

OPERATIONS EVALUATION DEPARTMENT
REPUBLIC OF YEMEN:
COUNTRY ASSISTANCE EVALUATION (CAE)
APPROACH PAPER

Background

1. In 1998-99, the Operations Evaluation Department (OED) undertook a review of Bank assistance to Yemen covering the period FY89-FY98. Yemen has since gone through a tumultuous period. Terrorist incidents, both before and since September 11, 2001, have given Yemen a high political profile. The price of crude oil, Yemen's main export, has gone from a historically low level of US\$13 per barrel in 1999 to an exceptionally high US\$50 in recent years. Yemen's known oil reserves, however, are being depleted rapidly, as is the supply of non-renewable underground water.
2. Today, Yemen ranks 149 out of 177 countries on the UNDP Human Development Index (2004). Its per capita GNI is about US\$520. Forty two percent of the population lives in poverty and one in five is malnourished. Twenty million Yemenis face enormous economic and social challenges, among them limited access to basic services, slow economic growth, significant gender inequality, a scarce and rapidly diminishing water supply. Yemen still has a long way to go towards achieving the Millennium Development Goals (MDGs) and sustainable poverty reduction.
3. In October 2003, the Government introduced a package of major policy reforms, consisting of revenue enhancements, reductions in fuel subsidies and the wage bill, but considerable resistance was encountered and virtually none of the measures was implemented. However, similar reforms became part of the 2005 budget which has been approved by Parliament. Meanwhile, economic performance has become more sluggish, with GDP growth drifting down from 4 percent per year in 2002 to below 3 percent in 2004.
4. The economic outlook is clouded by an expected depletion of oil reserves. Unless large new discoveries are made, proven reserves are projected to run out in less than 15 years. Meanwhile, the rest of the economy remains fragile and job opportunities are limited, making unemployment a major social problem. In 2003, 2.3 million out of the 9.3 million working-age people were unemployed, while the working-age population is growing rapidly (3.8 percent per year), reflecting the overall population growth.
5. Furthermore, Yemen's gender gap remains exceptionally large, with only 55 percent of girls attending primary schools (24 percent in rural areas), and a child mortality rate for girls that is 15 percentage points higher than for boys. The employment rate for women is less than one-third of that for men, and these jobs are mainly confined to low-productivity rain-fed agriculture and small-scale livestock cultivation. Illiteracy and limited access to employment make the gender gap particularly difficult to bridge.

6. Yemen has no perennial sources of water. The groundwater aquifer—from which it extracts almost all of its water—is rapidly diminishing in many parts of the country, including most urban and populated rural areas. This is due to rapid expansion of tube well irrigated agriculture (including the cultivation of qat – a local narcotic plant) in the past two decades and rapid growth in the extraction for urban use. The scarcity and continuing decline of water is compounded by minimal sanitation and ground water pollution due to urban and agricultural waste. Yemen's water sector is also beset by limited institutional capacity, subsidized diesel fuel, lack of effective regulation, financially weak urban utilities and high losses in conveyance and distribution.

Bank Assistance Program

7. The CAE will review Bank assistance from FY99 to FY05, a period that covers two separate country assistance strategies—one issued in May 1999; and the other in August 2002. The 1999 Country Assistance Strategy (CAS) was formulated on the basis of extensive consultations with local stakeholders, as well as donor representatives. It also drew on the findings and recommendations of OED's country assistance evaluation of the late 1990's. In May 2002, the Government completed its first Poverty Reduction Strategy Paper (PRSP) for 2003-05. The Bank's 2002 CAS, now in its final year of implementation, was guided primarily by this PRSP, although the CAS also cautioned that the goals envisaged could only be achieved in the long term and not necessarily under the PRSP horizon.

Box 1 Excerpts from Past OED Evaluation

“ . . . The recent strategy and lending assistance are considered more relevant than in the past, but still too diffuse. In the last three years, Yemen has been successful in restoring stability and resuming economic growth. This success can be partly attributed to IDA assistance. Although it is still early to assess impact and sustainability, IDA performance since 1996 in terms of relevance and consistency is considered satisfactory. . . .”

“ . . . IDA assistance strategy could be improved by greater focus on priorities and sustainability. This includes more effort to foster private sector development; support to institution building in water management and greater consistency in lending; and better integration of gender gap analysis into lending design. To improve sustainability of investments, IDA should eliminate use of project implementation units, provide more support to strengthening sectoral ministries, and attempt less ambitious projects. IDA should also spend more resources on helping Yemeni authorities build consensus on further reforms. . . .”

Source: OED, 1999. *Yemen Country Assistance Evaluation*, Report No. 19030, Washington DC: The World Bank.

8. There is considerable similarity in the two strategies. Under both CASs, the main objectives are:
- (i) Improved governance through capacity building in the public sector, better policy formulation and more effective service delivery;
 - (ii) Creating an attractive investment climate through market-friendly regulation, efficient and predictable judiciary, as well as adequate infrastructure;
 - (iii) Building and protecting human capital by expanding access to basic education while closing the significant gender disparity;
 - (iv) Attaining environmental sustainability, including sustainable water supply, soil, watershed and fish stock conservation.

9. From FY99 to up to April, 2005, IDA made commitments of US\$934 million to Yemen, averaging about US\$145 per annum for 22 investment credits and one adjustment credit. The current portfolio has 19 projects with total commitments of US\$816 million (net of cancellations). About 26 percent of the portfolio by value is dedicated to the water sector, 19 percent to education, 15 percent to health and other social sectors and 16 percent to public administration.

10. The Bank's key non-lending support encompassed economic and sector work, aid coordination and collaboration with civil societies. In recent years, analytical work covered both basic fiduciary issues (analysis of public expenditure management, civil service modernization, country financial accountability assessment) and sectoral or thematic issues (petroleum price policy reform, development of national gender strategy, environmental safeguard requirements, and recently issued water strategy.) The Bank also assisted Yemen in preparing a progress report on PRSP. Collaboration with civil society organizations has deepened, both through direct assistance and through credits that involved NGOs.

11. In 2003, IDA was one of the largest sources of external finance for Yemen, accounting for about one quarter of its total external debt of about US\$3.8 billion. This level of external debt reflects a debt relief about US\$6 billion provided by the Paris Club (including Russia) in 1996 and 1997.

Approach to Evaluation

12. The CAE will evaluate the extent to which Bank's major strategic objectives were relevant and have been achieved. As far as possible, the progress made on these objectives and the impact on poverty reduction will be based on measurable indicators of performance, as defined in the 1999 and 2002 country assistance strategies. All of the Bank's major products and services (lending instruments, advisory services, and aid coordination) will be reviewed. Special attention will be devoted to the questions of institutional development and sustainability. Finally, the CAE will assess the Bank's

relative contribution to the attainment of the objectives, taking into account external factors, the Government performance, and the interventions of other donors.

13. To the extent possible, the CAE will also draw on the findings and recommendations of ongoing and completed OED evaluations of, inter alia, the Poverty Reduction Strategy Paper (PRSP) Process, trade assistance, gender dimension, social funds; Project Performance Assessment Reports (PPARs) on transport, education and water; an ongoing investment climate assessment being undertaken by the Region; and an Independent Evaluation Office (IEO) evaluation of technical assistance provided by the International Monetary Fund (IMF). In addition, the Operations Evaluation Group (OEG) will provide a summary view of International Finance Corporation (IFC) operations in Yemen.

14. The specific issues to be addressed are the following:

(a) Overall Bank Strategy and Operations

- How effective was the Bank in helping Yemen define the overall development strategy, taking into account, inter alia, Government priorities, a critical scarcity of water and dwindling crude oil reserves?
- What are the perceptions of government officials, donors and others of the current management and staffing structure involving a Cairo hub and a Yemen satellite office?
- Is Bank lending moving towards a sector-wide approach with a country-led partnership of donors and local stakeholders? To what extent has the Bank taken account of the recommendations of the previous CAE (reducing project complexity, improving consistency of assistance, moving away from enclave project implementation units)?
- Given that the production of qat, a narcotic plant, accounts for a quarter of GDP, absorbs some 16 percent of the work force, and uses a substantial portion of Yemen's water, it is an important issue for Yemen: how has the Bank engaged the Government in addressing the issues surrounding qat?
- How effective was the Bank's aid coordination?

(b) Governance

- To what extent has the quality of governance improved? How effective has the Bank been in designing an assistance program that would result in improvements in governance?
- The Government and the Bank have focused on capacity building and improving the accountability of the civil service. How effective and sustainable has this approach been, especially given the regional disparity and differing requirements for services?

(c) Investment Climate

- To what extent has the investment climate improved? How effective was Bank strategy in promoting economic growth?
- With the prospective decline in oil production, development of the non-oil economy will be critical for sustaining growth. What steps did the Bank take to help alleviate infrastructure and other constraints to growth of the non-oil economy?

(d) Gender Issues

- To what extent have gender disparities been narrowed? How did the Bank help? To what extent did the Bank help increase the participation of women in economic activities? How effective was Bank assistance in addressing the high rate of population growth?

(e) Water

- To what degree has the Bank focused on the key issues affecting the sector, in particular the core issue of dealing with the water scarcity problem, integrated water resources management and other activities contributing more sustainable water conservation and management?
- Has the rural sector, as well as urban water supply and sanitation sector adjusted to the water scarcity problem? How has the Bank helped?

Output and Timetable

15. The CAE will be sent to the Committee on Development Effectiveness (CODE) in FY06, ahead of the planned Yemen CAS, which is currently scheduled to go to the Board in the fourth quarter of FY06. Consultations with the Government will take place before OED issues the report. The team will be led by Chad Leechor, Senior Evaluation Officer, OEDCR, under the guidance of Laurie Effron, Acting Manager, OEDCR. The peer reviewers are James Parks (Lead Economist, LCC7A) and Fareed Hassan (Senior Evaluation Officer, OEDCR).