that cohesion is also built from the district up. Good entry points include instruments such as social safety net programs that have very participatory features and are managed from the provincial levels. Investing in such programs will not only help preserve local capacities and institutions; it will also provide much needed services and job opportunities, and ensure more acceptability than programs managed from the capital.
2. **Priority will be given to the forcibly displaced population, people who lost their assets, and dealing with trauma.** Mitigating the conflict's negative impact on the most traumatized population will also be essential to sustaining reconciliation in Yemen. These types of interventions are difficult to design in a way that is effective and does not create additional tensions with host and other communities. It would be important to involve NGOs and other organizations that have high field presence and accessibility. It is critical to address the problem of returning or reconstituting the assets of the displaced, and this needs to be featured in any program that deals with resettling IDPs.
3. **One of the most urgent tasks will be to restart sustainable livelihood activities, and most of them will be linked to agriculture and trade.** Such activities include repairing feeder roads, restoring water wells and water access facilities, accessing market and small market infrastructure, improving energy (small dams, solar energy), facilitating access to inputs and basic equipment, and so on. Doing so will stimulate the improvement of livelihood activities and help smooth the transition from humanitarian support to basic development interventions. Preferred delivery mechanisms will include building up existing delivery capacities (such as the SFD, and labor-intensive work programs like the PWP, NGOs, and some UN agencies), because of the serious bottleneck in aid absorption capacity at ministerial levels.
4. **The conflict in Yemen has incurred additional risks that range from secession, sustained insurgency, and lack of security.** Those underlying causes of conflict will need to be addressed. The conflict has generated new sources of tension—for example, the influx of 2.8 million IDPs that can easily strain host communities' scarce resources and overwhelm the limited institutional capacity for service delivery. Interventions will need to be accompanied by robust conflict-resolution mechanisms and building up governance capability of the local administration. They should also be based on a solid understanding of local conflict dynamics in implementation areas.
5. **New modalities for program implementation through line ministries will need to be established. In the past, programs implemented by line ministries tended to be ineffective and created major bottlenecks.** In the conflict's immediate aftermath, it is expected that this situation will worsen. The experience of Afghanistan will be used as a model for designing more effective delivery mechanisms for reconstruction; an exchange with the Afghanistan country team could jumpstart thinking in this area.
6. **A solid communications campaign should accompany reengagement efforts and be coupled with mechanisms to ensure strong transparency in the use of reconstruction resources.** It will be critical

that perceptions about how and where aid is being used do not reinforce grievances in a context where information has been often manipulated. A specific unit should be created that is in charge of the strategic and transparent dissemination of information on aid. How aid is territorially distributed matters a lot in a country with strong localized identities. It will therefore be important to ensure a perception that aid is distributed in a territorially fair way.

7. **WBG interventions should be designed using a conflict and governance filter approach that will be based on preliminary mapping of various local-level social and political dynamics.** In particular, conflict around land, water, and recovery of assets is expected to be high during the reconstruction period.
8. **Natural resource management—especially water and land—should also be integrated into recovery activities.** Reconstruction activity can create unintended stress on these already fragile resources.
9. **A dynamic social and needs assessment and political risks analysis will need to be undertaken in advance; these will inform recovery activities.** It will be very important to ensure that the aid community reacts quickly to signals of tension and insecurity when these appear. No form of peace agreement will automatically reestablish security across the country or immediately engage a process of reconciliation. It will therefore be very important to map tensions and security threats and ensure that government and donors have a mechanism to diffuse these tensions as they appear. Such a mechanism should serve the whole donor community, and as such should probably be housed in the UN. Such an early warning system can be built based on existing mechanisms set up by the humanitarian community. The World Bank has set up similar monitoring mechanisms in the Philippines and Indonesia, and the UN also has experience with broad monitoring and early warning mechanisms (in Mali, for instance).

Box A6.1. Post-conflict Immediate Reengagement Focus

Responding to drivers of conflict in Yemen

1. Develop a long-term vision and short- to medium-term institutional and state capacity building.
2. Respond to the demobilization and social and economic reintegration needs of ex-combatants.
3. Restore services and livelihoods.
4. Promote social cohesion and local-level reconciliation.
5. De-concentrate service delivery to localities.
6. Enhance social safety nets (SFD, PWP, and SWF).
7. Target reengagement programs and activities to IDPs.

Preparation for Re-engagement

10. **Early discussion is needed among donors on implementation mechanism(s) for reengagement.** Different options should be explored, and relevant World Bank experience should be inventoried. A workshop should be organized on exchanging international experiences and best practices on post-conflict planning, prioritizing, and executing at the national and local levels. This will be particularly important for activities that require relatively large-scale infrastructure rehabilitation and support for

ministries and government agencies to restart their activities. Third-party monitoring should continue as a useful instrument that provides on-the-ground information about sustained security concerns and lack of state presence and services in the country's remote regions.

11. **While DNAs on Yemen are essential to assess the conflict's impact on physical infrastructure and the affected population's needs, it is crucial that a more detailed and comprehensive post-conflict needs assessment such as a Recovery and Peacebuilding Assessment (RPBA) be undertaken once the situation permits.** An RPBA would assess and prioritize institutional, social, and economic needs beyond just those of physical infrastructure and assets. The RPBA would become the common alignment instrument around which aid can be mobilized from and coordinated among the international development community. The RPBA should be built on a very careful analysis of conflict risks in different localities and dynamics and should involve consultations with local stakeholders. Because of the fragmented nature of governance mechanisms, this RPBA will need to be much more bottom up than ordinary RPBAs and incorporate local-level sensitivities into planning reconstruction.

Annex 7: Map

