

Report No. 36527

# Republic of Yemen Country Assistance Evaluation



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## Acronyms and Abbreviations

AAA	Analytical and Advisory Activities
APL	Adaptable Program Loan
BEEP	Basic Education Expansion Project
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CAS02	The 2002 Country Assistance Strategy for Yemen
CAS99	The 1999 Country Assistance Strategy for Yemen
CODE	Committee for Development Effectiveness
CSMP	Civil Service Modernization Project
ESW	Economic and Sector Work
FIAS	Foreign Investment Advisory Service
FY	Fiscal Year
GDP	Gross Domestic Product
GPC	General People's Congress
GSCP	Groundwater and Soil Conservation Project
IDA	International Development Agency
IDI	Institutional development impact
IEG	Independent Evaluation Group
IMF	International Monetary Fund
MENA	Middle East and North Africa
PIU	Project Implementation Unit
PRSP	Poverty Reduction Strategy Paper
PSMAC	Public Sector Management Adjustment Credit
PWP	Public Works Program
SFD	Social Fund for Development
UWSS	Urban Water Supply and Sanitation

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## *Evaluation Managers*

- ❖ **Vinod Thomas**  
Director-General,  
Evaluation
- ❖ **Ajay Chhibber**  
Director, Independent  
Evaluation Group, World  
Bank
- ❖ **R. Kyle Peters**  
Senior Manager, IEGCR
- ❖ **Chad Leechor**  
Task Manager, IEGCR

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# Preface

This Country Assistance Evaluation (CAE) examines the Bank's assistance strategy for Yemen for FY99 through FY05. Two Country Assistance Strategies (CASs) were operative during this period, a CAS discussed by the Board on May 3, 1999, and the other discussed on August 6, 2002.

This CAE examines how the Bank's assistance dealt with the major issues affecting Yemen's development during the period under review and how it contributed to the accomplishments of the country. The report assesses the relevance, efficacy, and efficiency of that assistance and recommends actions for the future. The evaluation is based on a review of World Bank documents and on interviews with government officials, Bank staff, officials from other donor agencies, members of non-governmental organizations, academics and people in the private sector. A list of people met and interviewed is shown in Annex B. A Bank mission visited Yemen from July 2 to 13, 2005. The contribution and the cooperation of government officials and agencies, NGOs, and donors are gratefully acknowledged.

Comments from the Bank's Regional Management have been incorporated in the report. The Management Action Record is attached as Annex C.

A draft of the CAE was shared with the Government of Yemen. The Government's general comments are attached as Annex E. Additional comments were received from the Government and these have been included as Annex F. The Independent Evaluation Group's (IEG) response to the Government's comments is attached as Annex G. A discussion of the Committee on Development Effectiveness (CODE) Subcommittee was held on June 7, 2006, and a summary of this discussion is attached as Attachment 1.

The Country Assistance Evaluation was written by Chad Leechor (Task Manager) with contributions by consultants, including: Svenja Andrea Weber-Venghaus (human development and gender), Michael L. O. Stevens (governance and public sector management), Gene Tidrick (investment climate), and Keith Robert A. Oblitas (water resource management). This evaluation benefited from comments of Kyle Peters, Laurie Effron and two peer reviewers: James Parks (LCSPR) and Fareed Hassan (on secondment from IEG to the Islamic Development Bank, Saudi Arabia). Vikki Taaka provided administrative support.

The report includes a contribution by the Independent Evaluation Group (IEG-IFC) of the World Bank's International Finance Corporation (Box 3), prepared by Denis T. Carpio and Cherian Samuel.





# Yemen: Summary of CAE Outcome Ratings

Objectives	Outcome	Ratings
<b>Governance</b>	Little progress has been achieved. Public sector employment has continued to increase, notwithstanding widespread overstaffing and an unaffordable wage bill; pay reforms and restructuring of key ministries have been delayed; and service delivery standards remain low; financial management has improved slowly, as have the legal and judicial reforms.	Unsatisfactory
<b>Investment Climate</b>	Investor confidence has deteriorated, reflecting rising concerns over security and corruption. Higher oil prices have reduced the incentive to address the long-term challenge of cutting the non-oil fiscal deficit. The economy and budget remains heavily dependent on oil.	Moderately Unsatisfactory
<b>Social Sector / Gender</b>	Primary school enrollment has shown impressive gains, especially for girls, whose enrollment rate has risen from 52 percent to above 68 percent in the review period. Health indicators, however, showed limited progress and healthcare provision remained inadequate.	Moderately Satisfactory
<b>Water</b>	While a misguided approach of the past was abandoned and strategy formulation has improved significantly, tangible results are yet to be seen in slowing down the depletion of water resources or stopping it altogether.	Moderately Unsatisfactory
<b>Overall</b>	Little or no progress was achieved on key systemic issues, with a setback on some. The scope for effective service delivery and growth remains restricted, but a positive change of direction is underway.	Moderately Unsatisfactory



# Summary

1. Despite its early stage of social and economic development, Yemen is a multi-party democracy with universal suffrage and a free press. The ruling party (General People's Congress or GPC) is a fragile coalition with shifting alliances among diverse groups with military, tribal and religious affiliations. Although the GPC has about 80 percent of the parliamentary votes, its control of the legislative and political agenda is in fact tenuous.
2. The GPC's cooperation with the west in the war on terror has caused dissension within the party and eroded its popular support. The reform measures taken in July 2005 led to civic strife. Outside the main cities, the influence of central government is weak, leaving considerable autonomy to tribal groups. Recently, tribesmen attacked government oil facilities and kidnapped foreigners. On occasion, they have been able to extract economic and political concessions.
3. Yemen has an economy of about US\$14 billion and a population of 20 million, which is growing rapidly (3.5 percent a year). Its exports are about \$4 billion a year, of which about 90 percent is derived from crude oil. The second most important source of foreign exchange is remittances from Yemeni working abroad, with estimates ranging from one to one and a half billion dollars a year. On the spectrum of social development, Yemen ranks 149 out of 177 countries on the UN Human Development Index (2004). The rate of adult literacy is about 50 percent. Forty two percent of the population lives in poverty and one in five is malnourished. Three quarters of the population live in rural areas.
4. During the review period, the strategic objectives of Bank assistance in Yemen were: (i) Improved governance; (ii) More attractive investment climate; (iii) Better human capital; and (iv) Ensuring sustainability of the environment, especially water.
5. The Bank's strategy and policy dialogue in the review period was dominated by the view that Yemen needed to improve the quality of governance and to enhance public sector capacity. Among the sub-objectives under this strategic goal were effective personnel management, staff reduction, decompression of the pay scale, devolution of service delivery to local communities and reduced corruption.
6. Along with governance, investment climate was considered a top priority in the Bank's strategy. The aim of this pillar is to promote broadly-based and geographically diversified private investment. The Bank's proposed assistance program included support for

deregulation, privatization, investment promotion, financial reform, and land titling as well as related non-lending services.

7. On building human capital, the focus of the Bank's program has been on activities in education, health, and community-level improvements. Particular emphasis has been given to girls' education and other activities that help reduce the gender gap and improve the status and well-being of women.

8. On water resource management, the key goal of Bank support was to prevent an imminent absolute shortage from creating social disorder. During the review period, a significant change in the Bank approach took place. It specifically recommended more analytical work on water, and it proposed new projects that focused on groundwater resource management and conservation, which had not received adequate attention.

9. The Bank's strategy was developed in close consultations with local stakeholders and was well aligned with Yemen's Poverty Reduction Strategy Paper (2002). It took into account the findings and recommendations of the IEG's 2001 Country Assistance Evaluation. As a result, the strategy was highly relevant to the pressing issues of the country, maintained a sharp strategic focus and retained flexibility in terms of instruments for Bank assistance. It was also very ambitious in the assessment of what the Bank could deliver, and optimistic on the durability of Government ownership and commitments.

10. As it turned out, there was a considerable gap between Bank strategy and the assistance actually delivered. On the lending side, the Government's shifting priorities, often reflected in a change of key personnel, made implementation exceedingly difficult. For its part, the Bank did not ensure: (a) adequate staffing of specialists in the Yemen office and; (b) continuity of task management. As a result, many of the key activities planned, both lending and non-lending, were substantially delayed or dropped from the program. The assistance program actually delivered was considerably more modest in both scope and relevance than the one envisaged.

11. The outcome for the **governance** pillar is *unsatisfactory*. While the flagship project was well designed and prepared with local ownership, the project was complex and the execution uneven. The "champions" on both sides, who were to lead the implementation, soon left the scene. Key measures, including payroll downsizing and pay decompression, were not implemented. For the duration of the project, the size of civil service expanded, notwithstanding widespread overstaffing and an unaffordable wage bill.

12. The outcome for the **investment climate** pillar is *moderately unsatisfactory*. High oil prices in recent years have reduced the incen-

tive to address the longer-term macroeconomic challenge of cutting the non-oil fiscal deficit. Growth of the non-oil economy has been too low (4 percent per year on average) to promote diversification. Progress is modest on structural and institutional reforms such as privatization, trade, finance and investment promotion. Progress in combating corruption is negligible. In addition, exogenous events have reduced security, but strenuous Government efforts have yielded some results.

13. The outcome for the **human capital** pillar is *moderately satisfactory*. Good progress has been made in education, and especially in reducing the gender gap in enrollments, even though all indicators remain below the regional averages. Outcomes in the health sector are largely unsatisfactory. Some progress has been made in lowering the (still high) fertility rate, partly reflecting better female educational opportunities, but health services and outcomes have been unsatisfactory due to low public spending and weak delivery.

14. The outcome for **water resource management** is *moderately unsatisfactory*. The achievements in conceptualizing and starting to implement a new strategy have mostly been very positive. At this stage, however, it is still too early to see tangible results. The new projects were only approved in the last few years. Furthermore, the intensified cultivation of qat suggests that overall water consumption may still be on the rise.

15. Despite the many benefits of Bank assistance in Yemen, the impact has been localized and project specific. Progress on systemic issues of governance and investment climate, the principal targets of Bank assistance, has so far been modest, but a positive change is underway in some areas, including renewed implementation efforts in civil service reform, a new focus on conservation in the water sector and much improved access to education for girls. Overall the outcome is moderately unsatisfactory.

16. The principal **lessons and recommendations** for future Bank assistance relate to the urgent and difficult challenges Yemen is facing. Of critical importance is the depletion of groundwater in major population centers. Exacerbating the water losses is the persistently high population growth and the water-intensive cultivation of qat. Capacity constraints in the public sector limit the extent to which these dire conditions could be addressed.

17. **Learning local conditions.** Bank work needs to be guided by adequate research and issue-specific knowledge. In the past, inadequate understanding led the Bank to ineffective interventions, as with past Bank projects in the water sector. But with good analysis, Bank lending and advice can be effective.

18. **Moderating optimism.** A challenge for the Bank is to make more realistic assessments of ownership, speed of implementation and likely outcomes. During the review period, the Bank was more optimistic than warranted in its assessment of the depth and durability of Government commitment. More realistic expectations would help in setting achievable targets and keeping the Bank fully engaged.

19. **Upgrading governance.** The key constraint in addressing these issues is the capacity for delivering public services. The Bank will need to make governance and public-sector capacity building a cross-cutting theme to be incorporated in all Bank interventions. In addition, the Bank needs to:

- Be more engaged through regular consultations and use of specialists in the field office;
- Embed in Bank activities an enhanced program of monitoring and evaluation;
- Narrow the gap between strategy and implementation.

20. **Conserving water.** The depletion of groundwater is a paramount issue to be resolved. Confining Bank support to actions that help conserve groundwater is essential. General projects that help individual communities, but do not mitigate water depletion, should be avoided. The Bank needs to promote incentives to conserve water and support the removal of import barriers on water-intensive crops.

21. **Counteracting qat.** To make future assistance relevant, the Bank can no longer ignore qat. The Bank needs to help the Government and private research organizations investigate the economic, social and resource implications of producing qat. Bank support to education and public awareness campaigns on the use of qat would enhance the effectiveness of efforts in this area.

22. **Improving population policy.** More needs to be done to deepen the Bank's engagement in the health sector to support reproductive health services and family planning, with a view to reducing maternal, infant and child mortality, as well as advancing demographic transition. In addition, supporting family-planning services and advocacy campaigns would help raise awareness of population issues.

Vinod Thomas  
Director-General,  
Evaluation

# 1. Introduction

## Scope of the Evaluation

1.1 This Country Assistance Evaluation (CAE) reviews the outcome of the Bank's assistance to Yemen during the period July 1, 1999 through June 30, 2005. It examines the relevance and realism of Bank objectives in the context of the development constraints facing Yemen, the political environment for development and the capacity of the government during this period. It also assesses the sustainability and institutional development impact of the Bank's assistance. An earlier IEG report (Yemen: Country Assistance Evaluation, Report No. 21787, which was discussed by CODE on April 21, 1999), evaluated Bank assistance prior to this review period.

## Background

1.2 Today, Yemen has an economy of about US\$14 billion and a population of 20 million that is growing rapidly (3.5 percent a year). Its exports are about \$4 billion a year, of which about 90 percent is derived from crude oil. The second most important source of foreign exchange is remittances from Yemeni working abroad, with estimates ranging from one to one and a half billion dollars a year. About 52 percent of gross domestic product (GDP) originates from the service sector (including a large government payroll), 23 percent from agriculture and fisheries while manufacturing accounts for less than 7 percent.

1.3 On the spectrum of social development, Yemen ranks 149 out of 177 countries on the UN Human Development Index (2004). The rate of adult literacy is about 50 percent. Forty-two percent of the population lives in poverty and one in five is malnourished. Three quarters of the population live in rural areas, where an unusual scarcity of water, remoteness and cultural diversity – with more than one thousand tribal groups within the country – make the delivery of most public services extremely difficult, irrespective of the capacity. Yemen is far behind on most of the targets set for achieving the Millennium Development Goals (MDGs), including primary education, gender parity, child mortality and maternal health.

1.4 Despite the low level of economic and social development, Yemen is one of the few countries in the region where the citizens enjoy a free press, multi-party democracy and universal suffrage. The

ruling party (General People's Congress or GPC) is a fragile coalition with shifting alliances of diverse military, tribal and religious groups. Although the GPC has about 80 percent of the parliamentary votes, its control of the legislative and political agenda is weak. Its cooperation with the west in the war on terror has caused dissension within the party and eroded its popular support. Fuel price increases adopted in July 2005 led to civic strife. Outside the main cities, the influence of central government is even weaker, leaving considerable autonomy to tribal groups. In recent years, tribesmen of the North have attacked government oil facilities and kidnapped foreigners. On occasion, they have been able to extract economic and political concessions.

1.5 The depletion of groundwater and oil reserves are major constraints on Yemen's development. As the extraction exceeds recharge from rainfall, the water stored in aquifers – from which the country extracts almost all of its water – is rapidly diminishing in many parts of the country, including most urban and populated rural areas. The main causes are rapid expansion in the past two decades of tube-well irrigated agriculture, driven largely by the cultivation of qat (a local narcotic plant) and unsustainable growth in the water extraction for urban use. The continuing decline of water resources is exacerbated by poor sanitation and groundwater pollution due to urban and agricultural waste. To make matters worse, Yemen's oil reserves are also dwindling rapidly. Without new discoveries, proven oil reserves are projected to be depleted in less than 10 years.

#### Box 1. The Review Period in Historical Context

The review period was a time of relative domestic stability, amid international economic and social turmoil. The period began about:

- Nine years after unification of the North and South, which resulted in a large public sector workforce of about 1.7 percent of the population;
- Fifteen years after the discovery of major oil reserves in Marib-Jawb;
- Three decades after the introduction of the tube-well technology which sharply raised farm productivity, as well as the extraction of groundwater;
- Thirty-two years after women were granted the right to vote in the South.

In terms of political milestones, the review period ended 11 years after a major civil war (1994) and twenty-seven years after Mr. Ali Abdullah Saleh became Head of State (1978). The final year of the evaluation, 2005, was one year before the Presidential Election scheduled for September 2006.

1.6 Yemen's gender gap, still exceptionally large, is another development constraint. Only two-thirds of girls attend primary schools and girls' under-five mortality rate is 15 percentage points higher than boys'. Women's employment is less than one-third of men's,



and their jobs are mainly confined to rain-fed agriculture and small-scale livestock cultivation. Women's illiteracy and limited access to jobs make the gender gap difficult to remedy, with important implications for the high fertility and population growth.

#### DEVELOPMENT OUTCOMES BEFORE 1999

1.7 The review period (FY99-05) started with considerable optimism in the Government, even when crude oil markets were depressed. In 1997 and 1998, Yemen had just completed the first round of macro-economic and structural reforms, ranging from cuts in fuel and food subsidies to measures of trade liberalization. Preparation of a major civil service reform program was underway. New laws were implemented to enhance economic growth, including legislation to promote market competition, privatization and revenue mobilization. In addition, external debt of about \$6 billion had been canceled by the Paris Club in 1997. The collapse of crude oil prices in 1998 dampened the optimism somewhat, but it was seen as a temporary setback.

1.8 Thus, Yemen enjoyed an interval of prosperity and hope in the mid-1990s. The stabilization and reform program launched in 1995 led to a burst of growth. Real GDP growth averaged 7.4 percent per year between 1995 and 1998. Growth of the non-oil economy, so critical for Yemen's long-term development, averaged 6.9 percent per year during the same period. Government plans for additional reforms in areas such as public administration and privatization augured well for continued improvements in the investment climate.

1.9 Social conditions improved, but remained dire. In 1970, the combined North and South Yemen had an adult literacy rate of about 10 percent. By 1996, the literacy rate had risen to 38 percent, which was still lower than the average of low-income countries. The infant mortality rate dropped from 186 in the 1970s per 1,000 births to 89 in 1994. Despite the progress made and large remaining needs, Yemen received little help from the international community. Overall, official development assistance to Yemen (\$24 a year per capita from 1986-96) was less than half of the average for low-income countries (\$49).

#### DEVELOPMENTS SINCE JULY 1999

1.10 The optimistic outlook prevailing before the evaluation period was short-lived. From 1998-2004 Yemen's real GDP growth averaged 3.7 percent per year, barely above the rate of population growth (3.5 percent). This pace partly reflects the fortunes of the oil sector: Real output of oil and gas grew at a modest pace (1.8 percent a year), with oil production having declined since 2002. But slow overall growth also reflected a lack of depth in implementing structural reforms, especially in the area of governance and investment climate. Private investment remained

sluggish and the expansion of the non-oil economy (4 percent a year) did not keep up with the increase in job seekers. In 2003, a quarter of the 9.3 million working-age people were unemployed.

1.11 Government services accounted for 28.9 percent of non-oil growth from 1998 through 2003 – the last year for which data are available. Over the same period, production of qat accounted for almost 10 percent of incremental growth in the non-oil sector, more than the manufacturing sector (6 percent of the non-oil growth). Agriculture (excluding qat) grew at a respectable rate of 3.6 percent. Fishing and tourism have grown rapidly, but each remains a small part of GDP (about 2 percent in 2003). But most of the non-oil activities have not done as well as expected.

## Overview of This Report

1.12 This report evaluates the Bank's assistance under Yemen's unique and challenging conditions. Chapter 2 outlines the Bank's assistance strategies. In Chapters 3 through 6, the report examines in more detail outcomes with regard to the four pillars of Bank assistance – governance, investment climate, water resource management and human development. Chapter 7 draws a few lessons from the Bank's experience and offers recommendations for future Bank support, some of which may also be of broader applicability.

### Box 2. Key Recommendations of the 2001 IEG Evaluation

The 2001 Country Assistance Evaluation found that the outcome of Bank assistance, which to a large extent reflected Bank performance, was marginally unsatisfactory, but improving rapidly toward the end of the review period (1996-1998). The institutional development impact was modest and sustainability unlikely. Among the key recommendations made were:

- The International Development Agency (IDA) should establish priorities in its future assistance strategy and ensure consistency with those priorities in its interventions across sectors;
- IDA should focus on ensuring sustainability of the assistance by strengthening capacity in the public sector, moving away from the enclave approach to implementation and simplifying the project design.

In addition, the IEG recommended that IDA focus on: (i) assessing and removing the constraints to growth and private investment; (ii) improving efforts to manage scarce water resource and to address the gender gap to help slow population growth; and (iii) improving the quality of governance.

*Source:* Independent Evaluation Group, January 29, 2001. *Yemen Country Assistance Evaluation*, Report No. 21787, Washington DC: The World Bank

## 2. The Bank's Assistance Program

2.1 This chapter examines the objectives and program of Bank assistance to Yemen over the six year period beginning July 1, 1999 and ending June 30, 2005. This period can be sub-divided into two phases, FY00-02, and FY03-05. The first phase was guided by the May 1999, Country Assistance Strategy – henceforth CAS99; the second phase by the August 2002, Country Assistance Strategy – CAS02.

### Objectives of Bank Assistance

2.2 Both strategy documents identify the same set of four strategic objectives, although in somewhat different relative priorities. The strategic objectives are:

- Improved governance;
- More attractive investment climate;
- Better human capital;
- Ensuring environmental sustainability, especially that of water resources.

2.3 **Overarching Goal.** The Bank's strategy and policy dialogue throughout the review period was dominated by the view that Yemen needed to upgrade the quality of governance and to enhance public sector capacity. Without this prerequisite, Bank assistance in all other areas would be severely handicapped. Bank strategy thus called for elements of governance reforms and public-sector capacity building to be included in all Bank activities. Among the important objectives under this strategic goal are effective personnel management and streamlined procedures, size reduction and pay decompression<sup>1</sup> in the public service, devolution of service delivery to local communities, as well as reduced tolerance for corruption.

2.4 Besides governance, investment climate was considered a top priority in both strategy documents. CAS99 aimed at promoting broadly-based and diversified private investment. The assistance program included support for deregulation, privatization, along with related non-lending services. The Bank also planned to support the development of key port cities (including Aden) and upgrade infrastructure to help accelerate growth. CAS02 pursued the same objectives, but with additional sub-goals of modernizing the judiciary, land registration system, and streamlining investment regulation and

taxation. The priority given to the investment climate in the Bank's strategy is a response to, and consistent with, a key recommendation made in the 2001 IEG Country Assistance Evaluation.

2.5 On water resource management, CAS99 highlighted the dire consequences of water shortages. The goal of Bank support was to prevent an imminent shortage from creating social disorder that would disrupt the social and economic gains. Increased provision of infrastructure (pumps and tube wells) was seen as a solution. CAS02 introduced a significant change in the Bank's approach. First, it specifically recommended more economic and sector work on water. Second, it proposed new projects that explicitly focused on groundwater conservation, which had not received adequate attention.

2.6 On human capital, CAS99 envisioned a balanced approach that encompassed education, health, and community level improvements. It would not only address the issues on quality of life, but also contribute to the achievement of other Bank objectives. In addition, CAS99 proposed Bank support for a national conference on qat, to be conducted jointly with the United Nations Development Programme (UNDP). CAS02 maintained the same principal objectives. Both highlighted the need to address the gender gap and the critical role of women in advancing social development.

2.7 **Planned Level and Composition of Bank Program.** The assistance programs envisaged by CAS99 and CAS02 represented a departure from earlier Bank assistance in Yemen. The focus was much sharper and the goals better delineated. In earlier documents, including the 1996 Country Assistance Strategy, the degree of selectivity was limited. According to IEG's 2001 Evaluation<sup>2</sup>, "the strategy was extremely broad, and encompassed all ten sectors as defined by network families, and all four cross-cutting areas." The sharpening of focus was made deliberately in CAS99, after consultations with local stakeholders and the donor community. CAS02, which was prepared on the basis of the Government's Poverty Reduction Strategy Paper (PRSP), maintained the selectivity and objectives of CAS99.

2.8 To carry out the assistance strategies, both documents envisaged a blend of expanded lending and more robust non-lending services, compared to the preceding period. CAS99 proposed a sharp increase in the base case lending program, from less than \$100 million to \$161 million a year in FY00-FY02. An aggregate commitment of \$487 million and 14 operations were envisaged, including two adjustment credits and 12 investment projects. CAS99 also set an expanded agenda of analytical work, intended to support future lending and to build up better country knowledge for the Bank. For the period from FY00 to FY02, 21 distinct studies or strategy papers were planned, representing all network families.

2.9 A similar blend of lending and knowledge work was proposed in CAS02, but with a different emphasis. On lending, a high level of commitment was to be maintained. From FY03 to FY05, the Bank proposed a front-loaded aggregate commitment of \$410 million, with the first year accounting for more than \$228 million, or more than half of the total. The lending program would be distributed over 11 investment operations, including two adaptable programs. On non-lending services, CAS02 envisaged a shift towards knowledge sharing and dissemination, with the Bank "investing more heavily than in the past in capacity building and outreach to decision makers, opinion leaders, and the public."

2.10 **Relevance of Bank Strategy and Objectives.** During the review period, the assistance strategy became more focused and better aligned with the Government's priorities, thus increasing its relevance. The objective of bringing about an effective public administration addressed one of the most pressing issues, while contributing to other poverty reduction efforts. Infusing elements of public-sector modernization in all of Bank interventions, as the strategy envisaged, was meant to ensure consistency and create synergy across activities.

2.11 The range and scope of planned activities, however, reflected a high degree of optimism. CAS99, in particular, proposed a level of assistance that would be possible if and only if all the favorable conditions briefly observed in the mid-1990s remained in place. As it turned out, Government priorities changed. CAS02 set its aim somewhat lower, with fewer analytical tasks and a smaller lending program. While the realism improved, CAS02 remained more optimistic than warranted by local capacity and Government commitment.

2.12 Another blemish in the Bank's strategy was the limited assistance envisaged to address the issues of population growth and qat cultivation, which (as discussed in Chapters 4 and 6) have far reaching implications. Bank strategy recognized the gravity of the rapid population growth, but did not consider anything beyond a modest study which eventually was not implemented. On qat, Bank strategy discussed the negative social and economic effects of its use, but did not offer more assistance than sponsoring conferences.

## Implementation of Bank Assistance

2.13 **Lending Program.** The strategy called for Bank lending to rise from \$85 million a year as proposed in CAS96 to \$161 million a year in CAS99. The increase in lending was largely delivered. From FY99 to FY05, the Bank committed \$934 million (\$133 million a year), much higher than the \$583 million in the preceding period. Even these commitments fell short of the level planned.

2.14 The portfolio of new projects approved during the evaluation period has a sectoral mix that broadly reflects the Bank's strategy. Nearly one third of Bank commitments was concentrated in social sector projects (education and health), about a quarter in water resource management, and a fifth in the public sector and governance. Only the investment climate pillar was under-represented, but Bank support for civil service could also influence the investment climate.

Table 1. Commitments by Sector FY99-05

	Amount (US\$M)	% of Total
Education, Health, and Other Social Services	296.9	31.8
Water Supply and Flood Protection	237.9	25.5
Law and Justice and Public Administration	195.8	21.0
Transportation	77.4	8.3
Agriculture	62.1	6.6
Energy and Mining	48.6	5.2
Finance, Industry, and Trade	15.1	1.6
<b>Total</b>	<b>933.8</b>	<b>100</b>

Source: World Bank Project Database

2.15 Of the 25 lending operations envisaged, 16 projects (or two thirds) were delayed or dropped. Among the projects abandoned were those crucial for advancing the Bank's governance objective, including an adjustment credit on public sector management, an investment credit on civil service modernization, and a district and community development project. Large unplanned projects (Higher Education, Public Works III, and Social Fund II) were added in mid-stream. Nonetheless, lending was less than planned, with commitments reaching 75 percent of CAS99 target and 94 percent of CAS02 target.

Table 2. Lending Program Summary, CAS99 and CAS02

Amount in US\$M

	Number of Projects		Amount	
	Planned	Actual	Planned	Actual
CAS99				
FY00	6	4	182	145
FY01	4	4	160	142
FY02	4	3	145	78
<b>TOTAL</b>	<b>14</b>	<b>11</b>	<b>487</b>	<b>365</b>
CAS02				
FY03	4	3	228	177
FY04	3	3	110	145
FY05	4	1	72	65
<b>TOTAL</b>	<b>11</b>	<b>7</b>	<b>410</b>	<b>387</b>

Source: World Bank Project Database

2.16 The discrepancy between plan and implementation was in part the Bank's response to poor project performance. The slow pace of implementation on some of the most important Bank interventions, such as the Civil Service Modernization Project, may also have prevented the launching of follow-on or related projects. However, the difficulty was anticipated and allowed for in CAS02. In fact, the knowledge enhancement and outreach agenda CAS02 was explicitly developed to address this issue. Thus, with the pullback in lending, one would anticipate an aggressive mobilization of analytical and outreach activities, which did not happen.

2.17 **Non-Lending Services.** The delivery of analytical work and technical assistance was also more modest than envisaged. Of the 38 non-lending tasks planned, only 12 (less than a third) were delivered, although most of the analytical work conducted was of high quality, as with the 2005 Water Resource Strategy. One example of delayed or canceled tasks was the planned poverty assessment<sup>3</sup> scheduled for FY04, and the associated household budget survey, which could have served as a useful benchmark for many Bank activities. The shortfall in economic and sector work was across the board. For example, three out of seven planned tasks were conducted under the governance pillar, and only 4 out of the 14 planned activities were conducted under investment climate pillar. Some analytical work was initiated but not finalized.

2.18 Furthermore, the information sharing and continuous advisory support for local officials and opinion leaders—a key agenda proposed in CAS02 to make Bank assistance more effective—was not implemented as envisaged. Few of the people interviewed showed an awareness of any outreach activities undertaken. The Bank's limited engagement was noted by many donors, who also stressed the need for more experienced Bank staff to be located at the resident mission.

2.19 **Quality of Completed Projects.** The performance of Bank projects in Yemen is relatively weak and has deteriorated since 1999. About 77 percent of the projects (weighted by commitments) completed during review period was rated satisfactory in terms of outcome. This was below both the Middle East and North Africa (MENA) and Bank-wide averages. This result also represents a decline from the previous period. The 2001 IEG findings showed that Yemen's completed projects had 81 percent satisfactory outcomes and were above the averages for the Region and the Bank. Yemen's project performance was also weak on sustainability and institutional development impact. About 77 percent of completed projects was rated likely for sustainability, compared to 80 percent of all Bank projects. Less than 40 percent of projects had a substantial institutional development impact, compared to 54 percent Bank-wide. Table 3 below shows project performance by sector.

Table 3. Evaluation Findings by Sector Board (Exit Year 99-05)

	Total Net Commitments Evaluated (\$M)	Outcome % Satisfactory (\$)	IDI % Substantial (\$)	Sustainability % Likely (\$)
Education	79	100	0	100
Rural Sector	86	100	32	61
Transport	66	100	55	100
Urban Development	86	100	81	81
Financial Sector	90	89	89	100
Water Supply and Sanitation	57	85	0	0
Social Protection	51	58	58	100
Public Sector Governance	52	4	0	96
Energy and Mining	16	0	0	0
Health, Nutrition and Pop	40	0	0	0
<b>Yemen Total</b>	<b>624</b>	<b>77</b>	<b>39</b>	<b>77</b>
<b>MENA</b>	<b>6,267</b>	<b>81</b>	<b>40</b>	<b>80</b>
<b>BANK WIDE</b>	<b>142,020</b>	<b>82</b>	<b>54</b>	<b>81</b>

Source: World Bank internal database as of 1/5/06

Note: Ratings are weighted by commitments; IDI=institutional development impact

2.20 Early warning signals (leading indicators) did not anticipate a deterioration in portfolio performance. The *Project-At-Risk* Index, for example, showed that the Yemen portfolio was about the same as or better than Regional and Bank-wide averages. At the beginning of the evaluation period, the percentage of projects at risk in Yemen stood at 22 percent, comparable to MENA (21 percent) and the Bank as a whole (25 percent). At the end of the evaluation period, the percentage of projects at risk in Yemen dropped to 6 percent, far below MENA (15 percent) and the Bank (17 percent). The decrease in projects at risk for MENA and the Bank was accompanied by an increase in satisfactory outcomes. By contrast, the decrease for Yemen was matched by a fall in satisfactory outcomes.

2.21 **Partnerships.** In designing and delivering the assistance program, the Bank has worked closely with development partners, including Germany, Netherlands, U.S. and U.K., at the bilateral level, and the European Commission and the UNDP, among the multilaterals. The Bank helped organize regular donor meetings to facilitate consultations and collaboration. Efforts are generally made, although not always successfully, to harmonize the approaches and ease the burden of compliance on the Government. The last Consultative Group (CG) Meeting was held in Paris in October 2002, and resulted in a pledge of US\$2.3 billion in support of the three-year PRSP



program. The Fund's Poverty Reduction and Growth Facility and Extended Fund Facility expired in October 2001.

2.22 Donor representatives were critical of certain aspects of Bank operations, especially the staffing of the Resident Mission. While donors welcomed Bank-led policy dialogue, they noted that it was difficult for the Bank to play such a role in the absence of specialists based in the resident mission. They also noted that experienced staff are needed to understand Yemen's political, social and economic complexities. Most bilateral donors were prepared to harmonize their approaches with the Bank, but they expressed the view that the Bank did not appear interested. Some donors also said that the Bank's project design was based on Bank priorities, rather than Yemen's needs.

2.23 **Relevance of Bank Assistance as Implemented.** The design of Bank assistance was clearly relevant, but the program actually delivered was considerably less so. The instruments delayed or not implemented significantly changed the content, narrowed the geographical coverage and reduced the strategic coherence of Bank assistance. The strategy aimed primarily to address the systemic and fundamental issues of governance and investment climate, thereby paving the way for more private investment and service delivery. The actual program, however, provided more project-by-project assistance, with more localized benefits. Unresolved systemic issues, including the quality of governance, remain a constraint to development, as evidenced by the low ratings of project performance.

2.24 The discrepancy between Bank strategy and actual assistance reflects partly the Government's fluctuating commitment and partly the Bank's limited understanding of local political economy. For example, the Bank recognized that sustained political will and long-term commitments of resources were needed to advance the governance agenda. The Bank was of the view that such prerequisites were in place. As it turned out, however, the Bank was more optimistic than justified by past experience. Government priorities soon shifted and the implementation of governance projects stalled. Similarly, the Bank underestimated the degree of local resistance to privatization. The project involved did not have enough parliamentary support to become effective.

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1. A decompression of the pay scale involves a widening of the range between the lowest and the highest pay, allowing larger differentials in pay.

2. Independent Evaluation Group, 2001. *Yemen: Country Assistance Evaluation, Report No. 21787*, Washington DC, The World Bank.

3. A poverty update, which was not a full assessment and did not include a new household budget survey, was issued in December 2002.



## 3. Improving Governance

### Bank Strategy

3.1 In the evaluation period, Bank strategy (CAS99 and CAS02) was to give prominence to governance and public sector reform in all aspects of Bank work. Both documents pointed out that Yemen was making steady progress, but the quality of governance and its perception at home and abroad remained a major issue. The government showed commitment and had a good track record in the 1990s. Bank strategy made governance the first pillar of Bank assistance, in line with the PRSP and the views of donors and civil societies.

3.2 Bank assistance was to be directed to achieve the following sub-objectives: (a) a smaller and more professional civil service; (b) more devolved (and less centralized) authority in the provision of public services; (c) a modern judiciary, with more competent judges and specialized courts; and (d) modern public financial management with improved control and expenditure tracking capability.

### Bank Program

3.3 To implement the strategy, the Bank envisaged a wide range of lending and non-lending services. Among the lending instruments:

- Two public sector management adjustment credits;
- Two civil service modernization projects (CSMP I & II);
- A district and community development project;
- One poverty reduction support credit (PRSC);
- Two projects on legal and judicial development.

3.4 According to the strategy, this lending program was to be supported by extensive analytical and diagnostic work designed to identify key “entry points”, prioritize activities and develop local “champions” to lead the efforts. Among the core analytic products proposed were: Public expenditure management review; Country procurement assessment; Country financial accountability assessment; Poverty assessment; and Development policy review.

3.5 Bank assistance as implemented was significantly different from the strategy. Change in Government priorities and key public officials, as well as slow project implementation made it necessary for the Bank to modify the plan. Both lending instruments and

non-lending services were similarly affected. The support for devolution of service delivery, for instance, did not advance, in part because of Bank concerns with the pace of decentralization. Bank efforts to support legal and judicial reform were abandoned after reviewing the results of a modest pilot project. The Public Sector Management Adjustment Credit (PSMAC), which closed in FY00, was not followed as planned by other adjustment credits, in part because of the absence of a Fund program. More recently high oil prices have lessened the need for budget support.

### Progress in Achieving Bank Objectives

3.6 Little or no progress has been achieved on the core objective of Bank assistance – to modernize the civil service and improve governance. The flagship project experienced protracted delays in implementation. In addition, the Bank decided not to be actively engaged through analytical work and policy dialogue. Although studies on the restructuring of the pilot Ministries were undertaken, little has been done to raise the standards of service delivery. Government pay was raised in 2005, but it was an increase across the board, not a decompression of the pay scale to reflect prevailing labor market rates. Furthermore, the expected public-sector payroll reduction of 30,000 did not materialize. In fact, the size of the public sector has expanded; further exacerbating staff redundancy and raising the wage bill to 13 percent of GDP<sup>1</sup> – among the highest in the world.

3.7 A summary of the key program indicators is shown in Table 4 below. In recent months, implementation has speeded up, enabling the Bank to proceed with the preparation of a follow-up project.

Table 4. Governance Pillar: Key Program Indicators

Objective	Indicator	Outcome
Civil service reform	Manpower information system in place	Achieved
	Pay strategy	Not implemented <sup>Ψ</sup>
	Survey of client satisfaction*	Not achieved
	Re-engineering of 3 agencies*	Not achieved
	Staff size reduced by 30,000*	Staffing increased
	Independent commission on corruption	Not achieved
Fiscal management	Medium term framework established	Not achieved
	Financial management system adopted*	Not implemented <sup>Ψ</sup>
Fiscal decentralization	Local financing standards established	Not achieved
Judicial development	Half of judges retrained	Achieved
	Timely availability of rulings	Not achieved
	Alternative dispute resolution	Not achieved

Notes: Symbol \* = indicators appeared in both CAS99 and CAS02; <sup>Ψ</sup> = design was completed.

3.8 In addition to the benchmarks established in CAS99 and CAS02, governance indicators compiled by independent sources corroborate the findings above. For example, in the Bank's Country Policy and Institutional Assessment (CPIA), Yemen's rating on governance dropped from the third quintile to the fourth in 2004. In addition, the International Country Risk Group (ICRG) saw no improvement in Yemen's governance during the review period. As Table 5 shows, little change or a deterioration is observed across a range of indicators. The quality of bureaucracy, for example, shows no improvement at all.

Table 5. Governance Indicators 1998 and 2004

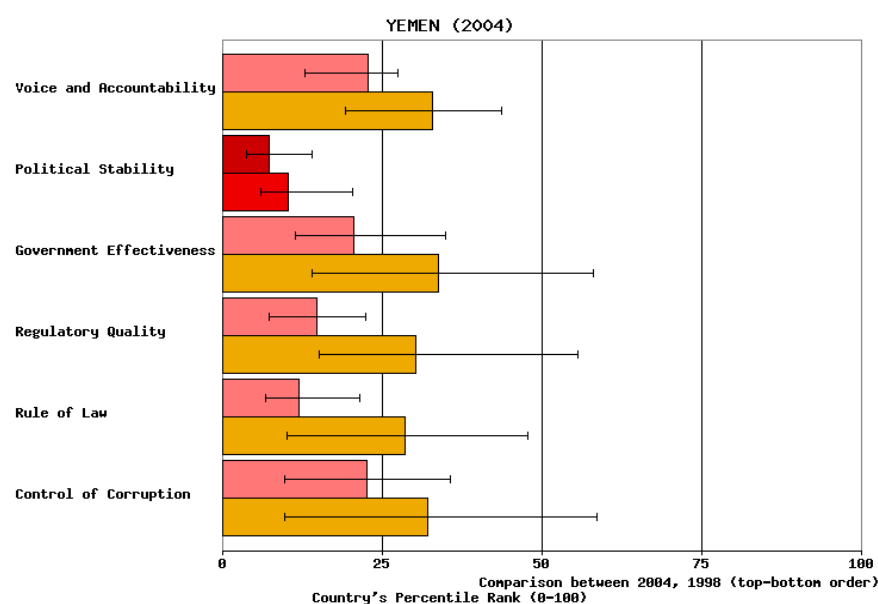
	1998	2004
Political Risk Rating $\Psi$	63.08	62.33
Bureaucracy Quality*	1.00	1.00
Corruption**	3.00	2.00
Law & Order**	3.00	2.00
Ethnic Tensions**	5.00	3.00
Internal Conflict***	7.42	8.83
External Conflict***	8.83	10.00

Source: International Country Risk Group

Notes: \* Scale 0-4, 0 worst, 4 best; \*\* Scale 0-6, 0 worst, 6 best;

\*\*\* Scale 0-12, 0 worst, 12 best;  $\Psi$  Scale 0-100, 0 worst, 100 best

3.9 As Yemen stood still, its place in the world slipped. According to a study of more than 200 countries by the World Bank Institute, Yemen's rank on most governance indicators was lower in 2004 than in 1998. The rankings placed Yemen in about the fifth quintile.



Source: D. Kaufmann, A. Kraay, and M. Mastruzzi 2005: Governance Matters IV: Governance Indicators for 1996-2004 (<http://www.worldbank.org/ubi/governance/pubs/govmatters4.html>)

## Bank Contribution

3.10 Bank assistance in this area was responsive to the country's need and the wishes of the Government. The Bank, however, overestimated the depth of Government ownership on civil service reform. In Yemen's fragmented government, it can be difficult to sustain a commitment. The champions of civil service reform within the Government were a few technocrats and the Minister for Civil Service, but the Minister was replaced soon after the CSMP became effective. As implementation began and substantive actions needed to be taken, the political support that the Bank had anticipated vanished and implementation stalled.

3.11 In the face of increasing difficulty, the Bank did not provide adequate supervision or stay fully engaged. And as discussed in Chapter 2, the program of analytical work was scaled back significantly. The task manager, who was based in Sana'a, was assigned to other tasks upon return to Washington. The project then underwent a rapid turnover of team leaders, all based in Washington.

3.12 Even with limited support from the Government, more progress with the flagship project might have been made if there had not been a serious loss of continuity due to a rapid turnover of task managers. Assigning an experienced public sector specialist to the project, preferably based in the resident mission, would have helped through monitoring and advice. To some extent, this is reflected recently in the reported improvement in project implementation which followed the Region's stepped-up efforts, including increased budgetary allocations for project supervision.

3.13 **Design of Civil Service Modernization Project.** The CSMP, while complex, focused on the key issues – modernizing core financial and personnel management systems and building up personnel data. Project preparation included surveys, studies, and a participatory process of consensus building. As such, the project was consistent with the concurrent best practice of the time. Today, however, the best practice has evolved, with a more gradual and incremental reform of the core systems and more emphasis placed on stabilizing the staff size than an immediate reduction.

3.14 **Advice on Pay Policy.** Bank support for the development of a national pay strategy was appropriate. The implementation of the strategy, however, was premature. It took place in the absence of staff reduction and organizational reviews.

3.15 **Project Management Units (PMU).** The IEG's 2001 Country Assistance Evaluation recommended moving away from the use of enclave project management units and relying more on the civil service. Since then, however, a new approach has emerged. It does not

rely on enclave units or line ministries, but on autonomous agencies such as Social Fund for Development (SFD) and Public Works Program (PWP) which have been established to implement projects in collaboration with line ministries.<sup>2</sup> These autonomous agencies have produced satisfactory results and attracted increasing donor funding.

**3.16 Financial Management.** The Bank was justified in supporting financial management reform in the CSMP. But a more incremental approach, starting with core systems such as the treasury and the general ledger, would have been advisable, with more emphasis on the development of broader financial management reforms.

**3.17 Corruption.** While support for more direct anti-corruption measures (surveys, establishment of an anti-corruption agency) could have been given, the Bank correctly focused on strengthening general financial and personnel controls. It reflects the fact that, to a large extent, corruption is deterred by the efficacy of control systems, including financial management, procurement, and human resources.

## Overall Evaluation on Governance

**3.18 Outcome.** Overall, the outcome for this pillar is considered unsatisfactory. Few tangible results have been achieved, while the key systemic issues of governance and administrative capacity remain unresolved. The Bank's strategy was relevant, and its flagship project was prepared with local ownership and contained elements of good practice. The project was risky, and in retrospect, certain elements, such as an emphasis on civil service downsizing were premature. But since governance was important and the Government appeared ready to modernize, the risk was probably worth taking. The execution, however, was uneven, due to the complex political environment, shifting Government priorities and inadequate support from the Bank during implementation. Having taken the risks the Bank can be faulted for failing to provide adequate management attention of experienced staff and intensive supervision for the project.

**3.19 Institutional Development.** There have been some achievements, including better civil service payroll data, an accounting and financial management information system (AFMIS), a Civil Service Fund to handle retrenchment, and some restructuring studies. It is not clear, however, whether the changes will lead to a change of work flows and management practices. So far the impact has been modest.

**3.20 Sustainability.** It has always been recognized that, given Yemen's history, governance reform will be a long process. At this juncture, however, the sustainability of the Bank's assistance is made even more problematic by major risks associated with social hardship,

political stability, and security. In addition, the expansion of civil service, which continues apace, makes sustainability unlikely.

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1. The wage bill refers to the combined military and civilian wages and salaries.
  2. Consistent with IEG's recommendations on community-based development, most SFD and PWP projects involved local initiatives and extensive use of indigenous knowledge. See "The Effectiveness of World Bank's support for Community-Based Development", Independent Evaluation Group, 2005.



## 4. Investment Climate

### Bank Strategy

4.1 The IEG's 2001 Country Assistance Evaluation was critical of earlier Bank strategy for improving the investment climate. It stated:

*"A weakness of the assistance strategy is the relatively low priority given to removing constraints to private sector development. IDA's efforts in this area have included modest support for privatization of public enterprises; a credit for financial reforms; and support for private investments for Aden port. But IDA could have done more."*

4.2 Since then, improving the investment climate has become a central objective of the Bank's country assistance strategy. CAS99 sought "to attract diversified private investments that help the economy grow out of poverty and dependence on oil". CAS02 aimed to create an "attractive investment environment to generate job opportunities". Both documents emphasized the interdependence with other CAS objectives, in particular the contribution that better governance could make to improve the investment climate.

4.3 The underlying challenges were to diversify the production base and create more jobs for a rapidly growing labor force. Oil production peaked in 2002 and declined steadily thereafter. Barring new discoveries, Yemen's oil was projected to be depleted around 2015. Moreover, the oil sector provided relatively few jobs. Non-oil investment and diversification of employment were critical to poverty reduction. Further complicating the challenge of diversification and job creation was the potential exhaustion of groundwater in the highlands. This implied a need to shift the focus of growth toward coastal regions. The Bank focused on three major needs:

- To improve the business environment by altering the way government interacted with the private sector;
- To develop Aden as a magnet for investment; and
- To address sectoral constraints to growth.

### Bank Program

4.4 CAS99 proposed an ambitious program of lending and analytical and advisory activities (AAA) to promote improvements in the investment climate. Proposed lending included a privatization

project, financial sector adjustment credit, a series of adjustment credits to promote budgetary management, two legal and judicial reform projects, as well as infrastructure projects in support of transport, power, and water. Substantial economic and sector work (ESW) and strategy/policy advice was also planned to improve public expenditure management, promote non-oil growth, and improve the investment climate, including sector work on land registration and advice on establishing an independent commission against corruption.

4.5 Much of this program was not implemented. It was unrealistically ambitious, given the problems in recruiting experienced field staff and the waning reform momentum as the price of oil rose and obscured the need for action. Furthermore, Government enthusiasm had not been sustained, while opponents of the reform mobilized against many program elements. CAS02 was less ambitious, proposing, among others, a Port Cities Development Project, a Rural Access Project, and a project for Power Restructuring and Expansion. Proposed AAA remained wide-ranging and included non-lending advisory support for investment climate reforms, financial sector dialogue and technical assistance, trade policy advice in conjunction with the Integrated Framework for Trade and Development, as well as sector work on land registration.

4.6 In all, five of eleven proposed new projects under the CAS programs were carried out during FY99-05. The privatization project was approved but never became effective because of Parliamentary opposition. The proposed series of two PSMAC projects was terminated after the first. Only one of the two proposed legal and judicial projects was carried out. Support for development of the Aden Free Port was given, after some delay. In both the power and transport sectors, two projects were proposed. Only one was approved in each sector during the review period.

4.7 Implementation of AAA is harder to track but the pattern of slippage and dropped work was similar. A broad-ranging country economic memorandum (CEM) on sources of growth was completed in 2002. It also included a useful Investment Climate Assessment. Only one Public Expenditure Review (PER) was completed and the dialogue on expenditure rationalization did not last in most sectors – nor did the proposed sector strategy advice. However, the Bank completed a useful study on the budget and poverty impacts of petroleum pricing.

### Progress in Achieving Bank Objectives

4.8 Despite the improvements, the investment climate did not become adequately attractive. As Table 6 shows, most of the programs in the Bank's strategy did not achieve the outcomes envisaged.

Nonetheless, non-oil exports grew significantly during the review period, led by fishery and tourism, which nearly doubled in value. Still, non-oil exports today represent less than 10 percent of total exports.

Table 6. Key Indicators for Investment Climate

Objective	Indicators / Benchmark	Initial period	Most recent	Comments
Macroeconomic Stability	Inflation below 5 percent (CAS99); below 10 percent (CAS02)	20%	15%	Target not achieved
Financial System	Higher domestic credit extended by banks (% of GDP)	5.2%	4.8%	Target not achieved
Regulatory Environment	Investment rate rises to 26% of GDP	20.6%	20.4%	Target not achieved
Land Tenure	Enforcement mechanism functioning	Not in place	Not in place	Target not achieved
Export Development	Increase in foreign direct investment (% of GDP)	0.1	-0.8 (Net Outflow)	Target not achieved
	Non-oil exports increase by 10% p.a.	132 (\$ mil)	260 (\$ mil)	Target achieved
Tourism	Increased tourism (Number of visitors)	72,836	272,732	Target achieved
Oil and Gas	Share of non-oil foreign exchange earnings at 20%	10%	6%	Target not achieved, due to higher oil price

Sources: CAS99 and CAS02; World Development Indicators; IFS (IMF); World Investment Report (UNCTAD); Yemen Ministry of Culture and Tourism; staff calculations

4.9 In addition, investor confidence deteriorated with the bombing of the USS Cole in October 2000 and in the aftermath of September 11, 2001. Fuel and water subsidies remained large, even after the measures taken in July 2005. An inefficient state-owned sector impeded private sector development. Corruption was an obstacle to increased investment. Yemeni business was highly taxed in comparison with neighboring countries.

4.10 Yemen's short-term macro management was adequate during the first half of the review period, but faltered during the second half. The Government cut expenditures in response to a sharp drop in the price of oil in 1998 and then maintained expenditure restraint after oil prices began to rise. The current account moved into surplus in 1999 and has since remained positive. The overall fiscal balance (including grants) also moved into balance in 1999 and surplus in 2000. However, by 2002 an overall fiscal deficit had re-emerged as revenue fell and expenditures continued to rise. More importantly, the Government failed to come to grips with Yemen's longer-term macroeconomic challenges. High oil prices obscured Yemen's long-term dilemma and reduced the

Government's incentive to sustain fiscal (and reform) efforts. The International Monetary Fund (IMF) has estimated reaching a sustainable debt burden in the absence of new oil discoveries would require a reduction in the non-oil fiscal deficit by about 2 percent of GDP each year for the next 12 years.

## Bank Contribution

**4.11 Growth and Diversification.** The Bank's main contribution to labor-intensive non-oil production has been in small-scale fishing development. In a Fishery Sector Strategy Note (Report No. 19288-YEM), the Bank warned that licensing agreements with foreign commercial trawlers brought little benefit to the economy, impeded local small-scale fishing development, and threatened depletion of coastal fish stocks. The Note recommended that further lending in the sector should be contingent on improving policy. The Government responded by strictly enforcing foreign agreements, leading to cancellation of almost all foreign industrial fishing licenses. In the last four years small-scale fishing production, employment, and exports all grew at double-digit rates. Fish exports in 2004 amounted to \$210 million, making fish the second largest export. A new Bank fisheries project will support fisheries resource management and infrastructure for small-scale fishing development.

**4.12** In power and transport, the Bank's contribution was mixed. Project ratings for outcome varied from moderately satisfactory to unsatisfactory, but in most cases institutional development was considered modest. The series of Public Works and Social Fund projects were motivated mainly by social protection objectives, but they have had an impact on the investment climate as well. The micro credit facility of the SFD has reportedly been successful in helping micro enterprises, while the contracting and supervision methods of these projects have given a boost to small-scale contractors.

**4.13** Development of the Aden Free Port has gone slowly, but there has been constructive by-products. The Port Cities Development Project only started in FY03 and have some delays in implementation. Industrial estates in Aden and other coastal areas have so far attracted little investment. The Bank did, however, make a significant contribution through advice on the process for contracting out port management after dissolution of the original management agreement. This was not a formal part of the Bank project. Bank assistance was given on an informal basis, but was instrumental in helping conduct an arms-length search and bidding process.

**4.14** Perhaps the greatest shortcoming of the Bank's assistance program was the failure to develop a more coherent and aggressive stance on qat production. The Bank helped sponsor a workshop on

qat in 2002. But it should have built on its analytical work to elaborate on qat's production costs and benefits and to link this information to water policy and institutions. This could have provided a basis for a more active and better-informed public information program and policy dialogue.

**4.15 Macroeconomic Management.** Although Yemen's short-term macroeconomic management was adequate during the review period, the Government missed an opportunity afforded by high oil prices to restructure taxes and expenditure for sustainable debt and budget management after oil earnings disappear. The IMF took the lead on tax issues while the Bank focused mainly on expenditures. Bank projects, however, have been largely unsuccessful in helping improve Yemen's public expenditure policy. Without a sustained commitment on the part of the Government, both the public sector adjustment credit in FY00 and on-going civil service modernization project failed to advance the substantive reform programs envisaged.

**4.16** The contribution of the Bank's AAA is more ambiguous. The Bank did less work than anticipated on public expenditure, but a policy note on the budgetary and poverty impacts of petroleum pricing in Yemen attracted attention. Building on a longstanding dialogue and analytical work such as "Household Energy Supply and Use in Yemen", the note stressed the high cost of petroleum subsidies to the budget (6.5 percent of GDP in 2004) and to resource allocation (overuse of groundwater and smuggling of cheap diesel fuel). The Bank's note recommended a gradual, pre-announced series of price increases to be followed by the creation of an automatic price adjustment mechanism thereafter) combined with increased pro-poor spending to offset the impact of price increases.

**4.17** In the event, the Government raised the price of diesel substantially (from YR17 to YR45) in one step on July 19<sup>th</sup>, 2005. Although expenditure on social welfare was also expanded and other tax and salary adjustments were made, the Government rolled back the price of diesel to YR35 on July 26<sup>th</sup> after mass demonstrations, riots and reported deaths of 36 people. The Bank's approach was in line with best practice in this case – grounded in analysis of political economy and sensitive to protecting the poor. The Government's judgment was that it was better to get the pain of adjustment over with quickly.

**4.18 Structural and Institutional Reform.** The Bank has tried to promote structural and institutional reform in the areas of privatization, investment promotion, financial sector reform, trade reform and integration, and land policy. Its efforts in these areas have been generally well designed but have had only a modest impact on outcomes.

4.19 The Bank's potential contribution to privatization was reduced by the collapse of the privatization project. Although the Bank has continued to work informally with the Government to provide advice on privatization issues, the resources it can devote and the influence it can bring to bear are limited. Advice from Foreign Investment Advisory Service (FIAS) in 1997 underpinned changes in investment legislation and the establishment of the General Investment Authority (GIA) and Export Council. The institutional changes have had only a modest impact on the investment climate, however. Some officials in the Ministry of Planning were dismissive of the investment promotion efforts. In their view, Yemen has the needed agencies but does not follow through on substantive reforms.

4.20 The Bank has given considerable support for financial sector reform and development, but the impact has been modest. A Financial Sector Adjustment Credit (FSAC) approved in FY98 and completed in FY00 was rated satisfactory by the IEG. The project had appropriately limited objectives, but implementation of reforms has been slow due to inadequate technical assistance. At the end of FY05 the Government issued a decree to restructure public sector banks with Bank support. IEG's cross-country review of financial sector assistance has found that while the Bank has sometimes supported financial restructuring prior to the privatization of banks in the absence of Government commitment to change the Banks ownership, such financial restructuring has led to poor results<sup>1</sup>. In addition IEG cross-country reviews of financial sector reform concluded that Yemen's financial sector remained weak and Bank interventions had a negligible impact.

4.21 Lack of access to land and insecure registration has long been identified as important obstacles to business development. Both CAS99 and CAS02 proposed to do AAA on land issues, but the work was only completed at the end of FY05. The analysis and policy proposals seem sound, but it is too soon to evaluate its impact.

### Overall Evaluation on Investment Climate

4.22 **Outcome.** The overall outcome for the investment climate is moderately unsatisfactory. Short-term macroeconomic performance (growth, inflation, fiscal and balance of payments deficits) was adequate, largely because of high oil prices. Little progress, however, was made on addressing the longer-term macroeconomic challenge of reducing the non-oil fiscal deficit, as these same high oil prices reduced the incentive to reform. Growth of the non-oil economy was too low (4 percent per year on average) to promote diversification. Progress on structural and institutional reforms such as privatization, trade policy and financial sector development was modest. Finally,

exogenous events reduced security, though recent Government efforts have yielded some improvements.

**4.23 Institutional Development.** Institutional development has been modest. Although investment legislation was brought into line with that of other countries and investment promotion and export agencies were established, they do not yet function effectively. Improvements in banking supervision and regulation are modest. The Technical Privatization Office established at the Bank's advice has sold or liquidated small-scale enterprises, but not large ones.

**4.24 Sustainability.** Because of the precarious security situation, continued corruption, and uncertain economic outlook, sustainability does not seem likely. The risks of deterioration in the investment climate outweigh prospects for improvement.

**Box 3. IEG-IFC Overview of IFC Operations in Yemen, 1999-2005**

*IFC's investment operations in Yemen have been limited:* Poor investment climate and low level of financial intermediation have limited IFC operations in Yemen. IFC was inactive in Yemen from 1987 to 1998 due to the uncertainty over the enforceability of contracts, unreliable jurisprudence, and other business climate issues. IFC renewed operations with new investments in FY99. Between FY99 and FY05, IFC committed three investments – in grain processing, ceramic tile manufacturing, and bottled water – for \$17.3 million. Of these three investments, two have reached early operating maturity, with one evaluated as successful and the other a failure. With regard to IFC's work quality, it was satisfactory in one case and unsatisfactory in the other. Net Foreign Direct Investment (FDI) was negative during 1999-2003.

*IFC provided technical assistance (TA) to improve the investment climate and opened an office in Sana'a:* IFC undertook four TA operations – two by FIAS and two by the recently established (2004) regional private enterprise partnership facility (PEP-MENA) – that were focused on improving the investment climate, a key component of the World Bank Group's country strategy. Since 1999, FIAS did two TA assignments at a total cost of \$20,300, comprising: (i) a review (2000) of the amendments to the country's (1991) investment code; and (ii) a study (2002) examining the role of the General Investment Authority in attracting FDI. As a result of the FIAS review in 2000, a new foreign investment law was enacted by the Parliament in July 2002, refocusing on promotion rather than regulation. PEP-MENA did two leasing TA operations in FY05, at a cost of \$99,000: (i) an international conference on leasing in Sana'a and (ii) a review of leasing legislation. IFC is also doing TA operations in SME development and gender. IFC opened an office in Sana'a in 2005.

*Investment climate in Yemen has not significantly improved in the past five years:* Findings from the two Investment Climate Assessments (ICAs) in 2001 and 2005 by the World Bank indicate that the business climate in Yemen has not improved significantly. The top five constraints faced by businesses were: macroeconomic uncertainty, tax rates, corruption, tax administration; and anticompetitive practices by dominant incumbent firms. The results from the 2005 "Doing Business"

Continued⇒⇒⇒

**Box 3 (continued)**

survey also found Yemen to be a difficult place for doing business. The private sector is dominated by a few large family-owned business groups.

*Financial intermediation in Yemen is low:* The financial system is underdeveloped and plays a limited role in the economy. It is dominated by a highly concentrated banking system. There is substantial cross-ownership of banks and large trading, construction, and manufacturing firms, as well as close ties between owners and management of banks. The interlocking ownership between the main banks and corporations discourages competition in both the banking sector and industry. Banks have been reluctant to lend outside these groups due to difficulties in the timely recovery of nonperforming loans. There is little competition among banks for lending. Instead, banks hold a high proportion of their assets in the form of treasury bills, deposits at the Central Bank and as foreign assets. Yemen does not have a stock market.

*Challenges and Opportunities:* Though IFC could channel financing through the private banks to support SMEs, there are significant business climate and banking issues to overcome. IFC's attempt to facilitate broad-based private sector development in the non-oil sector – which is critical for job creation – is likely to require significant TA to improve the business climate. IFC is planning to support microfinance institutions, which have proven to be an effective conduit to the informal sector. Finally, Yemen's privatization program – particularly in infrastructure – is currently stalled and IFC will need to seek the support of other development partners to push this agenda more forcefully.

*Source:* Independent Evaluation Group - IFC

NOTES

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1. Independent Evaluation Group, "IEG Review of Bank Assistance for Financial Sector Reform" Report No. 33030 Pg. 75, Washington D.C.: The World Bank.



## 5. Building Human Capital

### Bank Strategy

5.1 Human resource development and social protection was consistently one of the main objectives of Bank assistance. In CAS99, this objective was characterized as “targeted social improvements for poverty alleviation”. In CAS02, the objective was expressed as “building and protecting human capital”. The Bank’s strategy was specifically designed to support the Government’s PRSP objectives.<sup>1</sup>

5.2 Both CAS99 and CAS02 considered the role of women as being crucial for advancing human and social development. A strong emphasis was placed across all areas of Bank operations on the need to narrow a profound gender disparity that has traditionally limited girl’s access to education, health services and employment opportunities for women. All Bank interventions were expected to help improve the conditions faced by girls and women and to empower them with more gender-neutral institutional arrangements.

### Bank Program

5.3 The focus of the Bank’s program has been on activities in education, health, and community-level improvements. Particular emphasis has been given to girls’ education and other activities that help reduce the gender gap and improve the status and well-being of women. Table 7 shows the proposed and actual lending program in human resource development and social protection during the review period. Although there have been some substitutions and recent delays, an ambitious lending program (nine loans with total commitments of \$404 million) has been largely carried out as planned.

5.4 The program of non-lending support was also very ambitious, but was not as fully implemented as the lending program. CAS99 proposed sector reform strategy papers for the education and health sectors, with planned follow-up sector implementation reviews as part of a PER process. The sector strategies were completed, but the follow-up monitoring of budgeting and expenditure reform did not take place. CAS02 put more emphasis on non-lending services. Five sector reports or notes were completed which included a poverty update and a secondary education review. A gender note was also initiated but has not been finalized.

Table 7. Lending in Human Resource Development and Social Protection

Projects	Proposed		Actual	
	FY	US\$M	FY	US\$M
<i>CAS99</i>				
Public Works II	1999	50	1999	47
Child Development	2000	32	2000	29
Basic Education Expansion	2000	50	2001	50
Health Reform	2001	30	2002	28
Basic Education Expansion II	2002	50	delayed	
Social Fund II (high case proposal)	2002	40	2000	75
Higher Education (not CAS proposal)			2002	5
<i>CAS02</i>				
Social Fund III	2004	20	2004	60
Basic Education Expansion II*	2004	60	2005	65
Girls' Secondary Education	2005	30	2007	
Vocational Training II	2005	5	2007	
Public Works III (not CAS proposal)			2004	45
Totals**		317		404

\*Approved as Basic Education Development Project

\*\* Total counts Basic Education Expansion II only once (at \$60M)

## Progress in Achieving Bank Objectives

5.5 Yemen's social indicators have been mixed (see Table 8), with improvements seen in the education sector and little or no progress in the health sector. Furthermore, Yemen still lags behind the MENA Region and other low-income countries on most indicators.

5.6 **Education.** Yemen has made significant progress in improving access to education and narrowing the gender gap in this access. But the improvement is uneven across different age groups and regions. Moreover, the quality of education requires improvement.

5.7 The gain in primary enrollment is truly impressive over the long term. The total number of students in primary education increased from a total of 25,000 in 1970 to 4 million in 2003. The improvement for girls has been especially significant. Between 1998 and 2002, the female gross enrollment rate for primary education has gone up from 52.5 percent to 68 percent. Gross primary enrollment rates for boys (98.3 percent) are still much higher. The gender gap in enrollment is slowly but steadily getting smaller.

Table 8. Yemen Social Indicators

	Yemen		MNA	
	FY98	Latest (FY02-05)	FY98	Latest (FY02-05)
Immunization, DPT (% of children 1-2 year old)	68.0	66.0	89.9	91.2
Life expectancy at birth, total (years)*	55.0	57.7	66.4	68.5
Mortality rate, infant (per 1,000 live births)	..	82.0	..	45.1
Improved water source (% of population)	..	69.0	..	87.8
Improved sanitation (% of population)	..	30.0	..	74.8
School enrollment, primary (% gross)	73.3	83.5	96.6	100.5
School enrollment, primary, female (% gross)	52.5	68.0	90.9	95.7
School enrollment, primary, male (% gross)	93.2	98.3	102.6	104.4
Ratio of Female to Male Primary Enrollment	0.56	0.69	0.89	0.92
School enrollment, secondary (% gross)	41.9	47.3	62.1	68.7
School enrollment, secondary, female (% gross)	22.5	29.2	59.5	66.8
School enrollment, secondary, male (% gross)	60.3	64.5	68.7	73.3
Ratio of Female to Male Secondary Enrollment	0.37	0.45	0.87	0.91
Population growth (annual %)	2.8	3.0	1.9	1.7
Urban population (% of total)	24.3	26.0	54.2	55.9

Source: World Bank Development Data Platform (DDP) as of 12/27/05

Note: \*Indicator from FY97, all other Base Indicators from FY98

5.8 In secondary education, improvements are also being made, but the gains are more modest, especially for girls. Gross enrollment ratios in secondary education were 65 percent for boys versus 29 percent for girls in 2002, up from 60 percent and 22 percent respectively in 1998. Gender segregated schools and female teachers are important requirements for attracting girls' enrollment in secondary school, but both are still in short supply, especially in rural and remote areas. According to 1998 estimates, the nationwide percentage of female teachers was only 21 percent for primary school teachers and 19 percent for secondary school. The share in rural areas was even lower (5.3 percent of all rural teachers were female). But even an increase in the availability of girls' schools and female teachers may not be sufficient to keep girls in school. Early marriage is still a common reason for girls' drop out from secondary school, as is poverty and unfavorable family attitude towards girls' education.

5.9 The quality of education remains poor, in part a reflection of inadequate qualification of teachers, many of whom have only basic education. Perceptions of poor quality affect girls more than boys because the opportunity costs of sending a girl to school are much higher for the household that needs her help. Efforts in improving quality are hampered by inadequate facilities, a shortage of teaching and learning materials, and often also a lack of meaningful community involvement.

Another major obstacle to ensuring quality education is inefficient teacher deployment, which has failed to provide adequate teachers for rural and remote areas.

5.10 The Government deserves credit for improving access to primary education over the last few years. Several strategic documents, among them the Basic Education Development Strategy, the Girls Education Strategy, the Literacy and Adult Education Strategy, and the PRSP underline the commitment to female basic education. Close to 10 percent of GDP – almost one-third of total government expenditure – went into education in recent years. Yemen has become a partner in the Education for All – Fast Track Initiative, a global partnership dedicated to helping members reach the Millennium Development Goal (MDG) of universal primary education by 2015. In 2003 Yemen received one of the largest allocations of funds under this initiative, in recognition of Yemen’s commitment to primary education.

5.11 **Health.** One of Yemen’s key development challenges is population growth. Yemen has one of the highest fertility rates in the world. World Bank data puts the 1997 total fertility rate at 6.4 births per woman and the 2003 rate at 6.0. Other sources report higher rates, but all agree on an overall decrease over time.<sup>2</sup> The maternal mortality rate is also high: Yemen reports 350 deaths per 100,000 live births, but international adjusted estimates put the maternal mortality rate at 570 in 2000.<sup>3</sup> Only 22 percent of births are attended by skilled health personnel. Factors like lack of education, early marriage; malnutrition, high pregnancy rates, short birth intervals and childbearing after age 35 contribute to high maternal mortality and morbidity.

5.12 In addition, expenditure on public health is very low, only 1 percent of GDP and poorly targeted. Healthcare facilities are unevenly distributed, often understaffed and ill equipped to handle even basic health problems. They regularly lack female healthcare staff, and out-of-pocket payments for health services are beyond the means of many, particularly rural dwellers.

### Bank Contribution

5.13 The Bank’s contribution has been greater in education than in health. This is reflected in project ratings (Table 3 in Chapter 2). All three education projects completed during FY99-05 had outcomes ratings of at least moderately satisfactory, whereas both health projects completed during the period had unsatisfactory ratings. The ongoing series of Social Fund for Development (SFD) and Public Works Program (PWP), which deliver small-scale projects in small communities, have also generally been more successful in education than in health.

5.14 **Education.** The Bank's assistance has contributed to Yemen's progress in education in general and girls' enrollment in particular. Increasing girl's enrollment in primary education was a declared goal in both CAS documents during the period under evaluation and is strongly supported by the Yemeni governments' commitment to basic education expansion. The Bank has followed through with both gender sensitive sector projects and education components in social protection projects. The increase in community involvement in recent primary education projects will improve sustainability. The Bank has had an education specialist in Yemen throughout the review period.

5.15 A series of education projects which closed during the review period made a significant contribution. The Basic Education Project (closed in 2000) helped raise the gross female enrollment rate in the project areas from 34 percent in the early 1990s to 43 percent in 1999/2000, including communities where no girls were attending school prior to the project. The Education Sector Project (closed in 2005) raised the share of girls in secondary education from 26 percent to 39 percent in the rural areas. The Secondary Teacher Training Project which closed in 2000 was instrumental in raising the share of female teachers in secondary schools from about 7 percent to 20 percent.

5.16 At midterm, the flagship Basic Education Expansion Project (BEEP) had exceeded construction and enrollment targets. Girls outnumbered boys in grade one of most rural schools built under BEEP. According to more recent data, the gross enrollment rate for girls in grades 1 to 6 in the four project governorates increased from 51 percent in 1999/2000 to 62 percent in 2003/2004. However, the availability of female teachers for rural areas remains a problem, which could affect girl's retention in school. With few exceptions, BEEP schools have enjoyed active community participation, which enhances sustainability.

5.17 The SFD has also had a large impact in the education sector. *More than half (52 percent) of SFD commitments in 2004 went into education, with an emphasis on closing the gender gap in basic education.* Independent studies confirmed that SFD investments make an important difference in basic education enrollment rates. In the beneficiary communities covered, overall enrollment increased from 59.2 percent before SFD intervention to 70.4 percent after, with a smaller increase in male enrollment (from 75 percent to 80.9 percent) and a significantly higher increase for girls (from 41.7 percent to 58.3 percent).<sup>4</sup>

5.18 Another project with education activities is the Public Works Project. Its second phase closed during the evaluation period. According to a Beneficiary Survey in the communities served, the enrollment rate in basic and secondary education increased for both

sexes by 141 percent. The increase was 181 percent for girls versus 113.4 percent for boys. A review by IEG of the second phase rated the outcome highly satisfactory.

#### Box 4. The Social Fund for Development – Working on Gender Inclusion

Among projects financed by the World Bank, the Social Fund for Development (SFD) stands out in many respects. Started in 1997 and now in its third phase, the SFD resembles more a progressive development agency in its own right than a standard public-sector institution. It receives funds from several international donors and from the government. While it is a public institution, with government officials on its Board, the SFD has remained completely autonomous, both administratively and operationally. The SFD is known throughout Yemen for its efficient and reliable service delivery.

In terms of gender integration, the SFD is truly remarkable and unlike any other Project Implementation Unit (PIU) in the country. It has numerous professional women on staff and 50 percent of the unit managers in the SFD head office in Sana'a are female. In addition, SFD recruitment policies require each of the 8 branch offices to have at least one female officer, and most actually have two. All new staff is subjected to gender awareness training.

Moreover, SFD staff is prepared to challenge culturally-based limitations for women's participation in its sub-projects, and to adjust strategies according to lessons learned. While they concede that, in some communities, particularly remote ones, it is almost impossible to get women to participate in a meaningful way, they also find that flexible, unconventional solutions can be employed to overcome obstacles in many cases. One example concerns female outreach workers. In Yemen, a woman usually cannot travel alone and using an escort would be expensive. The SFD has therefore employed husband and wife teams for outreach.

SFD staff, when asked for explanations regarding its outstanding gender sensitivity, identifies the strong gender commitment of top management as the defining factor for an environment that is conducive to promoting women's participation and to working against gender bias.

*Source:* Interviews with management and staff of SFD.

5.19 **Health.** The Bank has not successfully addressed well-known issues of weak implementation capacity in the Ministry of Public Health and Population (MoH). The only health sector project active during the evaluation period, with maternal health and other reproductive issues as its focus does not perform well, at least partly due to capacity issues in the health ministry.<sup>5</sup> The weak implementation record for the Health Ministry is consistent with the outcomes of the two health projects that closed during the evaluation period. Both projects are rated unsatisfactory, with doubtful sustainability, and unsatisfactory performance of both the Bank and the borrower.

5.20 The main development objective of the Family Health Project, which closed in 2003, was to reduce fertility and to improve maternal and child health. The achievements of the project were limited. Pro-

ject staff indicated a wide range of implementation issues including the failure to distribute family planning supplies to health centers.

## Overall Evaluation on Building Human Capital

**5.21 Outcome.** The overall outcome for building human capital is moderately satisfactory. Yemen made good progress in education, and especially in reducing the gender gap in enrollments, even though all indicators remain below the regional averages. Outcomes in the health sector were largely unsatisfactory. Some progress was made in lowering the (still high) fertility rate, partly reflecting better education for women, but low public spending and weak delivery systems limited the effectiveness of health services.

**5.22 Institutional Development.** As with outcomes, institutional development has been somewhat greater in education than in health, but individual ratings for projects completed during FY99-05 were modest for all projects in both sectors. It is clear that institutions, such as SFD and PWP are themselves highly effective. The question remains whether they promote overall civil service capacity. Because of this uncertainty, overall institutional development is rated modest.

**5.23 Sustainability.** Because of government commitment and community support, sustainability of the beneficial outcomes (mainly in education) that have been attained is likely.

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1. The PRSP placed heavy emphasis on human resource development and social protection. Its three basic goals were achieving economic growth, enhancing the capacities of the poor, and reducing the suffering and vulnerability of the poor.

2. UNICEF and others put fertility at 7.0 or even higher for the same year.

3. The World Bank's 2002 Poverty Update also suggests an increase from the mid-1990s to 1999.

4. Such achievements are not only based on providing access to education by constructing and upgrading school infrastructure, but also a direct consequence of capacity building initiatives that target quality of education and community participation. One example for this integrative approach is a pilot program on education for rural girls that aims to increase girl's enrollment by 20 percent in selected areas.

5. This would be the fourth health project in a row with unsatisfactory ratings.

## NOTES





## 6. Water Resource Management

### The Bank's Strategy—Past and Present

6.1 To understand the considerable progress that took place in water resources management (WRM) during the review period, it is necessary to consider the highly unsatisfactory performance of both the Government and the Bank in the preceding years.

6.2 Bank lending for Yemen's water sector began in FY73. The issue of groundwater depletion was known from the beginning. The appraisal report for the first Sana'a water project (1974) commented that the groundwater table was depleting by three meters per year. In the subsequent 25 years, 21 water projects were approved. Bank lending was based primarily on a "supply-side" approach and focused on infrastructure—more wells and pump sets. There was no significant sector work on water. Only one of the 21 approved projects—the Land and Water Conservation Project—had a focus on water resources management. Overall, the Bank was minimally responsive to the rapidly declining resource base, in spite of warnings in IEG's Audit reports.

6.3 Inaction and misguided interventions created political constraints that have mounted over time. With more people and livelihoods at stake, adjustment measures (such as regulating water abstraction and new tube-wells, increasing diesel prices, reducing urban use of water resources, and transfer of water from rural to urban areas) have much greater consequences and stronger resistance.

6.4 Several key weaknesses contributed to the Bank's neglect of ground water management. First, as indicated above, there was virtually no sector analysis in the water sector in this period to identify and prioritize activities. Second, cross-sectoral planning and coordination between sectors was largely absent. This gap limited the attention paid to the sector's more comprehensive needs.

6.5 **The Turning Point.** CAS02 introduced a change in the Bank's approach in the water sector by recommending more sector work and by including a proposal for two projects that focused on groundwater resource management: (i) the Sana'a Basin Water Management Project (FY03) and (ii) the Groundwater and Soil Conservation Project (FY04), which have since been implemented. CAS02 also appropriately highlighted the exhaustion of groundwater, and related

deterioration of watersheds and soils. The proposed sector work and projects set the stage for relevant action.

## The Bank's Water Program

6.6 Lending in the water sector was substantial in the review period, with seven projects approved between FY99 and FY05:

- Sana'a Water Supply and Sanitation (SWSSP, FY99);
- Irrigation Improvement (IIP, FY01);
- Rural Water Supply and Sanitation (RWSSP, FY02);
- Taiz Muni Development and Flood Protection (TMDFP, FY02);
- Urban Water Supply and Sanitation Adaptable Program Loan (UWSS, FY02);
- Sana'a Basin Water Management Project (SBWMP, FY03); and
- Groundwater and Soil Conservation Project (GSCP, FY04).

6.7 An additional eight projects were under implementation at the beginning of this period.

6.8 **Sector Work and Strategy.** In parallel with the substantial lending program, sector work and policy dialogue with Government progressively picked up, culminating at the end of the CAE period in two sector strategy papers: the Bank's Country Water Resource Assistance Strategy (CWRAS) and the Government's National Water Sector Strategy and Investment Program (NWSSIP). The reports were both issued in April 2005, and in most areas are mutually consistent. There was a high level of interaction between the Bank and the Government during strategy preparation. The primary focus of both strategy papers was water resources management.

## Progress in Achieving the Bank's Objectives

6.9 The depletion of groundwater continues unabated. Farmers using traditional shallow dug-wells abstracted water at about the rate of natural recharge. But tube-well technology and pump-sets changed that delicate balance. Today, the number of agricultural tube-wells and the rate of rural groundwater abstraction continue to rise. In addition, rapid urban population growth has greatly increased urban water demand. In Sana'a basin, where 8,000 wells are in use, the groundwater table is falling by about six meters per annum. The depletion is thus more rapid today than when Bank started in 1973.

6.10 Meanwhile, rural and urban tube-wells are constantly being deepened. Since 1990, agricultural consumption has exceeded Yemen's renewable water resources, led by the rapid growth in the cultivation of qat. Urban water demand has grown even more rapidly. It was less

than 10 percent of renewable water in 1990, but is projected to be more than 20 percent by 2010. These trends are exacerbated by highly inefficient rural and urban use. Water losses (or “unaccounted for”) in urban water supply are typically 40 to 50 percent, while irrigation losses are about 60 percent. Nationally, water abstraction now averages about 125 percent of natural recharge.

## The Bank’s Contribution

6.11 Until recently, Bank assistance in the water sector was counter-productive. It failed to promote conservation and postponed the necessary actions. Over time, mitigating groundwater depletion has become increasingly difficult: the technical problems are greater with deeper aquifers; the number of agricultural tube-wells has mushroomed (in Sana’a basin alone there are 8,000 wells), the habits and perceived acquired rights of farmers have become entrenched; and urban demand has rapidly expanded. Mitigating the problem would not have been easy even 20 years ago, but the complexities and costs of mitigation today are vastly greater.

6.12 Nonetheless, the Bank has changed its approach. In fact, it has played a leading role in helping the Government adopt a new strategy. In 2005, the Bank produced its first comprehensive analysis of Yemen’s water sector that puts at center stage the issue of groundwater depletion. The Bank also provided international experience in designing new projects and technical help in implementation.

6.13 Along with the new strategy, a new and relevant lending program has emerged. The two most recent projects are entirely focused on groundwater management, though the impact is not discernible at this stage. In the urban water sector, corporate reforms supported by the Bank have been substantial. Water agencies for most cities have been made independent, with management progressively upgraded.

6.14 On policy matters, a vibrant dialogue between the Bank and the Government was the source of the new water strategy. In July 2005, the Government took the difficult step of cutting fuel subsidies, a highly unpopular move for farmers with pump-sets. Steps have been taken to establish a broadly based “Groundwater Forum” for cross-sectoral discussion of water issues.

## Overall Evaluation on Water Resource Management

6.15 **Outcome.** The outcome of Bank assistance in this sector is moderately unsatisfactory, as few tangible results have been achieved. The achievements in conceptualizing and implementing a new strategy have been positive. In overall vision and quality, the strategy is commendable.

The new projects – such as SBWMP, GSCP and UWSS Adaptable Program Loan – were approved only in the last three years. Furthermore, the implementation of sector policy reforms has been modest so far.

**6.16 Institutional Development.** The Sana’a Basin Water Management Project offers a significant breakthrough in institutional structure. Two urban water sector projects (Sana’a WSSP and UWSS) have pioneered a new reform agenda emphasizing improved efficiency in corporate management. However, these two urban projects still have no focus on water resources management. Also, the institutional structure of the Sana’a basin project is at a nascent stage. The overall institutional development impact is still modest.

#### Box 5. The Social Cost of Producing Qat

Qat has been widely grown and used in Yemen for centuries. There has long been a tendency for outsiders to view qat as a quaint and charming custom and for Yemenis to take a degree of national pride. But in recent years, rapidly-growing production and use have led to an intensified debate over qat and its effects on society.

The social and health effects of qat use have been contentious. Chemically, it is a mild narcotic similar to amphetamines. Prolonged chewing is necessary to achieve any effect. It is used primarily by men who sit in the afternoon chewing qat and conversing. The effects are said to be wakefulness and suppression of appetite. Proponents view it as a social convention, promoting harmony and providing a forum for collective decision-making. Many business deals are said to be made during qat sessions. Opponents say qat is harmful to health, leads to absenteeism, excludes women, and impoverishes families.

Government policy toward qat is ambivalent. Imports are banned, but production is legal and sales are taxed. This contrasts with policy in Saudi Arabia, and other neighboring countries, where production and consumption are illegal. A few politicians have spoken out against qat, but there has been no coordinated anti-qat campaign.

Though less debated, the effects of qat cultivation may be even more important than consumption. Qat growing has lifted some rural households out of poverty because it has a higher value than alternative crops such as coffee. But qat has potentially disastrous environmental effects. Being very water-intensive, it reduces not only current production of alternative crops, but also future production because it is mining non-rechargeable fossil aquifers. It also imperils the viability of urban areas in the highland. The benefits of qat production are temporary and certainly unsustainable. Whatever the social costs of qat consumption, the real economic and social costs of qat production are much higher. The value of qat output, properly valued for externalities, is far less than market prices.

The Bank’s Agricultural Strategy Note (1999) analyzed the costs and benefits of qat production. The analysis showed that the domestic resource cost (DRC) of qat was above average and recommended that the Government lift the ban on imports of qat, along with that on competing crops. Imports of qat are “virtual imports” of water.

6.17 **Sustainability.** The urban corporate reform initiatives under Sana'a Water Supply and Sanitation Project and Urban Water Supply and Sanitation Project will improve the efficiency and institutional viability of water agencies. But the continued mining of groundwater and the resulting aquifer depletion around urban areas means that groundwater resources are not yet sustainable.



## 7. Lessons and Recommendations

7.1 Against the backdrop of dire social and economic conditions, Yemen has very limited capacity to deliver basic public services. In addition, it is facing urgent and difficult challenges. Of critical importance is the depletion of groundwater in major population centers. Exacerbating the water losses is the persistently high population growth. Furthermore, the use of qat and its water-intensive cultivation continue to rise. Together, these issues create a fragility that endangers Yemen's economic and social sustainability.

7.2 The Bank has a mixed record in dealing with these challenges. Bank assistance has yielded results in some areas, including promoting groundwater conservation. In others, such as improving public services, the Bank has scaled back its engagement. On qat production and population growth, the Bank has yet to make a serious effort.

7.3 If left unresolved, these problems will not disappear, but together they will deepen the crisis. Individually these issues have been known for decades. The falling level of groundwater, for example, was identified by the Bank in 1974. The rapid expansion of qat growing was noted in 1982.<sup>1</sup> What may be new or have become better understood is the extent to which these problems are interrelated. Qat growing, for instance, has been a driver for the surge of tube wells and water use. Similarly, population growth exerts increasing pressure on the groundwater. These developments require more public services and further tax the limited public-sector capacity.

### Lessons

7.4 Bank experience in Yemen points to the following lessons:

7.5 **Coordinating Corrective Actions.** Addressing each issue in isolation is unlikely to produce satisfactory results. The groundwater level, for instance, will not stabilize as long as population growth continues at high rates. Similarly, lower fertility would be difficult to achieve without better education for girls and significant improvement in health and family planning services. Coordination is needed so that corrective measures do not work at cross purposes.

7.6 **Learning Local Conditions.** Bank work needs to be guided by adequate research and issue-specific knowledge. In the past, the lack of proper understanding led the Bank to ineffective interventions, as with Bank projects in the water sector prior to CAS02. As one of Yemen's senior public officials put it: "The World Bank generally

gives conventional solutions for unconventional problems.” But with good analysis, Bank advice can be effective, as the Fishery Sector Strategy<sup>2</sup> showed.

**7.7 Moderating Optimism.** A challenge for the Bank is to make more realistic assessments of ownership, speed of implementation and likely outcomes. During the review period, the Bank correctly evaluated the public sector capacity. But, for the most part, the Bank was more optimistic than warranted in its assessment of the depth and durability of Government commitment. More realistic expectations would help in setting achievable targets, as well as choosing actions to keep the Bank engaged even when targets are not met.

## Recommendations

**7.8** As highlighted in Box 2 (page 4), the 2001 Country Assistance Evaluation of the IEG made two key recommendations:

- To establish clear priorities in Bank assistance strategy and ensure consistency in Bank interventions across sectors;
- To focus on ensuring sustainability of the assistance.

For the most part, Bank strategy followed this advice. It proposed a relevant assistance program that was also well aligned with Government priorities. However, as noted in Chapter 2, there was a major discrepancy between strategy and implementation.

**7.9** To ensure the sustainability as recommended, it is essential to address the nexus of (a) weak governance; (b) water loss; (c) population growth; and (d) qat cultivation. An assistance strategy would not be relevant if it fails to deal with these issues. Furthermore, it is imperative that the strategy be preventive, rather than reactive, addressing the root cause instead of the symptom. For instance, the Bank’s water sector strategy focusing on conservation is good, as it is more preventive than providing a temporary increase in water supply, which further drains the groundwater.

**7.10 Upgrading Governance.** The key constraint in addressing this set of issues is the capacity for delivering public services. As in the past, the Bank will need to make governance and public-sector capacity building a cross-cutting theme to be incorporated in all Bank interventions. But, unlike the past, the Bank needs to:

- Be more fully engaged with the Government through regular consultations and through the presence of a public sector specialist in the field office;
- Embed in Bank activities an enhanced program of monitoring and evaluation;
- Narrow the gap between strategy and implementation.



In addition, the Bank needs to draw on the experience of quasi-public sector agencies with a track record in service delivery, like the Social Fund for Development, to restructure line ministries, starting with those involved in addressing this nexus of issues.

**7.11 Conserving Water.** The depletion of groundwater is a paramount issue to resolve. Bank support needs to be confined to actions that help conserve groundwater. It is essential that urban water and sanitation projects advance groundwater conservation and reduction of effluents. General infrastructure projects that help individual communities, but do not mitigate water depletion, need to be avoided. In the policy dialogue, it is essential that the Bank support:

- Cuts in fuel subsidies which undermine water conservation;
- Incentives and regulation for conserving water;
- Development of new rural-urban water transfer markets; and
- Removal of barriers to imports of water-intensive crops.

**7.12 Counteracting Qat.** Attempts to control, regulate or tax qat have failed in the past, but the Bank has not played an active role. To make future assistance relevant, the Bank can no longer ignore qat. The Bank needs to help the Government and private research organizations investigate the economic, social, and resource implications of producing qat. The findings can form the basis for a national conference on qat policy. The Bank needs to also support education and public awareness campaigns, in collaboration with civil societies.

**7.13 Improving Population Policy.** The Bank has tackled one fundamental cause of high fertility – inadequate education for girls. This alone, however, is not sufficient, as tangible results will only be achieved in the long term. The Bank must do more. A key measure would be to deepen engagement in the health sector to improve reproductive health services and family planning. The main goal would be to reduce maternal, infant and child mortality, as well as advancing demographic transition. In addition, the Bank needs to support family-planning services and assist in development of public advocacy campaigns to raise the awareness on population issues.

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1. World Bank. 2000 *Qat: CDR Building Block*. Working Paper No. 33578  
2. World Bank. 1999 *Fisheries Sector Strategy Note*, Report Number: 19288-YEM.



# Annex A: Statistical Annexes

Annex Table A1	Yemen at a Glance
Annex Table A2	Yemen Key Economic and Social Indicators
Annex Table A3a	Yemen List of IBRD/IDA Closed Projects, FY 99-05
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Annex Table A7	Yemen- World Bank's Senior Management
Annex Table A8	World Bank Commitments by Sector Board, FY 99-05
Annex Table A9	Yemen Millennium Development Goals

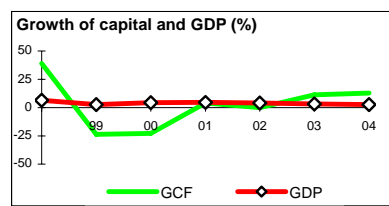
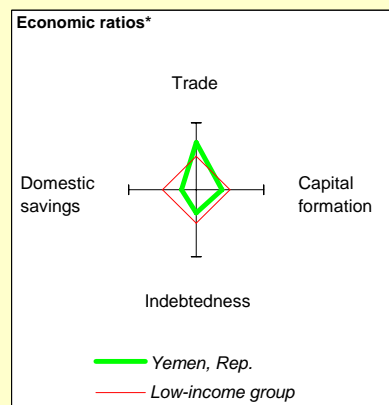
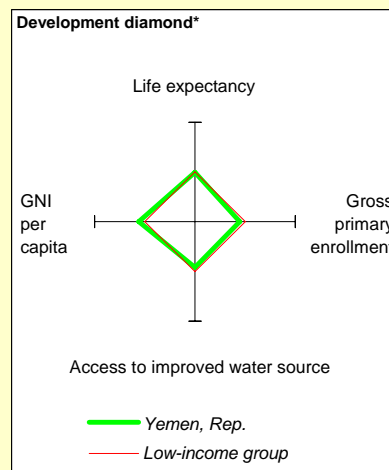


Annex Table A1. Yemen at a Glance

	Yemen	M. East & North Africa	Low-income		
<b>POVERTY and SOCIAL</b>					
<b>2004</b>					
Population, mid-year (millions)	19.8	294	2,338		
GNI per capita (Atlas method, US\$)	570	2,000	510		
GNI (Atlas method, US\$ billions)	11.3	589	1,184		
<b>Average annual growth, 1998-04</b>					
Population (%)	3.0	1.8	1.8		
Labor force (%)	2.8	-1.3	2.1		
<b>Most recent estimate (latest year available, 1998-04)</b>					
Poverty (% of population below national poverty line)	42	..	..		
Urban population (% of total population)	26	56	31		
Life expectancy at birth (years)	58	68	58		
Infant mortality (per 1,000 live births)	82	45	79		
Child malnutrition (% of children under 5)	..	..	44		
Access to an improved water source (% of population)	69	88	75		
Literacy (% of population age 15+)	49	69	61		
Gross primary enrollment (% of school-age population)	83	100	94		
Male	98	104	101		
Female	68	94	88		
<b>KEY ECONOMIC RATIOS and LONG-TERM TRENDS</b>					
	1984	1994	2003	2004	
GDP (US\$ billions)	..	3.8	11.0	12.8	
Gross capital formation/GDP	..	21.0	16.9	17.0	
Exports of goods and services/GDP	..	51.2	30.7	25.3	
Gross domestic savings/GDP	..	13.6	12.2	8.6	
Gross national savings/GDP	..	19.6	16.6	11.9	
Current account balance/GDP	..	6.6	2.1	-1.1	
Interest payments/GDP	..	0.6	0.5	0.5	
Total debt/GDP	..	161.4	48.9	42.6	
Total debt service/exports	..	3.5	3.6	4.9	
Present value of debt/GDP	..	..	34.5	..	
Present value of debt/exports	..	..	78.4	..	
	1984-94	1994-04	2003	2004	2004-08
(average annual growth)					
GDP	..	5.1	3.1	2.7	..
GDP per capita	..	2.1	0.1	-0.4	..
Exports of goods and services	..	1.3	-13.9	-1.4	..

	1984	1994	2003	2004
<b>STRUCTURE of the ECONOMY</b>				
<i>(% of GDP)</i>				
Agriculture	..	22.6	14.7	13.8
Industry	..	24.0	39.4	37.5
Manufacturing	..	13.6	5.1	4.9
Services	..	53.4	45.9	48.7
Household final consumption expenditure	..	67.6	74.1	78.3
General gov't final consumption expenditure	..	18.8	13.6	13.1
Imports of goods and services	..	58.7	35.4	33.7
	1984-94	1994-04	2003	2004
(average annual growth)				
Agriculture	..	6.0	6.9	4.7
Industry	..	4.2	2.6	5.0
Manufacturing	..	1.5	-2.0	5.3
Services	..	5.1	1.7	0.3
Household final consumption expenditure	..	5.1	8.7	0.6
General gov't final consumption expenditure	..	3.8	3.3	0.7
Gross capital formation	..	2.1	11.2	13.0
Imports of goods and services	..	0.1	-0.3	-0.6



Source: Note: 2004 data are preliminary estimates.

This table was produced from the Development Economics LDB database

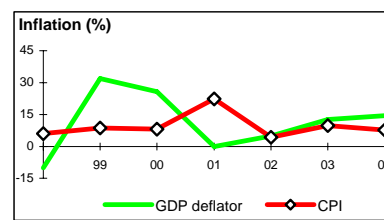
\* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

ANNEX A  
STATISTICAL TABLES

Yemen

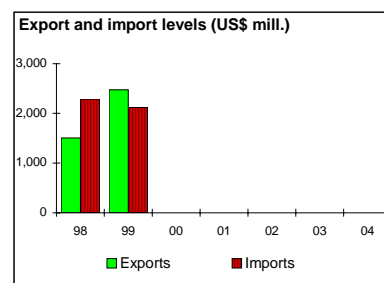
PRICES and GOVERNMENT FINANCE

	1984	1994	2003	2004
<b>Domestic prices</b> (% change)				
Consumer prices	..	49.4	9.8	7.7
Implicit GDP deflator	..	25.8	12.5	14.4
<b>Government finance</b> (% of GDP, includes current grants)				
Current revenue	..	13.4	..	..
Current budget balance	..	-11.5	..	..
Overall surplus/deficit	..	-14.7	..	..



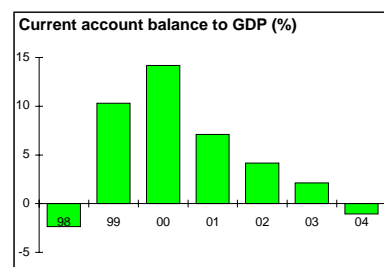
TRADE

	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Total exports (fob)	..	1,796	..	..
Crude oil (government share)	..	753	..	..
Crude oil (company share)	..	862	..	..
Manufactures	..	11	..	..
Total imports (cif)	..	1,522	..	..
Food	..	458	..	..
Fuel and energy	..	84	..	..
Capital goods	..	332	..	..
Export price index (2000=100)	..	..	..	..
Import price index (2000=100)	..	..	..	..
Terms of trade (2000=100)	..	..	..	..



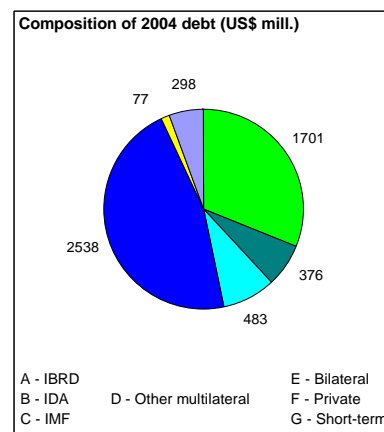
BALANCE of PAYMENTS

	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Exports of goods and services	..	1,944	3,283	2,954
Imports of goods and services	..	2,226	3,778	3,938
Resource balance	..	-282	-494	-984
Net income	..	-532	-568	-459
Net current transfers	..	1,064	1,297	1,306
Current account balance	..	250	234	-137
Financing items (net)	..	-398	-614	211
Changes in net reserves	..	149	380	-74
<b>Memo:</b>				
Reserves including gold (US\$ millions)	..	357	4,787	4,713
Conversion rate (DEC, local/US\$)	..	80.8	183.4	184.8



EXTERNAL DEBT and RESOURCE FLOWS

	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	3,002	6,125	5,375	5,473
IBRD	0	0	0	0
IDA	294	780	1,568	1,701
Total debt service	120	106	176	219
IBRD	0	0	0	0
IDA	3	13	34	41
Composition of net resource flows				
Official grants	251	82	129	..
Official creditors	230	66	58	44
Private creditors	12	-5	0	0
Foreign direct investment (net inflows)	7	16	-89	..
Portfolio equity (net inflows)	0	0	0	..
World Bank program				
Commitments	59	33	47	210
Disbursements	45	37	89	92
Principal repayments	1	7	23	26
Net flows	45	30	66	66
Interest payments	3	6	11	15
Net transfers	42	24	55	52



Note: This table was produced from the Development Economics LDB database.

8/25/05

Annex Table A2. Yemen Key Economic and Social Indicators

	1999	2000	2001	2002	2003	2004	Average 1999-2004
<i>Economic Indicators<sup>a</sup></i>							
<b>Production and Prices</b>	(Change in percent)						
Real GDP at market prices	3.8	4.4	4.6	3.9	3.1	2.7	3.8
Real non-oil GDP	3.2	3.5	5.2	4.6	4.0	4.1	4.1
Real oil GDP	6.2	9.4	1.3	0.4	-1.8	-5.9	1.6
Core consumer price index (annual average)	8.0	10.0	10.7	6.8	11.9	12.0	9.9
<b>Government Finance</b>	(In percent of GDP)						
Total Revenue and grants	31.8	39.2	35.3	33.6	33.1	35.0	34.7
Oil Revenue	19.8	27.9	25.3	22.3	23.6	25.2	24.0
Non-oil Revenue	11.1	10.0	9.8	9.7	9.1	9.6	9.9
Total Expenditure	32.1	31.2	32.8	34.8	38.2	39.4	34.8
Current	26.5	25.8	25.2	27.7	28.6	29.6	27.2
Development	5.6	5.4	7.5	7.1	9.7	8.8	7.4
Overall balance including grants (commitment basis)	-0.4	8.0	2.6	-1.2	-5.2	-4.4	-0.1
Primary non-oil fiscal balance (commitment, including grants, excluding oil and gas revenues)	..	-17.6	-20.5	-21.5	-26.9	-27.5	-22.8
<b>Financial Indicators</b>							
Exchange rate (eop) (Yris per U.S. dollar)	159.7	164.0	173.3	178.9	184.3	185.4	174.3
Real effective exchange rate (1995=100)	..	164.6	182.0	189.4	178.8	183.4	179.6
Average oil prices (in US\$/barrel)	19.7	25.9	23.0	24.6	28.0	34.8	26.0
Total net output (in thousands of barrels/day)	389.0	434.0	434.0	433.0	425.0	400.0	419.2
Exports of crude oil (in millions of US\$)	2,131.2	3,423.0	2,895.0	3,134.0	3,417.0	3,893.0	3,148.9
Non-oil exports (in millions of US\$)	140.0	146.0	178.0	215.0	234.0	260.0	195.5
Workers' remittances, net (in millions of US\$)	1,223.0	1,228.0	1,231.0	1,230.0	1,137.0	1,168.0	1,202.8
Current Account Balance (in % of GDP)	2.7	13.2	5.3	5.4	1.1	1.0	4.8
Gross foreign reserves (in months of imports)	6.0	12.3	14.9	17.0	16.0	16.4	13.8
Petroleum subsidy (in % of GDP)	2.0	5.7	3.8	3.0	5.0	5.7	4.2
<i>Social Indicators<sup>b</sup></i>							
Literacy rate, adult total	45.1	46.4	47.7	49.0	..	..	47.1
Immunization, DPT (% of children ages 12-23 months)	72.0	76.0	76.0	69.0	66.0	..	71.8
Life expectancy at birth, total (years)	..	..	..	57.4	57.7	..	57.6
Mortality rate, infant (per 1,000 live births)	..	84.0	..	..	82.0	..	83.0
School enrollment, preprimary (% gross)	0.6	0.6	0.6	0.7	..	..	0.6
School enrollment, primary (% gross)	76.1	79.2	81.0	83.5	..	..	80.0
School enrollment, secondary (% gross)	44.4	46.3	..	47.3	..	..	46.0
Population growth (annual %)	2.8	2.8	3.0	3.0	3.0	3.0	2.9
Population, total (millions)	17.0	17.5	18.0	18.6	19.2	19.8	18.4
Urban population (% of total)	24.5	24.7	25.0	25.4	25.7	26.0	25.2

a/ IMF Statistics

b/ World Bank DDP as of 2/8/06

ANNEX A  
STATISTICAL TABLES

Annex Table A3a. Yemen - List of IBRD/IDA Closed Projects, FY99-05

Proj ID	Project Name	Approval FY	Latest DO	Latest IP	Latest Risk Rating	Proj Stat	Date, Rev Closing	Sector Board	IBRD/IDA Amt USM	IEG Outcome	IEG Sustainability	IEG ID Impact
P005806	RY- Multimode Transport *	1991	S	U	M	Closed	06/30/2001	Transport	30.0	Moderately Satisfactory	Likely	Substantial
P005808	RY-Taiz Flood Disaster	1990	S	S	M	Closed	12/31/1998	Urban Development	15.0	Moderately Satisfactory	Uncertain	Modest
P005810	Nat. Agric Sect. Mgmt	1992	S	S	M	Closed	06/30/2000	Rural Sector	14.0	Moderately Satisfactory	Likely	Modest
P005811	Inst. Dev. for Pub.	1989	U	U	S	Closed	12/31/1998	Financial Sector	11.0	Highly Unsatisfactory	Likely	Negligible
P005822	Health Sector Dvlpmt	1990	U	S	M	Closed	12/31/1998	Health, Nutrition and Population	15.0	Unsatisfactory	Uncertain	Modest
P005835	Secondary Teacher Tr	1991	S	S	M	Closed	12/31/1999	Education	19.0	Satisfactory	Likely	Modest
P005836	Land & Water Conserv	1992	S	S	M	Closed	12/31/2000	Rural Sector	33.0	Moderately Satisfactory	Unlikely	Modest
P005878	RY-Power III	1990	U	S	S	Closed	12/31/1999	Energy and Mining	16.0	Unsatisfactory	Unlikely	Negligible
P005884	RY-Tarim Water Supply	1990	S	S	N	Closed	06/30/1999	Water Supply and Sanitation	12.0	Satisfactory	Uncertain	Modest
P005892	Fisheries IV	1991	S	S	M	Closed	06/30/1999	Rural Sector	13.0	Satisfactory	Likely	Modest
P005893	RY-AI Mukalla Water Supply	1989	S	S	M	Closed	12/31/1998	Water Supply and Sanitation	12.0	Moderately Satisfactory	Uncertain	Modest
P005904	Basic Education	1993	S	S	M	Closed	12/31/2000	Education	20.0	Satisfactory	Likely	Modest
P005907	RY Sana'a WS/Sanitation	1999	S	S	M	Closed	06/30/2003	Water Supply and Sanitation	25.0	Moderately Satisfactory	Unlikely	Modest
P005910	Family Health	1993	U	S	M	Closed	11/30/2002	Health, Nutrition and Population	27.0	Unsatisfactory	Non-Evaluable	Modest
P005911	RY Education Sector	1994	MS	MS	..	Closed	09/30/2004	Education	33.0	Moderately Satisfactory	Likely	Modest
P005912	RY Vocational Training	1996	S	U	S	Closed	12/31/2003	Social Protection	24.0	Moderately Unsatisfactory	Likely	Modest
P039171	RY-Seeds & Ag. Services	1998	S	S	M	Closed	06/30/2004	Rural Sector	13.0	Moderately Satisfactory	Non-Evaluable	Modest
P041199	RY Social Fund Devpt	1997	HS	HS	M	Closed	06/30/2003	Social Protection	30.0	Moderately Satisfactory	Likely	Substantial
P041267	RY-Transport Rehabilitation*	1996	S	S	N	Closed	06/30/2002	Transport	37.0	Moderately Satisfactory	Likely	Modest
P043101	RY-Financial Sector Adj. Credit	1998	S	U	M	Closed	09/30/1999	Financial Sector	80.0	Satisfactory	Likely	Substantial
P043109	Public Works Project	1996	S	S	M	Closed	06/30/2000	Urban Development	25.0	Satisfactory	Likely	Substantial
P043367	RY-Taiz Water Supply Pilot	1997	S	S	S	Closed	12/31/2001	Water Supply and Sanitation	10.0	Unsatisfactory	Unlikely	Negligible
P048522	Emergency Flood Rehabilitation Project	1997	S	S	S	Closed	12/31/2001	Rural Sector	30.0	Satisfactory	Likely	Substantial
P049735	RY-Privatization Supp.	2000	S	S	H	Closed	12/31/2003	Private Sector Development	11.0	Not Rated	Not Applicable	Not Rated
P057915	RY Legal & Judicial Dev	1999	U	S	H	Closed	06/30/2003	Public Sector Governance	3.0	Moderately Satisfactory	Unlikely	Modest
P060132	RY Public Works II	1999	HS	HS	M	Closed	06/30/2003	Urban Development	50.0	Highly Satisfactory	Likely	Substantial
P062837	PSMAC	1999	S	S	S	Closed	03/31/2000	Public Sector Governance	50.0	Moderately Unsatisfactory	Likely	Modest

\*IEG PPAR Ratings  
Source: World Bank internal database as of 1/5/06



Annex Table A3b. Yemen - List of IBRD/IDA Approved Projects, FY99-05

Proj ID	Project Name	Approval FY	Latest DO	Latest IP	Latest Risk Rating	Proj Stat	Date, Rev. Closing	Sector Board	IBRD/IDA Amount
P005906	RY-RURAL WATER SUPPLY & SANITATION	2001	S	S	#	Active	12/31/2007	Water Supply and Sanitation	20
P005907	RY Sana'a WS/Sanitation	1999	S	S	M	Closed	06/30/2003	Water Supply and Sanitation	25
P043254	RY-Health Reform Support Proj (HRSP)	2002	MS	MS	#	Active	12/31/2007	Health, Nutrition and Population	28
P043255	RY Basic Education Expansion Project	2001	S	S	#	Active	06/30/2007	Education	56
P049735	RY-PRIVATIZATION SUPP.	2000	S	S	H	Closed	12/31/2003	Private Sector Development	11
P050483	RY CHILD DEVELOPMENT	2000	MS	MS	#	Closed	12/31/2005	Education	29
P050530	RY-SANA'A EMERGENCY POWER	1999	MS	MS	#	Closed	04/30/2005	Energy and Mining	54
P050706	RY-CIVIL SERVICE MODERN	2000	S	MS	#	Active	12/31/2007	Public Sector Governance	30
P057602	RY URBAN WTR SUPPLY & SANITATION APL	2003	MS	MS	#	Active	12/31/2007	Water Supply and Sanitation	130
P057915	RY LEGAL & JUDICIAL DEV	1999	U	S	H	Closed	06/30/2003	Public Sector Governance	3
P060132	RY Public Works II	1999	HS	HS	M	Closed	06/30/2003	Urban Development	50
P062714	RY-IRRIGATION IMPROVEMENT	2001	MU	MU	#	Active	06/30/2007	Rural Sector	21
P062837	PSMAC	1999	S	S	S	Closed	03/31/2000	Public Sector Governance	50
P064981	RY-SANA'A BASIN WATER MGMNT PROJ	2003	S	S	#	Active	06/30/2009	Rural Sector	24
P065111	RY-PORT CITIES DEVELOPMENT PROGRAM	2003	S	S	#	Active	06/30/2007	Urban Development	23
P068830	RY-Second Social Fund for Dev	2000	HS	HS	#	Closed	06/30/2006	Social Protection	75
P070092	RY TAIZ MUNICIPAL DEV & FLOOD PROTEC	2002	S	S	#	Active	12/31/2006	Urban Development	45
P070391	RY-RURAL ACCESS IMPROVEMENT PROGRAM	2001	S	S	#	Active	11/30/2006	Transport	45
P074413	RY-Groundwater & Soil Conserv Proj	2004	S	S	#	Active	10/31/2009	Rural Sector	40
P076183	RY Higher Education	2002	MS	MS	#	Active	12/31/2006	Education	5
P076185	RY-Basic Education Development Program	2005	S	S	#	Active	06/30/2010	Education	65
P082498	RY-SOCIAL FUND FOR DEVELOPMENT III	2004	S	S	#	Active	12/31/2008	Social Protection	60
P082976	RY-THIRD PUBLIC WORKS	2004	S	S	#	Active	06/30/2009	Urban Development	45

Note: Symbol # - Not Assigned; S – Satisfactory; MS – Moderately Satisfactory; U - Unlikely  
Source: World Bank internal database as of 1/5/06

ANNEX A  
STATISTICAL TABLES

Annex Table A4. Yemen - Selected Economic and Sector Work 1999-2005

Document Title	Date	Report No.	Document Type
<b>Country Assistance Strategy</b>			
Republic of Yemen - Country assistance strategy (Vol.1) (English)	08/06/2002	24372	Country Assistance Strategy Document
<b>Poverty Reduction Strategy Paper</b>			
Republic of Yemen - Interim poverty reduction strategy paper and joint assessment (Vol.1) (English)	02/12/2001	21821	Poverty Reduction Strategy Paper (PRSP)
Yemen - Poverty Reduction Strategy Paper (PRSP) and joint assessment (Vol.1) (English)	07/15/2002	24504	Poverty Reduction Strategy Paper (PRSP)
<b>Economic and Sector Reports</b>			
Republic of Yemen - Agricultural strategy note (Vol.1) (English)	05/28/1999	17973	Sector Report
Yemen - Comprehensive development review - environment (Vol 1) (English)	01/21/2000	26125	Sector Report
<b>Working Papers</b>			
Republic of Yemen - education sector assistance strategy (Vol.1) (English)	11/30/1999	21568	Working Paper (Numbered Series)
Socio-economic differences in health, nutrition, and population in Yemen (English)	12/01/2000	30562	Working Paper
Governance and the investment climate in Yemen (Vol.1) (English)	09/30/2002	25133	Working Paper (Numbered Series)
The Yemen social fund for development (English)	05/01/2004	30819	Working Paper
<b>Operations Evaluation Study</b>			
Yemen - Country Assistance Evaluation	01/29/2001	21787	Operation Evaluation Study
The gender dimension of Bank Assistance: an Evaluation of Results	01/17/2002	23119	Operation Evaluation Study

Source: Image bank. World Bank as of 4/18/2006

Note: Excluded from this list are 5 sector reports which have not been disclosed at the present time.

Annex Table A5. Projects at Risk FY99-05

Country	Fiscal Years	1999	2000	2001	2002	2003	2004	2005
Yemen	Number of Proj	22	20	20	19	18	19	17
	Net Comm Amt (US\$m)	640.8	587.3	636.0	605.9	675.8	784.0	687.0
	Number of Proj At Risk	3	3	2	2	2	4	1
	Percent At Risk	13.6	15.0	10.0	10.5	11.1	21.1	5.9
	Comm At Risk (US\$m)	116.8	103.0	78.7	45.7	50.7	98.8	27.5
	Percent Commit at Risk	18.2	17.5	12.4	7.5	7.5	12.6	4.0
Cameroon	Number of Proj	6	9	8	8	9	7	7
	Net Comm Amt (US\$m)	329.4	400.3	422.6	428.1	504.3	227.8	192.6
	Number of Proj At Risk	4	1	2	5	3	3	2
	Percent At Risk	66.7	11.1	25.0	62.5	33.3	42.9	28.6
	Comm At Risk (US\$m)	121.2	22.9	26.7	354.8	247.4	76.7	77.7
	Percent Commit at Risk	36.8	5.7	6.3	82.9	49.1	33.7	40.4
Nigeria	Number of Proj	8	5	5	9	12	15	17
	Net Comm Amt (US\$m)	714.6	437.0	254.3	681.6	911.3	1,228.3	1,503.1
	Number of Proj At Risk	1	0	0	8	9	8	7
	Percent At Risk	12.5	0.0	0.0	88.9	75.0	53.3	41.2
	Comm At Risk (US\$m)	101.0	0.0	0.0	554.6	722.6	812.6	643.3
	Percent Commit at Risk	14.1	0.0	0.0	81.4	79.3	66.2	42.8
Pakistan	Number of Proj	24	15	14	10	13	16	14
	Net Comm Amt (US\$m)	2,290.2	1,556.0	1,201.9	1,144.0	1,203.8	1,426.4	966.8
	Number of Proj At Risk	4	3	1	0	1	1	1
	Percent At Risk	16.7	20.0	7.1	0.0	7.7	6.3	7.1
	Comm At Risk (US\$m)	927.2	306.8	250.0	0.0	284.8	284.8	61.1
	Percent Commit at Risk	40.5	19.7	20.8	0.0	23.7	20.0	6.3
Senegal	Number of Proj	18	20	21	21	18	14	15
	Net Comm Amt (US\$m)	678.0	718.2	948.4	850.6	777.0	686.8	632.2
	Number of Proj At Risk	2	0	4	6	2	3	1
	Percent At Risk	11.1	0.0	19.0	28.6	11.1	21.4	6.7
	Comm At Risk (US\$m)	41.4	0.0	181.4	274.1	160.0	210.0	45.0
	Percent Commit at Risk	6.1	0.0	19.1	32.2	20.6	30.6	7.1

Source: World Bank internal database as of 4/18/06

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STATISTICAL TABLES

Annex Table A6. Yemen Comparative Bank Budget by Cost Category (in US\$ thousands) FY1998-2006

Country/ Region	Cost Category	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY98-06
Yemen	Country Services	4,175.5	4,211.3	4,450.4	3,419.1	4,096.0	3,364.8	4,298.6	4,668.4	3,457.7	36,141.7
	Project Supervision	1,658.0	1,778.5	1,813.9	1,420.5	1,428.9	1,301.6	1,758.4	2,126.6	1,500.8	14,787.2
	Lending	1,961.0	1,764.3	1,788.5	1,367.1	1,685.6	759.4	1,155.3	1,284.7	824.9	12,590.9
	ESW	460.8	568.8	675.5	531.3	780.7	1,092.0	1,268.4	1,112.0	798.8	7,288.4
	Other	95.7	99.7	..	..	..	..	..	145.1	333.2	1,475.3
MNA	Country Services	27,664.8	27,508.5	4,450.4	3,419.1	4,096.0	3,364.8	4,298.6	4,668.4	40,519.0	353,889.7
	Project Supervision	10,050.1	10,105.2	1,813.9	1,420.5	1,428.9	1,301.6	1,758.4	2,126.6	8,802.6	95,897.8
	Lending	10,036.6	8,779.6	1,788.5	1,367.1	1,685.6	759.4	1,155.3	1,284.7	8,157.5	80,643.6
	ESW	6,116.3	6,392.3	675.5	531.3	780.7	1,092.0	1,268.4	1,112.0	15,705.3	127,107.9
	Other	1,461.8	2,231.4	..	..	..	..	..	145.1	7,853.6	50,240.4

Source: World Bank internal database as of 4/19/06

**Annex Table A7. Yemen- Senior Management CY1998-2005**

Year	Vice-President	Div. Chief/ Country Director	Resident Representative
1998	Kemal Davis	Inder K. Sud	Gianni Brizzi
1999	Kemal Davis	Inder K. Sud	Gianni Brizzi
2000	Jean-Louis Sarbib	Inder K. Sud	Gianni Brizzi
2001	Jean-Louis Sarbib	Mahmood A. Ayub	Gianni Brizzi
2002	Jean-Louis Sarbib	Mahmood A. Ayub	Robert Hindle
2003	Christiaan Poortman	Mahmood A. Ayub	Robert Hindle
2004	Christiaan Poortman	Emmanuel Mbi	Mustapha Rouis (Country Manager)
2005	Christiaan Poortman	Emmanuel Mbi	Mustapha Rouis (Country Manager)

Source: WB Group Directories 1998-2005

ANNEX A  
STATISTICAL TABLES

Annex Table A8. Yemen - World Bank Commitments by Sector Board 1999-2005

Sector Board	1999	2000	2001	2002	2003	2004	2005	1999-2005
Education		29	56	5			65	155
Energy and Mining	54							54
Financial Sector								0
Health, Nutrition and Population				28				28
Public Sector Governance	53	30						83
Private Sector Development		11						11
Rural Sector			21		24	40		85
Social Protection		75				60		135
Transport			45					45
Urban Development	50			45	23	45		164
Water Supply and Sanitation	25		20		130			175
<b>Total Commitments</b>	<b>182</b>	<b>145</b>	<b>142</b>	<b>78</b>	<b>177</b>	<b>145</b>	<b>65</b>	<b>934</b>

Source: World Bank internal database as of 11/09/2005

Annex Table A9. Yemen- Millennium Development Goals

Millennium Development Goals					
	1990	1994	1997	2000	2003
<b>Goal 1: Eradicate extreme poverty and hunger</b>					
Percentage share of income or consumption held by poorest 20%	..	..	7.4	..	..
Population below \$1 a day (%)	..	..	15.7	..	..
Population below minimum level of dietary energy consumption (%)	..	..	36	..	36
Poverty gap ratio at \$1 a day (incidence x depth of poverty)	..	..	4.5	..	..
Poverty headcount, national (% of population)	..	..	41.8	..	..
Prevalence of underweight in children (under five years of age)	..	39	46.1	..	..
<b>Goal 2: Achieve universal primary education</b>					
Net primary enrollment ratio (% of relevant age group)	51.7	..	57.4	67.1	71.8
Primary completion rate, total (% of relevant age group)	..	..	58	58	66
Proportion of pupils starting grade 1 who reach grade 5	..	..	..	74.5	..
Youth literacy rate (% ages 15-24)	50	57	61.2	65	67.9
<b>Goal 3: Promote gender equality and empower women</b>					
Proportion of seats held by women in national parliament (%)	4	..	1	1	1
Ratio of girls to boys in primary and secondary education (%)	..	..	50	55.6	60.8
Ratio of young literate females to males (% ages 15-24)	34.1	42.2	48.8	55.7	60.3
Share of women employed in the nonagricultural sector (%)	8.9	7.9	7.1	6.3	5.8
<b>Goal 4: Reduce child mortality</b>					
Immunization, measles (% of children ages 12-23 months)	69	31	46	71	66
Infant mortality rate (per 1,000 live births)	98	89	..	84	82
Under 5 mortality rate (per 1,000)	142	126	..	117	113
<b>Goal 5: Improve maternal health</b>					
Births attended by skilled health staff (% of total)	..	..	21.6	..	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	570	..
<b>Goal 6: Combat HIV/AIDS, malaria, and other diseases</b>					
Contraceptive prevalence rate (% of women ages 15-49)	9.7	..	20.8	..	23
Incidence of tuberculosis (per 100,000 people)	137.6	121.8	111.1	101.4	92.5
Number of children orphaned by HIV/AIDS	..	..	..	..	..
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	..
Tuberculosis cases detected under DOTS (%)	..	..	30	54.3	43.3
<b>Goal 7: Ensure environmental sustainability</b>					
Access to an improved water source (% of population)	69	..	..	..	69
Access to improved sanitation (% of population)	21	..	..	..	30
Access to secure tenure (% of population)	..	..	..	..	..
CO2 emissions (metric tons per capita)	0.7	0.7	0.8	0.5	..
Forest area (% of total land area)	1	..	..	0.9	..
GDP per unit of energy use (1995 PPP \$ per kg oil equivalent)	2.8	3.4	3.6	3.8	3.8
Nationally protected areas (% of total land area)	..	..	..	..	..
<b>Goal 8: Develop a global partnership for development</b>					
Aid per capita (current US\$)	34.1	11.5	22.2	15.1	12.7
Debt service (% of exports)	..	..	..	..	..
Fixed line and mobile phone subscribers (per 1,000 people)	11	12.4	14.1	20.6	48.9
Internet users (per 1,000 people)	..	..	0.2	0.8	..
Personal computers (per 1,000 people)	..	..	1.2	1.9	7.4
Total debt service (% of exports of goods and services)	5.6	3.5	2.6	4.5	3.1
Unemployment, youth female (% of female labor force ages 15-24)	..	..	..	..	..
Unemployment, youth male (% of male labor force ages 15-24)	..	..	..	..	..
Unemployment, youth total (% of total labor force ages 15-24)	..	..	..	..	..
<b>Other</b>					
Fertility rate, total (births per woman)	7.5	6.5	6.4	..	6
GNI per capita, Atlas method (current US\$)	..	290	340	420	520
GNI, Atlas method (current US\$) (billions)	..	4.2	5.4	7.3	9.9
Gross capital formation (% of GDP)	14.6	21	24.7	17.4	17.1
Life expectancy at birth, total (years)	52.2	..	55	..	57.7
Literacy rate, adult total (% of people ages 15 and above)	32.7	38.8	42.7	46.4	49
Population, total (millions)	11.9	14.8	16.1	17.5	19.2
Trade (% of GDP)	34.4	109.9	80.2	77.6	67.1
Source: World Development Indicators database, April 2005					
Figures in italics refer to periods other than those specified.					





## Annex B: List of People Met<sup>1</sup>

LAST NAME	FIRST NAME	TITLE	ORGANIZATION
Abdel-Hamid.	Mr. Alaa Mahmoud Hamed	Sr. Health Specialist	The World Bank
Abdulsatar	Ms. Belquis	Rural women's Development Department	Ministry of Agriculture
Al- Harbbi	Mr. Nassr	Deputy Minister	Ministry of Finance for Public relations
Al-Arhabi	Mr. Abdulkarim I.	Managing Director	Social Fund for Development
Al-Eryani	Mr. Mohammed L.	Minister of Water & Environment	Ministry of Water & Environment
Al-Germozi	Mr. Nabeel A.	Chairman	CEW
Al-Haisami	Dr. Khadiga Ahmed	Dean of NIAS	National Institute of Administrative Sciences
Al-Hamadanni	Prof. Abdulhadi		
Al-Iryanni	Dr. Mohammed Luff	Minister	Ministry of Water and Environment
Al-Jaifi	Dr. Nafisah	Director of the Higher council for Motherhood and Childhood	Higher council for Motherhood and Childhood
Allen	Mr. Richard	Lead Public Sector Economist - MENA	The World Bank
Al-Mohammedi	Mr. Ammin		Ministry of Finance for Public Relations
Al-Munefi	Mr. Abdullatif	Director of the Basic Education Expansion Project	Basic Education Expansion Project
Al-Mutawakel	Dr. Yahi	Adviser/Chairman of the Poverty Reduction Strategy Paper and follow-up unit	Ministry of Planning
Al-Noami	Prof. Mohammed Y.	Minister	Ministry of Public Health & Population
Al-Qaderi	Dr. Husneiah	Head	Head of Women Studies Center
Al-Sabbry	Mr. Mohammed M	Deputy Minister Economic Studies & Forecasts	Ministry of Planning & International Cooperation
Al-Saidi	Mr. Abdulkarim A.	Executive Director	The Prime Ministry - Technical Privatization office.
Al-Shami	Dr. Mamoun Ahmed	Deputy Minister	Ministry of Legal Affairs
AL-Shatter	Eng. Abdulla H	Dep. Minister of Projects Programming	Ministry of Planning & International Cooperation
Al-Towai	Wheel A.	Deputy Executive Director	
Bamatraf	Judge Ahmed Omar	Deputy Minister	Ministry of Justice for Technical Affairs
Bazara	Mr. Ahmed Abu Bakr	V.P. Branch General Director	Automotive & Machinery Trading Center
Benyagoub	Mr. Mehdi	Consultant - FPSI -MENA	The World Bank
Derwan	Dr. Arwa	Head	SOUL Organization

**ANNEX B**  
**LIST OF PEOPLE MET**

Hashem	Mr. Awnallah	Assistant Deputy Minister - Externally Funded Projects Programming & evaluation Sector	Ministry of Planning & International Cooperation
Hatroum	Mr. AbdulElah	Director of Irrigation Improvement project.	Irrigation Improvement project.
Hizam	Mr. Jameel Abdo	MIS Manager	Public Works Project
Hubaishi	Mr. Hassan M.	Area (2) Manager	Public Works Project
Hummad	Dr. Fawiza	Former Head of Health Project	Health Project
Kassem	Mr. Amin Ahmed		Yemen Trading and Construction Co. (Ltd)
Khanna	Mrs. Rajnni		Oxfam
Khulaidi	Dr. Abdelmagid Said al	Deputy Minister of Health Planning & Development.	Ministry of Planning Health & Population
Othman	Mr. Ibrahim	Manager	Municipal development project
Qassim	Mr. Abdulsalam M.	Area (1) Manager	Public Works Project
Sabrah	Mr. Saad	Business Development officer PEP-MENA	IFC
Saeed	Mr. Mohammed A.	Chairman of the Board	Federation of Yemen Chambers of Commerce & Industry
Sahooli	Mr. Anwar	Deputy Minister	Ministry of Water and Environment
Shammakh	Mr. Mahfoodh S.	Chairman of the Board	Chamber of Commerce & Industry
Shamsan	Mr. Abdulhakeem	PIU-IBB Manager - Rural Water Supply & Sanitation Project.	Ministry of Water & Environment.
Shamsan	Mr. Nabil A.	Deputy Minister of MOCSAI for Mgmt - Personnel Affairs Sector	Director of Civil Service Modernization Project.
Souid	Mr. Hassan Omer	Minster	Ministry of Agriculture and Irrigation
Sunusi	Ms. Majedah	Acting Director	Oxfam
Taha Mustafa	Eng. Khaled	Vice Chairman - Industrial Sector	Federation of Yemen Chambers of Commerce & Industry
Thabet	Mr. Adbulwahab		Confederation of Members of the Chamber of Commerce
Wenz	Ms. Zabben		GTZ
Yehia	Mr. Mohamed	Financial Management Specialist.	The World Bank

1. In addition to the persons listed above, the team conducted several field trips to visit project beneficiaries including:

- a. residents of Taiz who were relocated to a new housing facility under the Taiz municipal development and Flood Control Project
- b. residents of IBB who organized a water user association under rural water access project.
- c. several villages near Sana'a which benefited from piped water under Public Works II project.

# Annex C: Regional Comments and Management Action Record

## Yemen: Draft Country Assistance Evaluation (CAE)—Regional Response

**Overall Assessment.** The draft Yemen Country Assistance Evaluation (CAE) prepared by IEG which reviews the period FY99-FY05 covering the two most recent Bank Country Assistance Strategies (CAS99 and CAS02) provides a candid and frank assessment of the development outcomes during the period under review. The analysis takes into account the country context as well as the Bank's own constraints.

The CAE findings are consistent with the findings of the draft CAS Completion Report (for CAS02); the draft Development Policy Review; and the first annual progress report of the PRSP. The performance ratings of the four pillars are identical under both the CAE and the CAS02 Completion Report. The main challenges facing the country identified in the CAE are broadly similar to those identified in the DPR. They will constitute the main themes of the forthcoming CAS. The PRS Progress Report discusses candidly the poor achievements of the PRSP set goals and the main reasons for that.

The CAE acknowledges the effort made by the Bank to learn from its experience. A good example is the changing direction of the Bank in CAS02 with regards its water sector strategy. The CAE also documents well the project success stories (e.g., education in general and girls education in particular) and areas where more focus on the part of the government and the Bank is needed (namely governance, qat). The present CAE, unlike its predecessor, takes a more pragmatic approach to institutional building and the role played by PIUs. This is a welcome finding. In this respect, the achievements of the Social Fund For Development and the Public Works Project are particularly worth noting, though the spillover effect in terms of institutional impact on the civil service is still limited.

**Implementation constraints:** The CAE identified some of the implementation constraints on Bank assistance strategy, including weak government capacity, weak commitment to reform associated with frequent changes of government officials as well as Bank team leaders, over-optimism on the part of the Bank, and understaffed Country Office. It should be noted that the latter is not a Bank specific problem but one that affected all donors. The CAE also discussed the political economy factors such the 9/11, the Gulf war and the security situation which meant that the government shifted its focus from economic reform to improving security. The recent oil price surge did exacerbate the situation further by slowing down the implementation of reforms until July 2005.

The one aspect which is not adequately discussed in the CAE which affects implementation considerably is the decision making process in Yemen. Despite the majority in Parliament of the

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REGIONAL COMMENTS AND MANAGEMENT ACTION RECORD

ruling party, decisions are often taken by consensus building involving the three key players: tribes, military and government elite who are often the key businessmen. It should also be added that external development support for Yemen has been very limited. This presents a vicious circle where donor support could not be forthcoming without reforms and government could not implement reforms, at least in a number of critical areas, without external support. **Looking forward:** The government has recently (largely towards the end of CAS02 period) started addressing a number of critical issues: pace of reform, portfolio implementation and aid harmonization and donor coordination. As stated in the CAE, the government resumed the implementation of the reform agenda, notably with the reduction in diesel subsidy and trade liberalization. Furthermore, the government has adopted a sixth-month policy action plan in early January 2006 (National Agenda for Reform) focusing on key areas such as public financial management, corruption and business regulatory environment. This National Agenda for Reform has been developed in close collaboration with the donor community. There was commitment at the highest level to show results by June 2006, in spite of the fact that 2006 is an election year.

Regarding portfolio management, the Bank and the government revived the annual Country Portfolio Performance Review (CPPR). The government also established a tripartite CPPR follow-up committee involving senior officials (at the deputy ministerial level) from the Ministry of Planning and International cooperation (MOPIC); the Ministry of Finance and the Bank's Country Office. The committee is chaired by the Vice Minister of MOPIC and meets regularly. A CPPR action plan was prepared and approved by the Cabinet in the Fall of 2005 and is being implemented. Furthermore, the committee started visiting projects facing implementation difficulties and reporting to the Cabinet on its findings. Within this overall portfolio management effort, specific attention was given to restructuring problem projects which are down from 4 in July 2004 to one at present.

While the CAE notes donor concerns regarding the Bank harmonizing around Government programs and coordinating with other donors (para 2.22), it should be noted that the process of harmonization around Government strategies began selectively during the CAS period for education, water and public financial management and accelerated at the country level towards the end of the CAS period in the context of the Fragile States Initiative

Yemen is participating in piloting the Good International Engagement Initiative, originally known as Fragile States Initiative. Yemen is also implementing the Paris Initiative on Harmonization and Alignment for Greater Aid Effectiveness. Donor coordination is taking place at three levels. First, a number of partnership agreements between donors and the government have been signed and are in effect. These include education, health, water and soon public financial management. Second, all major donors in Yemen are currently going through the process of preparing their assistance strategies for Yemen. In doing so, they have been coordinating closely with each other, taking into account this unique opportunity to coordinate strategies at the entry (conceptual) level. Finally, donors have responded in a coordinated fashion to government initiative to prepare the present National Reform Agenda.

## MANAGEMENT ACTION RECORD

Major Monitorable IEG Recommendations Requiring a Response	Management Response
<p><b>Moderating optimism:</b> A challenge is for the Bank to make more realistic assessments of the ownership, speed of implementation and likely outcomes. To make progress, the Bank needs to draw a sharp distinction between the views of the technocrats and those of the leadership.</p>	<p>As part of the new CAS consultation and the CPPR, Bank management met with the whole Cabinet to pass the message of the need to draw lessons from the past and be more focused and realistic. Further, the Bank will assist the Government in establishing more realistic targets in the Second PRSP and will carefully evaluate realism of targets established in the new CAS.</p>
<p><b>Upgrading governance:</b> The key systemic constraint is the capacity for delivering public services. The Bank will need to make governance and public-sector capacity building a cross-cutting theme to be incorporated in all Bank interventions. In addition, the Bank needs to:</p> <ul style="list-style-type: none"> <li>• Be more engaged through regular consultations and use of specialists in the field office;</li> <li>• Embed in Bank activities an enhanced program of monitoring and evaluation;</li> <li>• Narrow the gap between strategy and implementation</li> </ul>	<p>The DPR confirms the importance of governance in improving non-oil growth and the new CAS makes governance a cross-cutting theme.</p> <ul style="list-style-type: none"> <li>• Government has adopted a 6-month action plan (January-June 2006) centered on improvement of governance. This is to demonstrate up-front the commitment of the government</li> <li>• A DFID-funded public sector specialist will soon be hired and located in the Country Office</li> <li>• Under the new CAS, two diagnostic studies will be completed: CFAA and CPAR</li> </ul>
<p><b>Conserving water:</b> the depletion of groundwater is a paramount issue to be resolved. Confining Bank support to actions that help conserve groundwater is essential. General projects that help individual communities, but do not mitigate water depletion, should be avoided. The Bank needs to promote incentives to conserve water and support the removal of import barriers on water-intensive crops.</p>	<p>Government has adopted, in close consultation with the donors, a comprehensive water strategy (NWSSIP) to address the water issues. The Bank has supplemented that strategy with its own. TA in water strategy is been implemented. A sector wide approach (SWAP) is being formulated. The new CAS plans to adopt a substantial focus on water conservation.</p>
<p><b>Counteracting qat.</b> To make future assistance relevant, the Bank can no longer ignore qat. The Bank needs to help the Government and private research organizations investigate the economic, social and resource implications of producing qat. The Bank also needs to support public awareness campaigns.</p>	<p>Qat is a deep-rooted problem in Yemen. The Bank plans to contribute to tackling the issue in several ways, including: reduce the diesel subsidy; improve water resources management; support public awareness campaign (a qat survey and policy note is envisaged under the new CAS); and push for the liberalization of trade in water-intensive crops.</p>
<p><b>Improving population policy.</b> To reduce maternal, infant and child mortality, the Bank needs to deepen its engagement in the health sector to support reproductive health services and family planning and advocacy campaigns to raise public awareness.</p>	<p>In recognition of the importance of these issues, the new CAS envisages a health/population operation in FY09. The existing health reform support project is being restructured and a sector policy dialogue being initiated to develop consensus around the health/population issues which would then be implemented under the new project.</p>



# Annex D: Guide to IEG's Country Assistance Evaluation Methodology

1. This methodological note describes the key elements of IEG's country assistance evaluation (CAE) methodology.<sup>1</sup>

*CAEs rate the outcomes of Bank assistance programs, not the Clients' overall development progress*

2. A Bank assistance program needs to be assessed on how well it met its particular objectives, which are typically a sub-set of the Client's development objectives. If a Bank assistance program is large in relation to the Client's total development effort, the program outcome will be similar to the Client's overall development progress. However, most Bank assistance programs provide only a fraction of the total resources devoted to a Client's development by donors, stakeholders, and the government itself. In CAEs, IEG rates only the outcome of the Bank's program, not the Client's overall development outcome, although the latter is clearly relevant for judging the program's outcome.

3. The experience gained in CAEs confirms that Bank program outcomes sometimes diverge significantly from the Client's overall development progress. CAEs have identified Bank assistance programs which had:

- satisfactory outcomes matched by good Client development;
- unsatisfactory outcomes in Clients which achieved good overall development results, notwithstanding the weak Bank program; and,
- satisfactory outcomes in Clients which did not achieve satisfactory overall results during the period of program implementation.

*Assessments of assistance program outcome and Bank performance are not the same*

4. By the same token, an unsatisfactory Bank assistance program outcome does not always mean that Bank performance was also unsatisfactory, and *vice-versa*. This becomes clearer once we consider that the Bank's contribution to the outcome of its assistance program is only part of the story. The assistance program's outcome is determined by the *joint* impact of four agents: (a) the Client; (b) the Bank; (c) partners and other stakeholders; and (d) exogenous forces (e.g., events of nature, international economic shocks, etc.). Under the right circumstances, a negative contribution from any one agent might overwhelm the positive contributions from the other three, and lead to an unsatisfactory outcome.

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<sup>1</sup> In this note, assistance program refers to products and services generated in support of the economic development of a Client country over a specified period of time, and client refers to the country that receives the benefits of that program.

5. IEG measures Bank performance primarily on the basis of contributory actions the Bank directly controlled. Judgments regarding Bank performance typically consider the relevance and implementation of the strategy, the design and supervision of the Bank's lending interventions, the scope, quality and follow-up of diagnostic work and other AAA activities, the consistency of the Bank's lending with its non-lending work and with its safeguard policies, and the Bank's partnership activities.

### *Rating Assistance Program Outcome*

6. In rating the outcome (expected development impact) of an assistance program, IEG gauges the extent to which major strategic objectives were relevant and achieved, without any shortcomings. In other words, did the Bank do the right thing, and did it do it right. Programs typically express their goals in terms of higher-order objectives, such as poverty reduction. The country assistance strategy (CAS) may also establish intermediate goals, such as improved targeting of social services or promotion of integrated rural development, and specify how they are expected to contribute toward achieving the higher-order objective. IEG's task is then to validate whether the intermediate objectives were the right ones and whether they produced satisfactory net benefits, and whether the results chain specified in the CAS was valid. Where causal linkages were not fully specified in the CAS, it is the evaluator's task to reconstruct this causal chain from the available evidence, and assess relevance, efficacy, and outcome with reference to the intermediate and higher-order objectives.

7. For each of the main objectives, the CAE evaluates the relevance of the objective, the relevance of the Bank's strategy toward meeting the objective, including the balance between lending and non-lending instruments, the efficacy with which the strategy was implemented and the results achieved. This is done in two steps. The first is a top-down review of whether the Bank's program achieved a particular Bank objective or planned outcome and had a substantive impact on the country's development. The second step is a bottom-up review of the Bank's products and services (lending, analytical and advisory services, and aid coordination) used to achieve the objective. Together these two steps test the consistency of findings from the products and services and the development impact dimensions. Subsequently, an assessment is made of the relative contribution to the results achieved by the Bank, other donors, the government and exogenous factors.

8. Evaluators also assess the degree of Client ownership of international development priorities, such as the Millennium Development Goals, and Bank corporate advocacy priorities, such as safeguards. Ideally, any differences on dealing with these issues would be identified and resolved by the CAS, enabling the evaluator to focus on whether the trade-offs adopted were appropriate. However, in other instances, the strategy may be found to have glossed over certain conflicts, or avoided addressing key Client development constraints. In either case, the consequences could include a diminution of program relevance, a loss of Client ownership, and/or unwelcome side-effects, such as safeguard violations, all of which must be taken into account in judging program outcome.



### *Ratings Scale*

9. IEG utilizes six rating categories for **outcome**, ranging from highly satisfactory to highly unsatisfactory:

<i>Highly Satisfactory:</i>	The assistance program achieved at least acceptable progress toward all major relevant objectives, <u>and</u> had best practice development impact on one or more of them. No major shortcomings were identified.
<i>Satisfactory:</i>	The assistance program achieved acceptable progress toward all major relevant objectives. No best practice achievements or major shortcomings were identified.
<i>Moderately Satisfactory:</i>	The assistance program achieved acceptable progress toward most of its major relevant objectives. No major shortcomings were identified.
<i>Moderately Unsatisfactory:</i>	The assistance program did not make acceptable progress toward most of its major relevant objectives, or made acceptable progress on all of them, but either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
<i>Unsatisfactory:</i>	The assistance program did not make acceptable progress toward most of its major relevant objectives, and either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
<i>Highly Unsatisfactory:</i>	The assistance program did not make acceptable progress toward any of its major relevant objectives and did not take into adequate account a key development constraint, while also producing at least one major shortcoming, such as a safeguard violation.

10. The **institutional development impact (IDI)** can be rated as: *high, substantial, modest, or negligible*. IDI measures the extent to which the program bolstered the Client's ability to make more efficient, equitable and sustainable use of its human, financial, and natural resources. Examples of areas included in judging the institutional development impact of the program are:

- the soundness of economic management;
- the structure of the public sector, and, in particular, the civil service;
- the institutional soundness of the financial sector;
- the soundness of legal, regulatory, and judicial systems;
- the extent of monitoring and evaluation systems;
- the effectiveness of aid coordination;
- the degree of financial accountability;
- the extent of building NGO capacity; and,
- the level of social and environmental capital.

11. **Sustainability** can be rated as *highly likely*, *likely*, *unlikely*, *highly unlikely*, or, if available information is insufficient, *non-evaluable*. Sustainability measures the resilience to risk of the development benefits of the country assistance program over time, taking into account eight factors:

- technical resilience;
- financial resilience (including policies on cost recovery);
- economic resilience;
- social support (including conditions subject to safeguard policies);
- environmental resilience;
- ownership by governments and other key stakeholders;
- institutional support (including a supportive legal/regulatory framework, and organizational and management effectiveness); and,
- resilience to exogenous effects, such as international economic shocks or changes in the political and security environments.

# Annex E: Comments from the Government

FROM : KHALED SAIED MPIC

FAX NO. : 01239710

Apr. 26 2006 01:24PM P2

**REPUBLIC OF YEMEN**  
Ministry Of Planning &  
International Cooperation  
**Minister**



الجمهورية اليمنية  
وزارة التخطيط والتعاون الدولي  
الوزير

Ref: MPIC/577-102-5  
Date: 24-4-2006

April 26, 2006

الرقم :  
التاريخ :

**Lily Chu**  
**Acting Manager**  
**Country Evaluation and Regional Relations**  
**Independent Evaluation Group**  
**Fax: (202) 522-3124**

**Sub: Yemen's Country Assistance Evaluation**

**Dear Mrs. Chu,**

In reference to your letter dated April 3, 2006 regarding our Country's Assistance Evaluation we would like to apologize for the delay in the submission of our comments. Thus, please find enclosed our general comments of the report and more elaborative comments will be forwarded to you by May 1, 2006.

Best Regards

  
**Dr. Yahya Al-Mutawakkil**  
**Vice Minister**



صندوق بريد، (١٧٥) صنعاء - تليفون، (٩٦٧-٢٥٠١١٨) فاكس، (٩٦٧-١-٢٥٠٦٦٥) تليكس، ٢٢٦٦  
P.O.Box:(175) Sana'a -Tel: (967-1-205118) Fax:(967-1-250665-Telcx:2266

Country Assistance Evaluation - April 3, 2006

General Comments of the Government

The political arena in Yemen is of a very different nature; which can not always be scaled on the generic democratic equilibrium of the west or any other country. The peculiar tribal context, social and religious spheres; are all part of the political equation and must be considered. It is worth-mentioning, that the ruling party's diverse alliances in the various spheres of society has in many incidents prevented tribal and religious clashes and enhanced the role of brining together more moderate religious groups. The government cannot always use its iron fist against those who demand concessions, especially when human lives are at stake, as the case usually is in the kidnapping ordeals.

It is stated that in paragraph 2.16 the discrepancy between plan and implementation was interpreted as poor project performance. Discrepancies are also very likely to occur if the project design is not well-defined and homogenous to the surrounding environment and there precise indicators. It seems that the unrealistic approach used in preparing this report did not touch upon the whole picture. Were the standards/ criteria used to evaluate applicable to the indigenous indicators in the field. In conducting such evaluations we strongly recommend the involvement of local experts.

The Bank should develop and integrate an interface for Monitoring and Evaluation (M&E), to measure the results and development impact of project activity. Through this window both the Bank and the government can collect, and compile key data for monitoring and evaluating project progress and analyzing its results consistently and on an on-going basis. This will enable project managers (government) to gauge the effectiveness of projects and to take strategic decisions more efficiently. This will also identify and allow exchanged of lessons learned and best practices with project staff and other TA professionals; including evaluation missions. This will give a more realistic justification on the present situation of the various sectors and the way forward throughout the entire project cycle.

# Annex F: Additional Comments from Government

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PAGE 01

**REPUBLIC OF YEMEN**  
Ministry Of Plannirg &  
International Cooperation  
Minister



الجمهورية اليمنية  
وزارة التخطيط والتعاون الدولي  
الوزير

Ref: MP/IC/577-103-5  
Date: 2-5-2006

الرقم : \_\_\_\_\_  
التاريخ : \_\_\_\_\_

April 30, 2006

**Lily Chu**  
Acting Manager  
Country Evaluation and Regional Relations  
Independent Evaluation Group

Dear Mrs. Chu,

In addition to our general comments previously forwarded to you we would like to furthermore address and elaborate on key issues raised in your report. Thus please find enclosed the governments comments.

Essentially, the government has strong support for evaluation of policies, programs and projects in its agenda and upcoming strategy and we would highly appreciate that in the world bank missions and evaluations that a more realistic approach on the way forward should be scrutinized.

Thanking you for your cooperation

Best Regards

**Dr. Yahya Al-Mutawakel**  
Vice Minister



WORLD BANK OFFICE SANA'A	
Date Received:	<u>2/5/06</u>
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MP

PAGE 04

### Republic of Yemen Government Comments

#### Country Assistance Evaluation - April 3, 2006

The previous strategies did not carry an efficient follow-up mechanism from our part; nor was there an enhanced communication platform between the bank. However, the government has established strong support for evaluation of policies, programs and projects in its agenda. In addition to our general comments previously forwarded to you. We would like to address and elaborate on key issues raised in your report.

Local governance is an emerging practice in Yemen. It has been progressing fairly well. Concerning fiscal decentralization, delegation is gradually being given to the local authorities based on their proven qualification. Capacity building in fiscal management is required for local authorities.

Our emphasis on vocational training institutes will in the long-run reduce public sector employment. The number of graduates from universities are far more greater than those who have been employed in the public service. Notably, strict regulations of conflict of interest among civil servants have been applied; contributing to the reduction of high rate of public sector employment.

During the year 2005, there has been notable improvement in the investment regulations given that the GDP has increased. Local industries have put forward expertise; improving local products and exports. The SME national strategy is being refined to incorporate potential economic growth and force the pull effect of the informal sector. An initiative for public private partnerships among the universities and private sector have been established. The private institutions like hospitals, schools, and universities have given the government helping arms in vital sectors, that have been direly suffering from the economic situation.

It is worth mentioning that investors have been motivated by being given land tenure schemes to establish economically feasible projects that generate many jobs. During the period under review several decrees concerning crucial tax exemptions the government has offered; have greatly contributed to the social and economic impact of development. Some of the

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economic exemptions are for the agricultural associations, fisheries, and cooperatives. Technical education institutes have also been exempted from taxation. All these factors contribute to the investment climate.

In regard to the counter-measures on the negative impact of khat, the government has been attempting to support other cash crops that will lead to its fading out.

The report did not carry a clear message on the solutions to the key issues stated. The way forward in the overall monitoring and evaluation of our development scheme is the identification of responsibilities of Ministers and the parliament in major resource allocation decisions, in the management of sectors, programs or major projects, and in accountability issues. The central and line ministries such as finance, planning, offices of the president/prime minister/cabinet, the national audit office, and large line ministries (such as education, health, and agriculture) have a major, formal responsibility in these issues. Significantly, it is important to well define the formal stated links between policymaking, planning and budgeting. Moreover, it is important to enhance the formal mechanisms that exist to achieve necessary tradeoffs between aggregate fiscal discipline and strategic resource allocation priorities and to well define formal processes and requirements for the monitoring and reporting of budget allocations, actual expenditures, outputs and outcomes. A comprehensive framework on requirements and agreements for the undertaking and reporting of performance monitoring and evaluation among the various sectors needs to be established. It is crucial to identify which ministries have responsibility for monitoring and regulating the institutional arrangements in the civil service.

It is of paramount significance to raise such questions in evaluations as such. The following questions have been derived from the tools and approaches used by World Bank Operation Evaluation department.

**Clarify How Budget and Line Management Decisions Are Taken, and the Actual Roles of Ministries**

- How important is the macroeconomic environment in determining the level of government spending? Is there a high level of fiscal discipline? How are government policy priorities decided, and how are they reflected in budget decisions and resource allocations?
- Does the budget system require an assessment of the performance of sectors/programs/ projects as an input to resource allocation decisions?

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- Are government decisions on development assistance loans/ grants taken separately from domestic budget resource allocation decisions?
- Is budget information prepared and published on actual expenditures, outputs and outcomes? Who prepares it, and how accurate is it?
- What are the roles of key central ministries with regard to line ministries? How actively are central ministries involved in monitoring and supporting line ministries, and in enforcing rules such as expenditure controls? How much autonomy do line ministries actually have? To what extent do line ministries have control over resources budgeted to them?
- How capable are key central and line ministries—how well do they perform their functions at the level of autonomy they have been given? Do line managers have a clear understanding of their roles and of the objectives of the activities for which they are responsible? Do managers have the authority/autonomy and control over resources to manage so as to achieve these objectives?

**Extent of Influence of Evaluation on Budget and Line Management Decisions?**

- Do line ministries commission and use information on the performance of sectors/programs/ projects in developing policy options?
- Is information on the performance of government activities reported in policy proposals sent by line ministers to government/cabinet? What types of proposal make use of such information for example, on investment projects whether and how much to borrow from development assistance agencies?
- What use do the finance and planning ministries make of evaluation in their policy analysis and policy advising work?
- Does cabinet commission evaluations or other types of performance measurement?



# Annex G: IEG Response to Government Comments

**The World Bank**  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.  
Washington, D.C. 20433  
U.S.A.

(202) 473-1000  
Cable Address: INTBAFRAD  
Cable Address: INDEVAS

May 5, 2006

Dr. Yahya Al-Mutawakel  
Vice Minister  
Ministry of Planning and International Cooperation  
Republic of Yemen

Dear Dr Al-Mutawakel:

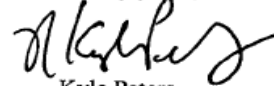
Thank you very much for your comments on the Yemen Country Assistance Evaluation. We have received both the general remarks, which arrived by fax on April 26, and the more detailed comments which arrived by fax on May 2, 2006. Both sets of comments are being circulated to the Board of Executive Directors of the World Bank.

We are pleased to learn that the Government is taking steps to further improve Yemen's development outcomes, including working with tribal and religious groups to prevent conflicts and bring about more moderate religious groups; supporting the implementation of a better system of monitoring and evaluation (M&E) in public services; and introducing initiatives to upgrade governance, improve the investment climate, and counteract the negative impact of qat.

We also agree that, to make World Bank assistance more effective, it is essential to understand the roles and responsibilities of different branches of the Government in allocating public resources and promoting economic development.

With the changes already in place or envisaged, we hope that Yemen and the World Bank jointly achieve greater development results in the future.

Sincerely yours,



Kyle Peters  
Senior Manager  
Country Evaluation and Regional Relations  
Independent Evaluation Group



# Attachment 1: Chairman' Summary

## CHAIRMAN'S SUMMARY COMMITTEE ON DEVELOPMENT EFFECTIVENESS (CODE) Meeting of June 7, 2006

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1. The Informal Subcommittee (SC) of the Committee on Development Effectiveness (CODE) met on June 7, 2006 to discuss the *Republic of Yemen Country Assistance Evaluation (CAE)*, prepared by the Independent Evaluation Group (IEG). A written statement was issued by Mr. Sinamenye.

2. **Background.** The CAE for Yemen provides an assessment of the Bank's assistance to the country during the period of FY99-05, covering two Country Assistance Strategy (CAS) cycles approved in 1999 and 2002. The strategic objectives of the Bank's assistance in Yemen were: (a) improved governance; (b) more attractive investment climate; (c) better human capital; and (d) ensuring sustainability of the environment, especially of water. Overall, IEG rated outcomes of the Bank's assistance as moderately unsatisfactory. The CAE noted that although the Bank's assistance strategy was relevant to the country needs, it was overly optimistic with respect to the durability of government ownership. Shifting priorities, often reflected in changes of key personnel, made implementation exceedingly difficult. For its part, the Bank did not always ensure adequate staffing and continuity of task management. The IEG evaluation stressed that there was a significant gap between the Bank's strategy and the assistance actually delivered, especially for the 1999 CAS. The report noted that despite many benefits of the Bank's program in Yemen (particularly in improving girls' participation in education), its development impact has been localized and project-specific. Looking forward, the CAE recommended that to ensure social and economic sustainability, the Bank should focus on the interrelated issues of: (i) governance, and especially the capacity for delivering public services; (ii) groundwater depletion; (iii) population growth; and (iv) qat cultivation.

3. Management concurred with the CAE findings and noted that they are consistent with the CAS Completion Report (CAS CR) for the 2002 CAS and the Development Policy Review (DPR). It also noted that many issues mentioned in the report are being currently addressed by the Bank and the authorities. Management added that challenges identified in the report will also be addressed under the upcoming CAS. The government of Yemen stressed in its comments that: (i) the political arena in Yemen is quite peculiar and requires continuous concessions to various parties to prevent conflicts; (ii) poor project design was a likely cause of limited progress in implementation; (iii) a reliable monitoring and evaluation mechanism needs to be developed by the Bank to enable data collection and analysis. The government also felt that the CAE should have carried clearer message on the solutions to the key issues.

4. **Main Conclusions and Next Steps.** The Subcommittee welcomed the CAE and broadly agreed with its findings and recommendations. Members stressed the importance of reflecting the lessons from the IEG evaluation in the upcoming CAS, in particular: taking into account the country's specificities while designing assistance program and individual projects; employing more realistic approach; and closing the gap between the strategy and actual implementation.

The following points were raised:

5. **Country context.** Members noted the importance of having a detailed and realistic ex-ante appraisal of country circumstances. A speaker emphasized the specificity of political economy and the social fabric in Yemen, which is still in the early stages on nation-building following the unification. He noted that the current level of stability and cohesion is in fact a significant achievement by itself.
6. **Bank program.** Several members noted that the Bank's program might have been overly ambitious, and agreed with the IEG recommendation of a more realistic and targeted approach in the future. Speakers emphasized the importance of assisting the country to utilize the "window of opportunity" created by the high oil prices, and bring about a transition to non-oil economy. Management concurred, but stressed that in this regard the government should undertake fundamental changes in energy pricing in the near future, while the Bank can help in building the social safety net. Management added that the matter is further complicated by the factor of the upcoming presidential elections which will most likely postpone any significant adjustment in energy prices. Some speakers asked whether Yemen would have benefited from more consistent application of the principles advocated for Bank engagement in Low-income Country under Stress (LICUS) or fragile states, and what the implications could be in terms of the Bank's work program. A speaker stressed the importance of employing the wealth of knowledge accumulated in the Bank to improve the work in fragile states. Management replied that it had looked at the Bank's experience in fragile states in CAS CR, and tried to balance the needs for immediate service delivery with longer-term development goals in the thematic sector strategies. A speaker noted the discrepancy between the ratings of individual projects (over 70 per cent satisfactory) and the overall unsatisfactory assessment of the country program. IEG replied that the outcomes of individual projects do not always advance the outcomes envisaged for the assistance program and that this discrepancy between project outcomes and country program ratings has been previously highlighted in the CAE Retrospective. IEG added that introduction of results-based CASs is expected to narrow the existing gap.
7. **Governance.** Several members noted the gap between the Bank's strategy on governance in the country and the actual program implemented, with few tangible results achieved and many issues remaining unresolved. In this context, they supported IEG recommendation to intensify work on governance, including public financial management and civil service reform. At the same time they cautioned against a "drastic overhaul" approach, given the very different public administration traditions in two parts of the country. A member noted that issues of governance might be better addressed through specific and targeted sectoral engagement. Management replied that the new CAS will employ a gradual approach, based on the lessons learned.
8. **Water and qat.** Members agreed that the issue of water depletion is central to the country's developmental challenges. In this context, several speakers stressed the need for a broader analysis of the water sector. IEG replied that water is a cross-cutting issue that should be taken in conjunction with others, such as improved public sector performance, population growth, reduction of qat cultivation, energy pricing, etc. A member noted that issue of qat cultivation should be addressed through development of alternative crops, supported by necessary incentives.
9. **Private sector development.** Some speakers felt that more analytical work needs to be done to better understand the issues in non-oil sectors of the economy, and especially the low level of for-

eign investment. In this regard, a member emphasized the need for a larger International Financial Corporation (IFC) role in the country. Several members noted the need to strengthen the financial sector. Management replied that while there is no lending being planned in the financial sector, impediments for private sector development will be addressed in the CAS program by improving governance and public sector performance. IFC representative mentioned that IFC has been involved in several projects in the last few years, including TA, but also noted the challenges of engaging the private sector in the country, including the anti-competitive practices of a few large family businesses; the reluctance of local banks to lend outside those family groups; and a very limited small and medium-size enterprise (SME) sector. IFC representative added that Yemen is a Frontier country for the Corporation and IFC is developing a strong pipeline of investments and technical assistance (TA) in the country for the new CAS period.

10. **Lessons and recommendations.** Several speakers felt that IEG recommendations could have been more concrete in terms of actions to be undertaken in the next CAS. IEG explained that although CAE does include a number of specific recommendations, IEG generally refrains from providing detailed action plans, where the country team has a comparative advantage. A speaker asked whether any general lessons can be derived from this CAE. Management noted that country experience proved that it is possible to achieve success even in a fragile state environment under right circumstances.

11. **Staffing.** Several members noted that inadequate staffing might have been related to slow progress in implementing the Bank-wide policy on decentralization, and the special staffing needs of fragile states. In this regard, they urged considering the option of assigning additional resident specialists in the field offices. Members noted that the same issue arose in many fragile states and stressed that current staff incentive structure in the Bank discourages work in difficult countries like Yemen. Management replied that Yemen is generally perceived to be a country with serious security concerns, hence some problems with attracting high quality staff. At the same time, management noted that it will make sure that the country program is fully funded and staffed to the extent the Bank budget and policy allow and donor partners can contribute, as it is of a high priority for the region.

12. **Donor coordination.** Members stressed that the Bank needs to take more leadership in the area of donor coordination and harmonization. Management noted that it is continuously building partnerships with other donors, but added that progress is often constrained by low levels of assistance provided to Yemen, as compared to the country needs and population size. Management stressed that many donors make aid allocation decisions based on the Bank's ratings, which at the moment do not look favorable for the country.

13. **Participation.** A member felt that the report would have benefited from including communities – the actual beneficiaries of the Bank's assistance - in the consultation process, and reflecting their views accordingly. IEG clarified that it held several rounds of informal discussions with various beneficiary communities with their inputs reflected in the report. The meetings were held in large groups with the help of interpreters. In order to encourage a free flow of communication, the names of the participants were not requested.

Pietro Veglio, Chairman

