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INTERNATIONAL FINANCE CORPORATION
MULTILATERAL INVESTMENT GUARANTEE AGENCY**

COUNTRY ENGAGEMENT NOTE

FOR

THE REPUBLIC OF YEMEN

FOR THE PERIOD FY22-FY23

April 14, 2022

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

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

The Multilateral Investment Guarantee Agency

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**The date of the last Country Engagement Note is April
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FISCAL YEAR
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**Abbreviations and
Acronyms**

AF	Additional Financing	IRG	Internationally - Recognized Government of Yemen
ASA	Advisory Services and Analytics	MENA	Middle East and North Africa
CBY	Central Bank of Yemen	MCHN	Maternal, Child Health and Nutrition
CDD	Community-Driven Development	MDTF	Multi-Donor Trust Fund
CEN	Country Engagement Note	MIGA	Multilateral Investment Guarantee Agency
CERC	Contingent Emergency Response Component	PWP	Public Works Project
CoS	Continuum of Support	SAPREP	Smallholder Agricultural Production Restoration and Enhancement Project for Yemen
COVID-19	Coronavirus Disease of 2019	SFD	Social Fund for Development
ECRP	Emergency Crisis Response Project	STC	Southern Transitional Council
EHNP	Emergency Health and Nutrition Project	TA	Technical Assistance
FCV	Fragile, Conflict, and Violence/-affected	TPM	Third-Party Monitoring
FM	Financial Management	UN	United Nations
FY	Fiscal Year	UNDP	United Nations Development Programme
GBV	Gender-Based Violence	UNICEF	United Nations Children’s Fund
GDP	Gross Domestic Product	UNOPS	UN Office for Project Services
GOY	Government of Yemen	WASH	Water, Sanitation and Hygiene
IDA	International Development Association	WBG	World Bank Group
IDP	Internally Displaced Person	YIUSEP	Yemen Integrated Urban Services Project II
IFC	International Finance Corporation	YER	Yemeni Rial

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FY22-23 COUNTRY ENGAGEMENT NOTE FOR THE REPUBLIC OF YEMEN

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Executive Summary

1. The armed conflict in Yemen shows no sign of abating; after seven years of continued deterioration of the situation on the ground, prospects for peace remain elusive. Yemen has recently seen the worst fighting in years. Multiple shocks over the last two years, including rising prices, food insecurity, floods, the COVID-19 pandemic, a cholera epidemic, and a locust invasion, have all exacerbated pre-existing vulnerabilities for Yemeni households, eighty percent of whom are now in need of humanitarian assistance. The deterioration of the security and political situation has also been accompanied by a worsening displacement crisis.

2. At this critical juncture, the World Bank Group's priority is to stay engaged across multiple possible scenarios, with the overarching goal of supporting the people of Yemen and preserving the institutions that serve them. World Bank Group (WBG) engagement will focus on: (i) supporting basic service delivery and human capital preservation; and (ii) promoting food security, resilience, and livelihood opportunities. In line with the evolution of the World Bank Group's ambition and operational approach in countries characterized by fragility, conflict and violence (FCV), the International Development Association (IDA) will "remain engaged" in Yemen during the conflict, providing sustained support to help deliver critical services, protect human capital and preserve Yemeni institutions. Across all possible scenarios, working at the local level through a decentralized approach will be critical to mitigate potential political or institutional disruptions.

3. With a rapidly evolving local context, the IDA20 program will be anchored in scalable platforms with flexible, shock-responsive, and adaptive project design which can absorb financing from other development partners. Project prioritization and allocation decisions will be informed by the following key principles: (i) integration and consolidation; and (ii) flexibility and adaptability. To increase impact, the Bank will primarily scale up and adjust existing operations with demonstrated results, through additional financing. Multi-sectoral integrated approaches and geographically targeted packages of interventions will be prioritized to ensure synergies across the portfolio and maximize results. Working closely with other development partners, the Bank will build in flexibility to scale up in response to emerging crises, seize windows of opportunities for peace, and proactively course correct as needed.

4. In a context of worsening food insecurity and malnutrition where short-term interventions alone cannot provide sustainable solutions and where the Ukraine conflict is expected to have a dramatic impact on food prices, the World Bank (WB) will pilot a new "continuum of support" (CoS) approach that integrates short- and medium-term programs in its food security response. The overarching objective will be to help break the cycle of dependency, reduce households' reliance on humanitarian assistance and help foster income-producing, resilience-building activities. This entails operationalizing geographically targeted packages of interventions that address households' immediate needs, while enhancing their resilience to food insecurity and malnutrition in the medium-term. Bundled interventions will target areas with chronic incidence of food insecurity and malnutrition (Annex 2). The Bank will also explore opportunities to frontload and scale up its food security support to Yemen in the context of the Ukraine conflict.

5. The Bank will continue to partner with the UN in the implementation of the IDA program while strengthening the role of local institutions in project implementation. In the context of the FCV policy¹, the Bank will rely on the UN's footprint and implementation capacity as IDA recipients while also reinforcing capacity building of local partners. For institutions with a demonstrated delivery record, impartiality, operational ability and mandate to work across the country, such as the Social Fund for Development (SFD) and the Public Works Project (PWP), the objective will remain to gradually increase their role in project implementation, based on readiness assessments. The Bank will strengthen its engagement at the sub-national level, working at the intersection between local government and communities.

6. At the heart of the humanitarian-development nexus, institutional preservation will remain a fundamental objective of the IDA program. Recognizing the fluidity of the operating environment, the Bank will deepen its engagement on the institutional agenda at three complementary levels in a dynamic and context-specific way: (i) strengthen the role of local institutions in project implementation and capacity building; (ii) deepen engagement with local governments (by implementing partners, and ultimately the Bank); (iii) explore possible support at the central level on core government functions and salaries for service delivery, when circumstances on the ground allow. The engagement will be dynamic and adaptable. It will vary from one project to the other, depending on the evolution of the situation on the ground, local specificities in various areas of territorial control, and project specificities across sectors.

7. WBG engagement in Yemen since 2016 has influenced wider Bank policy on FCV and helped defined a model of engagement for countries in active conflict. Despite a complex operating environment, recent experience has demonstrated that IDA can deliver results at scale across the country, even during active conflict. The experience in Yemen has further informed the decision to create the *Remaining Engaged during Conflict Allocation (RECA)*, an acknowledgement that IDA should meaningfully engage in countries in key areas like preservation of institutions, service delivery, and human capital during conflict. Other countries are drawing on the "Yemen model" combining a people-centered approach, partnerships with the UN partners and local institutions, and a scaled and adaptive approach. Moreover, the availability of de-risking tools such as the first loss component under the IDA Private Sector Window (PSW) can be critical in mobilizing private sector investments.

8. In a worsening operating environment, the WB will continue to draw on lessons from other conflict settings and Yemen experience to enhance program monitoring and data collection. Fragile environments call for a mixed, innovative, and agile portfolio with a high degree of experimentation, restructuring and phased approaches. Continued use of TPM, social media data analytics, Geo-Enabling initiative for Monitoring and Supervision (GEMS) and citizen feedback tools will be critical to gather feedback on implementation progress and adapt accordingly. The Bank will explore the possibility of contracting a portfolio-wide monitoring agent, with support from the new Multi-Donor Trust Fund (MDTF). The Bank will also continue to strengthen innovative data collection and use of remote data sources to overcome some of the challenges related to traditional data collection and bolster evidence-based programming.

¹ Updated Bank policy: Development Cooperation and Fragility, Conflict and Violence, para. 3(b); formerly OP 2.30: Development Cooperation and Conflict

9. Recognizing the critical role of the private sector in Yemen’s resilience and growth prospects, the WBG will enhance further its engagement with the private sector across the program. The CEN has been prepared jointly by the WB, the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA) which will all redouble efforts to identify private sector-led solutions to meet infrastructure needs, support employment generation and lay the groundwork for recovery. The WBG will promote a comprehensive private sector response, with a view to start reducing the country’s dependance on imports and aid and help prepare the private sector to become an engine of reconstruction efforts.

10. In line with the FCV strategy, the rationale for a large-scale program in Yemen - a high-risk, high-return engagement - has never been so compelling. While operating in Yemen presents the Bank with multiple challenges that demand continuous monitoring, inaction would be costlier from a developmental perspective. The IDA program in Yemen has yielded important results with significant potential for scale up. Remaining engaged during the conflict will also pave the way for recovery and reconstruction. However, the Bank’s large and growing portfolio will continue to face significant challenges, many of which are external to the program and cannot be fully mitigated. Amid heightened security and access constraints, large residual risks remain. Engagement in Yemen will continue to require a high degree of agility and risk tolerance. During the CEN period, the Bank will aim to re-establish a footprint on the ground, with a view to enhancing program oversight and deepening engagement with key stakeholders.

11. A CEN remains the appropriate strategy document for the WBG’s engagement in Yemen, as continued uncertainty and instability on the ground prevent medium-term planning. While transitioning to a Country Partnership Framework remains infeasible at this stage considering Yemen’s unique country circumstances, this CEN takes stock of lessons learned from the previous two CEN cycles² and how they will be applied in the new phase. This exercise builds on an internal “lessons learned” study conducted by the FCV group in 2019, project-specific lessons learned as assessed in Implementation Completion and Results reports as well as targeted analytics with programming implications.³

² FY17-18; FY20-21

³ E.g. Social Protection at the Humanitarian-Development Nexus, 2021, Dynamic Needs Assessment Update, 2020, and institutional assessments, 2021

I. Country Context

Political context

12. The war in Yemen results from a decades-long history of grievances and conflict, corruption and mismanagement, elite capture and patronage, coupled with tribal, religious, and regional divides.

Despite efforts to form a sustainable central authority after the unification of North and South Yemen in 1990, the country remains divided along these lines today. While there have been periods of relative stability, the country has rarely experienced a complete absence of violence. Since the outbreak of protests in 2011 and former President Ali Abdullah Saleh's resignation, Yemen has failed to regain stability. The war is itself a complex aggregation of conflicts, exacerbated by religious, regional, and tribal components and the existence of multiple non-state armed groups with tangled front lines. This includes: (i) the conflict between the Houthi movement, which controls most of North Yemen, and the Internationally-Recognized Government of Yemen (IRG) which controls part of Central and South Yemen and shares power based on a fragile agreement with a secessionist movement, the Southern Transitional Council (STC); (ii) violent extremist organizations which receded over the last years; (iii) local conflicts based on tribal divisions and affecting power dynamics.

Box 1. Drivers of Fragility and Resilience in Yemen
(as identified in the 2022 Yemen Risk and Resilience Assessment (RRA))

Short and long-term conflict drivers include: (a) fragmented social contract and state legitimacy deficits; (b) national identity crisis; (c) weak economy subsumed by economic warfare; (d) depleted and mismanaged natural resources (water, oil, and land); (e) normalization of violence and arbitrary rule of law with limited alternatives.

Factors of resilience include: (a) adaptability to protracted instability and conflict; (b) decentralized government structures and role of local institutions; (c) social safety nets, and role of religious and cultural norms, informal and non-state frameworks, including tribal structures; (c) a vibrant civil society; (d) role of women in community resilience and fostering social cohesion, and rising youth participation; (e) contributions of the private sector; (f) remittances and support from the diaspora.

13. A peace agreement remains elusive. Authority in Yemen is fragmented, with parallel institutions operating in government and opposition-held areas. A new phase of the conflict emerged in 2021 with a months-long battle for control of the central province of Marib, rich in oil and gas. In the first weeks of 2022, the country experienced an escalation of the conflict and fighting continues on multiple fronts as various peace efforts fail to gain traction. Aden remains the interim capital, with the internationally recognized Government of Yemen (IRG) led by President Abdrabbuh Mansur Hadi, while Sana'a is controlled by the Houthis. The recent strengthening of the STC is adding further divisions as it stepped up efforts to exert autonomous control over public functions in the south. While the IRG's return to Aden is encouraging, the power sharing agreement signed in Riyadh in 2019 between the IRG and the STC remains to be fully implemented. The conflict is more than a military battle for territory and political control, it is also a power struggle for institutional control and resources; administrative bifurcation is compounding institutional challenges, for instance in the Central Bank of Yemen (CBY).

Humanitarian, Social and Poverty context

14. Yemen's seven years of continuous armed conflict have caused massive damage and prompted a major humanitarian crisis. 24.1 million people, over 80 percent of the population, remain in need of assistance. 2 million children are acutely malnourished. There is a continued outbreak of diseases, and

close to 18 million people lack access to safe water and sanitation. In recent years, the situation has been compounded by massive flooding and worsening displacement, with over 4 million internally displaced persons (IDPs) as of early 2022. Changes in the humanitarian situation have corresponded to various conflict-related shocks in recent years, including large swings in violence, changes in governance from the capture of territory, intermittent tightening of air and sea blockades, natural disasters, widespread disease outbreaks, and currency crises. Widespread trauma resulting from prolonged exposure to conflict, combined with weak psychosocial support services, has left Yemenis particularly vulnerable to mental health challenges.

15. In the face of such daunting challenges, monetary poverty, and the inability of households to afford food and basic services has skyrocketed since the conflict escalated. Estimates of poor food access, which are the most reliable welfare indicators that have been measured since the conflict began, increased precipitously during 2018 and again between 2020 and 2021.⁴ Shocks that have caused rapid rises in food prices (e.g., currency crises) have played a key role in pushing the country to a near famine (e.g., UN Integrated Food Security Phase Classification (IPC) 2018 and 2020). The humanitarian situation improved during 2019 when rising prices stabilized and reduced from the peaks in 2018. However, when food prices began to rise again, the humanitarian situation immediately worsened. There is an affordability crisis, where households cannot afford either food or basic services. The situation is expected to deteriorate further as a result of the conflict in Ukraine and its impact on food prices (see box 4).

Box 2. Food Security and Malnutrition in Yemen

Along with the erosion of human capital, food insecurity and malnutrition are the most pressing human development challenges in Yemen. Over 17 million people (more than half of the population) are experiencing acute food insecurity (IPC 2022). 1.3 million pregnant and lactating women are projected to suffer from acute malnutrition in the course of 2022. The levels of acute and chronic child malnutrition are among the highest in the world in the world: 46 percent of children are stunted, and over two million require treatment for acute malnutrition. Food security and human capital are interrelated through a vicious cycle: the lack of adequate food combined with inadequate access to nutrition, health and water, sanitation and hygiene (WASH) services contribute to child malnutrition. Severe child malnutrition causes irreparable damage to their future health and brain development. Food insecurity and malnutrition considerably worsened during the COVID-19 crisis and are expected to worsen with the effects of the conflict in Ukraine.

The main drivers of food insecurity and malnutrition in Yemen include destroyed agricultural assets and food production, skyrocketing food prices, plummeting incomes, and lack of access to relevant services. The cost of the minimum survival food basket has increased by more than 150 percent since 2015 (WFP 2022). Food price inflation accelerated during COVID19, particularly in the south, as global food prices increased and the Yemeni Rial (YER) weakened further—most food consumed in Yemen is imported. The overall decline in domestic agricultural production and climate change are making Yemen one of the world’s highest food import-dependent countries. The destruction of local food production and disruption of domestic food supply chains due to the conflict have exacerbated the food availability challenge. It has also been compounded by a decline in household income. The lack of access to Maternal, Child Health and Nutrition services as well as safe drinking water and sanitation—key to preventing and treating malnutrition—have exacerbated the problem. Many of the factors underlying high prices, low incomes and limited access to relevant services were present before the conflict—the conflict and other shocks made pre-existing conditions significantly worse (e.g., Favari et al. 2021).

⁴ Favari, E., M. Geiger, S. Krishnaswamy, and S. Tandon. 2021. “The 2020 Food Security Crisis in Yemen.” Report, the World Food Programme and the World Bank.

16. The existence of parallel political and economic institutions and a dual exchange rate system have contributed to a divergence in the drivers of the humanitarian crisis across different regions in the country, as well as increased the complexity of development operations. The duality of currencies in the Houthi-controlled and IRG territories has increased the risk profile of assistance programs: widening gaps between the two exchange rates have impacted operational implementation and planning, including by heightening the risk of diverging purchasing power among beneficiaries, which required additional mitigating measures by the aid community. Further to close consultation between the World Bank and the UN, an agreement was reached to use the Currency Traders Association rates, published respectively in the Houthi-controlled areas and in the IRG territories, as the main reference for the market rate.

17. The emergence of the COVID-19 pandemic has further worsened the situation in the country and created additional burdens for an already crippled health sector. Yemen's health indicators are among the worst globally. Malnutrition impacts a large portion of the population. Communicable diseases, including cholera, diphtheria, dengue, and measles have been rampant due to poor water and sanitation conditions. Only about half of Yemen's health facilities are functioning, and these are riddled with severe shortages of human resources and supplies. This has left the country extremely vulnerable to COVID-19, which has spread rapidly and overwhelmed medical facilities. Furthermore, the pandemic reduced donor funds globally, which has already contributed to funding shortfalls for the response in the country; food prices increased globally; and there has been a significant decline in household incomes due to movement restrictions, a drop in overall economic activity, and lower remittances.

18. Access to education and learning remains a major challenge, and the education future of an entire generation of youth is at stake. Despite some improvements, education outcomes in Yemen were the weakest in the Middle East and North Africa (MENA) region – even before the conflict. In 2011, the last available learning assessment, 91 percent of 4th graders scored below the minimum level of proficiency in math and science. The conflict has resulted in more than 400,000 children being out of school, increasing the total number of such children to over 2 million. Without proper support, these children may never return to school. Two thirds of the teaching workforce have not received regular payment for four years, putting nearly 4 million additional children at risk of missing out on education. Schools in many areas have been damaged and lack basic school inputs such as textbooks, desks, and sanitation facilities. COVID-19 related school closures have likely further aggravated the education crisis.

19. While the conflict has exacerbated exclusion and inequality for vulnerable groups in general, women and girls are deeply disadvantaged in all dimensions of life. In the 2021 Global Gender Gap Report, Yemen ranked 155 out of 156 countries in terms of performance in women's economic participation and opportunity, educational attainment, health and survival, and political empowerment. Alongside receding opportunities for women to participate in the economy, education attainment is remarkably low. Less than half of girls are enrolled in secondary school while female illiteracy rates are high. Less than half of births are attended by a skilled health worker, and maternal mortality rates remain the second highest in the region. Gender-based violence (GBV) is both commonplace in domestic and public and has increased amidst the backdrop of fragility and conflict⁵, as have child marriages.⁶ Further, amongst an estimated four and a half million persons with disabilities in Yemen, women and girls with disabilities face compounded challenges in accessing care, limited social interaction, poor mobility, and high GBV risk.

⁵ IRC 2019

⁶ As of 2017, Yemen recorded one of the highest rates of child marriage in the world: 32 percent of women aged 20–24 were married before age 18 and 9 percent were married before age 15 (UNICEF and ICRW 2017); increases in child marriage are commonplace amidst humanitarian emergencies.

19. While Yemen’s population is 62 percent rural, the urban population is growing at 3.9 percent per year⁷, and is projected to reach 16.3 million by 2030.

Conflict-related displacement is a driver of urbanization, as people move from rural to urban areas, and between urban areas, seeking safety and economic opportunities. The conflict has ravaged key infrastructure: waste services have been interrupted, roads have been wrecked, critical facilities have been left without electricity, and water, sanitation, and drainage infrastructure has been extensively damaged, significantly impacting service delivery. Roughly two thirds of Yemenis currently lack access to safe water and sanitation. The economy is also crippled due to fuel shortages; living conditions are declining due to the escalating costs of diesel and gas for cooking.

Box 3. Findings of 2020 Dynamic Needs Assessment

The third phase of the Dynamic Needs Assessment (DNA) was completed in 2020 with a focus on 16 cities and 12 sectors. It estimates that overall recovery and reconstruction needs range between US\$20 and US\$25 billion over five years. Most of the needs are concentrated in the housing sector, with total recovery and reconstruction needs estimated at US\$ 7.6-US\$ 9.3 billion. The education, health, transport, and WASH sectors have also been severely affected, with overall damage ranging from 29 percent (transport) to 38 percent (health and WASH). Reduced functionality in many sectors reflects not just physical damage but also factors such as institutional capacity, staffing and payment of salaries, and access to electricity.

20. Disruption to energy access, transport, telecommunications, and water have had far-reaching direct and indirect impacts on households. Nightlight satellite imagery shows that major electricity disruption has left three-quarters of the country in the dark. The electricity grid and distribution networks have been extensively damaged by the conflict, leaving millions of households and businesses without access to public electricity, with diesel generator and solar photovoltaic systems only available to a few. International trade and mobility are seriously hindered due to the extensive damage to key airports and ports. Connective roads and bridges across the north of the country have been severely affected by the conflict, disrupting flows of trade and humanitarian aid. Telecommunications infrastructure has also been damaged during the conflict, including a recent near country-wide internet shutdown for four days which further highlight the fragility of Yemen’s international connectivity. fragility. cutting people off from communications within the country and internationally. Checkpoints further constrain supply chain and logistics for trade and humanitarian aid.

21. Yemen’s already weak institutions and governance systems further deteriorated during the conflict. Yemen’s public sector has historically been one of the biggest employers in the country’s economy. The large public sector wage bill (the 2014 wage bill was US\$4.5 billion), the collapse of revenue due to the conflict and its cost, combined with a growing distrust in public institutions led to the initial suspension of civil service salary payments in summer 2016. By early 2017, the IRG was able to resume payments of salaries in areas under its control while payments to public sector employees in areas controlled by the Houthis have been suspended since 2019, with only partial and irregular payments made since then. As a result, public services in key sectors, such as health/nutrition, education, water and sanitation, have been pushed to the verge of collapse.⁸ Fragmentation of public sector administration and monetary policy has further complicated the issue of public sector salary payment.

⁷ World Bank, 2020.

⁸ EU. 2020. “Reports on Salary Payments of Civil Servants in Conflict Countries – Yemen”; IGC. 2020. “Public sector salaries in Yemen: Towards building confidence in the peace process”; and WB/UNDP/UNOPS/UNICEF. 2020. Joint Discussion Note: Proposed Approach for Facilitating the Payment of Civil Servants in Yemen.

22. In a context of waning foreign aid, Yemen is grappling with a significant fiscal drop off in financing from prewar levels. While Yemen's needs have significantly increased in recent years, available resources and external aid have been falling. The tight fiscal situation in donor countries, regional dynamics and concerns about aid diversion have led to a decrease in aid flows. Looking at humanitarian assistance only, the UN recently reported a decreasing trend in pledge fulfillment, with 2021 being the lowest year - at 51 percent of the funds originally requested (US\$3.85 billion in 2021).⁹ While IDA has deployed unprecedented financial support to Yemen over the last 18 months (over \$800m committed to date in fiscal year (FY) 21-22), gaps remain significant. The conflict escalation at the beginning of 2022, coupled with the possibility that the Houthis may be re-designated on the list of Foreign Terrorist Organizations, could significantly raise the level of complexity and risks associated with aid operations. In the event of further declines or a 'drop off' scenario, the impact on humanitarian and development outcomes would be immediate and grave.

Economic context

23. The Yemeni economy continued to contract throughout 2021. While Yemen's many-sided conflict remains the principal determinant of the country's economic performance, economic instability has been further aggravated by health-related shocks and structural weaknesses. In 2021, real gross domestic product (GDP) growth is expected to register an additional contraction (-2.0 percent), following an already strongly negative performance in 2020 (-8.5 percent). Two sectors that preponderantly define Yemen's growth outturns are oil and agriculture, both of which are structurally exposed to volatility and exogenous factors such as international prices as well as climate- and pest-related shocks. In addition, Yemen's economy is mostly informal and heavily reliant on – declining – foreign aid inflows and remittances to sustain aggregate demand.

Box 4. Ukraine conflict: Potential Effects on Yemen's Economy

While the evolution of the war in Ukraine remains rapid and highly uncertain, it is estimated to have a broadly negative impact on the Yemen economy. The main channels of transmission are expected to be – in the short term – reduced imports of key commodities, on account of a supply side shock resulting from the conflict, and – over both the short and medium term – increased oil and food prices, with spillovers on household consumption. A simulation of short-term macroeconomic impacts shows relatively small effects on GDP growth in 2022, while the sector effects on some of the most essential country imports are expected to be significant. Millions may face food consumption gaps due to rapidly increasing levels of need, which could turn an already dire food crisis into a catastrophe, if assistance is not scaled up.

24. The Yemeni private sector shows signs of resilience, despite facing considerable challenges stemming from the conflict. Even though the conflict has had a pervasive impact on businesses, around 75 percent of enterprises are still trading, although at a higher cost and reduced capacity.¹⁰ A key factor is that decades of cyclical insecurity and instability have increased the adaptability of Yemeni businesses to respond to the resultant shocks. A predominant use of cash transactions has also helped to shield the private sector from financial crises – although it has also limited the investment opportunities for ordinary Yemenis and increased governance challenges. Recent data shows a growing contribution of the private sphere to numerous economic sectors, such as manufacturing, construction, and services.¹¹ With gaps in

⁹ United Nations Office for the Coordination of Humanitarian Affairs (OCHA); Press Release of the High-Level Pledging Event for the Humanitarian Crisis in Yemen, March 2021.

¹⁰ The Impact of Conflict on Private Enterprises Report, WBG, 2019

¹¹ CSO, Statistical Yearbook, 2018

the public provision of services, the sector presented an alternative service delivery, namely in the energy and water sectors. It has also played a critical role in the humanitarian and relief effort. At the same time, fragmented fiscal and monetary policies, damaged infrastructure, restrictions on transportation and the movement of people and goods, lack of predictability in the regulatory environment, and the lack of enforcement of laws are cited as the top challenges to be addressed from the perspective of the Yemen Private Sector Cluster (YPSC).

25. Foreign exchange shortages have become increasingly evident, with the erosion of Saudi Arabia's deposit at the Central Bank of Yemen (Aden), coupled with a contraction in foreign assistance and lower oil exports. The creation of two parallel monetary authorities, one in Sana'a covering the territory controlled by the Houthis and one in Aden covering the areas controlled by the IRG has amplified the spatial and policy fracture in the country. The monetization of the fiscal deficit and the exchange rate depreciation have contributed to exacerbate inflationary pressures, as shown by the Consumer Price Index at 35 percent at the end of 2020, and 45 percent by December 2021 (also pushed by rising global food and fuel prices, of which Yemen is a net importer). Yemen's public finances are under severe stress, and the fiscal deficit strongly negative, at over 5 percent in 2021. The country is in debt distress and has not been servicing its external and domestic obligations, with the only exceptions being the World Bank and the International Monetary Fund (IMF).

26. Yemen's financial sector mirrors the country's economy and is faced with the same daunting challenges that afflict the real sector. In 2019, Yemen's financial system ranked lowest globally (141/141) in the 2019 Global Competitiveness Index. Yemen's economy is heavily cash-based, and the banking sector plays a weak role in financial intermediation, as only 6 percent of adults have bank accounts. Moreover, the deterioration of the operating environment and oversight of the banking sector contributed to the rise of informal service providers that are intermediating an increasing share of transactions. A by-product of conflict-related politicization, the separation of the CBY has created significant impediments to business operations countrywide.

27. Overall macroeconomic risks remain significant. A recent intensification of turmoil makes Yemen's economic prospects dim. Weak external financing coupled with the effects of the pandemic are expected to constrain an expansion of production. A continuation of the hostilities is predicted to trigger additional demand- and supply-side shocks, and to further drain consumers and business confidence, thus negatively impacting both consumption and investment. On the other hand, the successful organization of a public foreign exchange auction system, since November 2021, by the Central Bank of Yemen (Aden), has contributed to relieve pressure on the exchange rate and demonstrated renewed efforts toward macroeconomic stabilization. In this context, GDP growth should be stagnant – albeit slightly positive – in 2022, also reflecting overall improved global economic conditions. Growth prospects will continue to depend on the improvements of the political and security context.

28. Yemen is also highly exposed to climate change impacts, which exacerbate the country's macroeconomic, disaster, and food security vulnerabilities. Due to the ongoing multiple crises, Yemen has very limited capacity to deal with the impacts of climate change. The level of economic vulnerability to climate change is extremely high. In addition, the mean annual temperature in Yemen is expected to increase by 1.2 C to 3.3 C on average by 2060, increasing risk for urban heat island and drought. Desertification, drought, and water stress are expected to increase annually by 3 to 5 percent and affect agricultural and food production and the overall availability of arable land. As rainfall has decreased in frequency in recent years, harvests have become shorter, yielding less food, and compromising the

ability of the rural population to farm and pastor. Regular flash floods and heavy rainfall have also compounded hardships in urban and rural areas. Rainfall intensity and associated flooding are projected to increase due to climate change, especially in coastal cities, due to exposure to storm surge, flash floods, and epidemiological hazards, the depletion of water resources and sea level rise.

II. WBG response to date

WBG Engagement

29. Since its re-engagement in 2016, the WB has supported the Yemeni people across the whole country through a large, grant-based program totaling US\$2.5 billion. After most of the suspended portfolio was cancelled in 2016, resources were consolidated into two emergency interventions to respond to emerging food and health crises: The Emergency Crisis Response Project (ECRP) (US\$840 million) and the Emergency Health and Nutrition Project (EHNP) (US\$683 million). Since then, the portfolio has selectively expanded into agriculture production, urban services, electricity and education and includes a total of 10 projects (see Annex 1). In 2020, IDA18 resources were quickly mobilized to respond to the desert locust crisis and the COVID-19 health emergency. In a context of worsening food insecurity in 2021, the Bank frontloaded IDA19 resources (\$635m in FY21) and scaled up its multisectoral food security response. IDA19 resources, including the RECA, also helped further reinforce the program’s focus on institutional strengthening.

30. The IDA program is achieving results at scale and portfolio performance has been consistently strong. As of February 2022, all 10 ongoing projects are rated Satisfactory or Moderately Satisfactory, and total disbursements have reached US\$1.82 billion (80 percent of the portfolio). For the two projects that closed (Yemen Integrated Urban Services Project (YIUSEP) and Smallholder Agricultural Production Restoration and Enhancement Project for Yemen (SAPREP), the overall outcome rating

Box 5. Key Results Achieved to Date since 2016 (consolidated across the portfolio)

- 28.5 million people provided with health and nutrition services
- 3.32 million people accessed improved water services
- 2.87 million people accessed improved sanitation services
- 520,000 direct beneficiaries of wage employment
- 1.42 million households received cash transfers throughout 11 payment cycles
- 60,000 farmers resumed crop or livestock production
- \$8.78 million disbursed to Micro-Finance institutions (MFIs) kept over 53,000 Small and Medium Enterprises afloat
- Over 600 km of roads rehabilitated or improved

was assessed as Highly Satisfactory for the former and Satisfactory for the latter. Results have consistently been robust on gender and women inclusion (see below box).

Box 6. Gender mainstreaming across the WB portfolio

WB operations in Yemen contribute to all pillars of the Gender Strategy (FY16-23). Select examples of projects that target women and close gender gaps span across sectors:

- The Emergency Electricity Access Project is helping to ease the disproportionate impact of a lack of energy on women while also supporting financial inclusion. 27 percent of solar kit credit sales were purchased by women and 42 percent of the credit sales to women were going to first time borrowers.
- The Emergency Health and Nutrition Project has provided 4.6 million health and nutrition services, of which 52 percent have been to women and girls. The COVID-19 Response Project AF promotes female vaccinators.
- The Emergency Social Enhancement Protection Project targets vulnerable women, such as pregnant women and mothers of children under 5, in its cash-for-nutrition and cash-for-work program.
- The Integrated Urban Services Emergency Project is supporting female entrepreneurship through targeted training interventions aimed at promoting formal registration of women-owned businesses. In only a few months after program effectiveness, 40 percent of the WOBs registered their enterprise.

31. IFC's activities in Yemen support the WBG's core strategic priorities to support service delivery, institutional preservation, and resilience building. IFC's current investment portfolio in Yemen includes a US\$75 million investment facility¹² to Hayel Saeed Anam Group (HSA) to support the production of necessity foods for local consumption. IFC also provided long-term funds to support the Arabian Yemen Cement Company. This project involves the construction and operation of a state-of-art cement plant and supports local job creation. IFC's advisory engagements (US\$2.9 million) with Yemeni banks, MFIs, and financial technology focus on enhancing access to finance and bolstering the performance of the Yemeni financial sector by raising standards, building lending capacities, and promoting the digital economy. Current advisory engagements include supporting financial institutions such as AlKuraimi bank, Yemen Kuwait Bank and Tadhamon Microfinance. IFC is also working on expanding its Global Trade Facility Program to Yemeni banks, facilitating import of vital food and raw materials.

Lessons from Yemen experience

32. Implementation experience has brought to light the successes and challenges of the current engagement model, including in the Bank's partnership with UN agencies as grant recipients. As the Bank continues to operate under the FCV policy¹³ without a direct operational engagement with government, the partnership with the UN has enabled the Bank to effectively deliver support to the Yemeni population at a time when the Bank did not have a physical presence in-country and could not work directly with government institutions. UN agencies have demonstrated ability to access most of the territory and engage with national and local authorities in the north and south. They have also demonstrated strong adherence to impartiality and non-interference principles. Furthermore, joint projects between the UN and IFC (e.g. fisheries and coffee value chain analysis) have strengthened strategic alignment and knowledge sharing. Although the experience has been positive overall, lessons highlight the need for continued improvements in several areas: (i) fiduciary, environment, and social requirements; (ii) implementation costs; (iii) Third-Party Monitoring (TPM); (iv) sustainability.

¹² Of which \$20m was mobilized from FMO. The IFC and FMO investment was supported by a first loss guarantee of US\$37.5 million from the IDA Private Sector Window.

¹³ Updated Bank policy: Development Cooperation and Fragility, Conflict and Violence, para. 3(b); formerly OP 2.30: Development Cooperation and Conflict.

Box 7. Lessons from the use of Third-Party Monitoring (TPM)

While the use of Third-Party Monitoring has enabled the Bank to fulfill its supervision responsibilities in Yemen, limitations have been identified related to accessibility, monitoring lag, inadequate verification of results, and weak reporting quality. In part, some of these shortcomings are the result of the Bank not having a direct contract with the TPM. But additional problems arise from a restrictive environment for TPM agents in the north and a limited number of firms operating in Yemen with qualified staff and quality assurance mechanisms.

The Yemen TPM experience has provided several important lessons: (i) TPM should be used in combination with other mechanisms such as technology, community monitors and other forms of data to provide real-time monitoring and work around severe data limitation; (ii) There is a need to expand TPM's TORs to go beyond technical spot checks and include technical audits, monitor procurement plan implementation, and include direct and simultaneous reporting to WB to avoid delays; and (iii) TPM could be a valuable source of analytical information for WB teams to plan future interventions and fill analytical gaps.

33. The protracted conflict warrants a more sustainable institution-building and system-oriented approach to deliver support, a clear added value of IDA. The first CEN (FY17-18) targeted support to conflict-affected households through local institutions with demonstrated delivery record, impartiality, and established programs and systems. For example, ECRP worked with SFD and PWP as implementation partners, through the UN agencies, to deliver some of the same programs these institutions had been running before the conflict and to ensure their preservation for future reconstruction. This approach yielded positive results, as suggested by the high level of retention of core staff positions in SFD and PWP since 2016. Institutional preservation was one of the two focus areas of the second CEN (FY20-21)¹⁴, and included capacity building activities underpinned by detailed assessments which allowed the Bank to deepen the role of SFD and PWP in project implementation. But there are limitations: (i) Because of prolonged instability, a complex political economy, the buildup of public sector wage arrears and limited coordination among international partners to address salary payments, sustainability is a challenge, especially across institutions that rely on fiscal transfers from central government; (ii) Involvement and capacity building of local governments has been limited and there is scope for a more systematic engagement at the sub-national level.

34. There is scope for further, geographically based integration of short-term and longer-term interventions across the Humanitarian-Development Nexus, including to effectively address food insecurity and malnutrition. The international community's support has to date primarily focused on supporting consumption (through cash transfers and food assistance) and curative nutrition services (to treat severe acute malnutrition). It has rarely been complemented with interventions to increase longer term household level resilience to food insecurity and malnutrition. As a result, interventions often fail to have an impact beyond the period of support and do not help to prevent subsequent food crises. The area-based approach adopted under YIUSEP confirmed the positive impact of cross-sectoral packages of interventions targeted to common locations.

35. Inclusive, bottom-up participatory interventions effectively contribute to community resilience to shocks. Operating in a context of weakened central institutions, all IDA emergency projects have been working closely with Yemeni institutions to ensure that investments at the local level are driven and supported by the communities they are expected to serve. In the health sector, with a pivotal role given to community health workers, the EHNP relied heavily on facility-based outreach and community-based

¹⁴ The FY20-21 CEN had the following two focus areas: (a) continued support for basic service delivery and institutional preservation; and (b) extending support to livelihoods, human capital, and basic economic recovery.

service delivery models. Under ECRP, SAPREP, and YIUSEP, inclusive mechanisms were implemented to engage citizens and communities in the prioritization, delivery and monitoring of labor-intensive works and services. Despite significant challenges in a context of insecurity, and access restrictions, community-based approaches contributed to local ownership and relevance of intervention to needs.¹⁵

36. Program consolidation and multi-sectoral approaches are key to focus WB implementation support capacity and maximize results. The Bank's program in recent years has demonstrated the importance of a streamlined engagement to avoid over-stretching WB capacity and resources. For example, the ECRP trained community workers that could be used in the EHNP for delivery of basic health services, while the small-scale infrastructure investments under YIUSEP were prioritized based on their potential for inter-sectoral and spatial synergies. Making the whole bigger than the sum of its parts was a meaningful strategy in a highly constrained operational environment. Considerations of impact and efficiency also supported the integration of WASH and private sector activities in existing health, urban, agriculture or social protection operations, rather than standalone projects.

37. Flexible and scalable project designs as well as effective use of Monitoring and Evaluation systems enabled responsiveness to shocks. Projects should continue to be broadly designed as scalable platforms to facilitate absorption of additional financing from IDA or other partners. For example, ECRP and EHNP received together a total of eight additional financings since 2016. Each new phase adjusted the design, targets and implementation modalities based on monitoring data from the previous phases. In addition, contingency mechanisms (e.g. Contingent Emergency Response Components (CERCs)) that were mainstreamed in project designs allowed for swift activation in the event of a crisis. Some projects also kept geographical and thematic allocations notional, which proved useful to respond to emerging needs (famine, cholera, COVID-19) and to the evolution of the security situation during implementation.

38. Lessons from implementation are informing WB engagement in Yemen under the new CEN. While the FY22-23 CEN will sustain approaches that contributed to program impact and efficiency (e.g., community engagement, multi-sectoral interventions, area-based approaches, scalable project platforms, CERCs, etc.), it will also enhance the Bank's focus on the following four areas, including through the additional funding and flexibility provided by the new Yemen MDTF:

- i. *Strengthening institutional capacity for service delivery at all levels:* Step up efforts to understand, build the capacity, and work with and through local institutional partners, with more systematic engagement at the sub-national level wherever possible; establish the evidence base for coordinated pathways to support resumption of salary payments in key service delivery sectors.
- ii. *Enabling a continuum of support across the humanitarian-development nexus:* To address household vulnerability to food insecurity in a more sustainable way, implement packages of short-term and resilience building interventions in priority geographies.
- iii. *Generating reliable data on program implementation and impact:* To underpin iterative project development and management, strengthen monitoring mechanisms, including through portfolio wide, real time TPM triangulated with multiple other data sources, and maximize the use of impact evaluations.

¹⁵ For example, based on the Impact Assessment of YIUSEP, 93 percent of the 3 million beneficiaries were satisfied with the services delivered and agreed that they revived optimism among residents, and 97 percent felt that project investments fully reflected their needs.

Lessons from other fragile and conflict-affected settings

39. Building legitimate institutions and governance is crucial to break cycles of violence, but it is complex and takes time. Even the fastest-transforming countries have taken between 15 and 30 years to raise their institutional performance from that of a fragile state to that of a functioning state. However, there is evidence that more specific institutional capabilities can be developed much faster. Moreover, state-building in conflict-affected countries does not mean only focusing on the center: multiple different levels of governance are important. Looking for other, often more local, institutional partners is therefore important, for example by using a “peace and inclusion lens” approach.¹⁶ Further, who delivers matters for state legitimacy. It is therefore important to pay attention to the entire service delivery chain, including interfaces through local institutions and actors, and how programs are viewed by citizens. Starting to channel some funds through local systems and institutions for service delivery is important. Community-centered approaches can also help to build legitimacy from the bottom-up, particularly in FCV contexts.

40. The development path for countries affected by conflict is non-linear, with frequent setbacks. Cross-country evidence shows that countries that experienced longer periods of fragility, violence, or conflict experienced more volatility including in aid flows. Given the importance of state capability to help break cycles of violence, it is important for institutional partners to try to mitigate these stop-go pressures. For example, multi-donor trust funds (MDTFs) are important tools to help mitigate some of the unpredictability inherent in aid to FCV countries and can also allow for the more intensive project supervision required in FCV countries. The Bank can also mitigate the impact of governance setbacks by engaging with a broad range of local partners in FCV countries. This can also help to reduce the risk of becoming caught in an echo chamber of like-minded actors.

41. Overall, fragile environments call for a mixed, innovative, and agile portfolio. FCV settings present higher levels of risk, uncertainty, and fluidity. However, the Bank’s operational response to situations of violence and conflict has been found to be “constrained by its limited menu of instrument choices”.¹⁷ Successful portfolio approaches therefore tend to include a higher than usual degree of experimentation, piloting etc.¹⁸ This may include projects continuing UN-implemented modalities, others building country systems, and some promoting a coherent approach to local governance institutions and community-driven development (CDD). Gathering feedback on implementation progress – “to learn and course-correct in real time”¹⁹ – is also important. Additionally, particular emphasis must be placed to build on the country’s sources of resilience, and to address the risks of inadvertently exacerbating conflict and community tensions. WB operations should be tailored to the specific context and regularly monitored to ensure that they do not reinforce the drivers of fragility, cause harm, or have unintended adverse impact on the population. The WBG FCV Strategy, IFC 3.0 Strategy, and MIGA Strategy and Business Outlook FY21-23 all recognize the key role of the private sector in FCV contexts and the importance of WBG upstream collaboration to identify private sector solutions.

¹⁶ As was done, for example, in Colombia, Myanmar and the Philippines.

¹⁷ IEG (2016) documents how community-driven development (CDD) projects allowed the World Bank to maintain a presence in conflict affected regions in Nigeria and Pakistan even when security conditions were highly unsettled.

¹⁸ An innovative approach used in Somalia and Afghanistan has been recurrent cost financing, which has provided a stable platform for fiscal support, on-system service delivery financing, and associated reform dialogue (e.g. Afghanistan Reconstruction Trust Fund Recurrent Cost Support and Incentive Program; Somalia Recurrent Cost & Reform Financing Facility).

¹⁹ World Bank (2020) Next steps for the World Bank’s new strategy for fragility, conflict and violence: what does the evidence say?

Box 8. Lessons from recent experience in Afghanistan

Recent political events in Afghanistan have raised questions regarding the effectiveness and sustainability of development and institution building efforts. Over twenty years, the international community invested more than US\$2 trillion, mostly through security support. Of this amount, approximately US\$90 billion was provided in development aid. Grant flows peaked at more than 100 percent of GDP in 2011.

Donor supported on-budget national programs helped build a core set of basic state institutions which enabled rapid gains in service delivery. Development indicators improved rapidly in health, education, and access to infrastructure, especially for women and girls. Community development programming had a positive effect on access to infrastructure and basic services, perceptions of economic wellbeing, and attitudes toward women. Investments in local level community institutions are particularly important to ensure voice and agency for marginalized groups, especially women, and build a sustainable service delivery mechanism for assistance.

However, aid support was also characterized by waste, inefficiency, and corruption. While use of large multi-donor trust funds helped coordinate on-budget aid flows, a large share of civilian support remained off-budget. Weakly coordinated civilian projects led to duplication and waste. Fragmented and inflated pay scales drew away the most talented from the civil service. Aid also had negative political impacts. The visible capture of aid diminished support for the international intervention and contributed to widespread corruption. The empowerment of regional strongmen at the expense of the central state complicated problems of institution building. Amid these overall negative dynamics, there is no evidence that community development programs sustainably improved perceptions of central state legitimacy.

The Taliban's seizing control of Kabul in 2021 was driven by several factors, many of which were not directly linked to development assistance. The complexity of the situation should caution against any simplistic interpretations. Some early lessons for future FCV engagements may include the need to: i) invest in in-depth understanding of political context, take a long-term perspective, and ensure adequate coordination to avoid perverse political consequences from aid; ii) recognize that improvements in access to services do not necessarily drive improvements in state legitimacy, especially if delivery mechanisms are viewed as inequitable or subject to capture; iii) seek to avoid or minimize the creation of duplicative parallel systems; and iv) recognize that development interventions may have limited capacity to shape institutions or political accountability relationships, especially in contexts where the broader political context is not conducive.

42. There are therefore several specific lessons from other FCV settings for WB engagement in Yemen.

The following key areas will be supported and enhanced, including through the additional funding and flexibility provided by the new Yemen MDTF:

- i. *Working with and through local institutions:* Stepping up efforts to identify, understand and work with and through local, institutional partners; this will help to build local institutional capability, leave a lasting institutional legacy in the advent of aid cutbacks, strengthen the legitimacy of these institutions among citizens, and build credibility with the private sector.
- ii. *Building contextual knowledge:* Investing in developing an in-depth understanding of local political economy dynamics can help to inform programming and avoid causing unintended harm.
- iii. *Maintaining a broad dialogue with stakeholders:* Engage in dialogue with a wide array of actors to build relationships and trust, gather information, and ensure the program is resilient to changes of power balance, which can often happen quickly.
- iv. *Innovating, iterating and learning:* Make use of piloting, restructuring, scale-up and phased approaches. When complemented with investments in data gaps and in real-time monitoring and feedback, this can help to find operational solutions within the complex and fluid Yemeni context.

- v. *Ensuring early WBG collaboration on private sector solutions and use de-risking tools, such as the IDA PSW: Build on existing and pipeline engagements with potential for synergies and use of blended finance, for instance in the Yemen case in the energy sector and food security response.*

III. The New CEN

Program

43. Under the overarching goal of supporting the *people* of Yemen and preserving the *institutions* that serve them, the new CEN will focus on the following areas: (i) support for basic service delivery and human capital preservation; (ii) promote food security, resilience, and livelihood opportunities through a “continuum of support”.

- (i) Support to basic service delivery will be critical to contribute to the preservation of human capital.** Health (including COVID-19 response²⁰), nutrition, and WASH services will contribute to human capital by protecting people, whilst preventing illness and preserving scarce water resources, which are fundamental to human development, combined with assuring access to energy for clean drinking water, safe schools and health care. Building the resilience of households and communities to shocks will also be a key priority. As the pre-war urban population will almost double by 2030 fueled by displacement, investing in resilient infrastructure and maintaining delivery of basic services in towns and cities will help maintain and build human capital within the direst of circumstances, and sector integrated approaches will remain critical, for instance linking energy, water sanitation, transport, and solid waste management. Reducing the costly impact of a lost generation will be a key longer-term goal of the IDA program, as confirmed by the Bank’s re-engagement in the education sector.

- (ii) The CEN will put forward a new CoS approach to reducing food insecurity and promoting resilience and livelihood opportunities and explore opportunities to frontload and scale up support in the context of the Ukraine conflict.** The CoS approach calls for better coordination of food security-related interventions and more effective geographic targeting strategies with bundles of short and medium-term interventions at the household and community level. Through additional financings and adjustments to existing operations, the Bank will continue to address immediate needs (through cash transfers, food assistance, treatment of malnutrition), but will aim to expand its scope of interventions (e.g. to explore food import constraints), and complement them by programs that increase households’ long term resilience to food insecurity and malnutrition. The latter includes support to revitalize household-level food production and livelihoods, fisheries, domestic food distribution, as well as further investments in maternal, child, health & nutrition and WASH services. The bundles of interventions will be targeted first to the areas with chronic incidence of food insecurity and malnutrition (see Annex 2 for more details). The approach is in line with the UN Economic

²⁰ The WB has supported Yemen’s COVID-19 response by supporting national laboratories for COVID-19 diagnostic capabilities, health workers with infection prevention and control training, and health facilities for better waste management. The WB will continue to support the COVID-19 response through efforts to increase vaccine uptake. While the overall supply of vaccines has not been an issue, efforts are focused on addressing barriers to deployment of available vaccines. Vaccine hesitancy is a greater challenge, and support is being provided to increase demand for vaccines (e.g. through improved communication and social mobilization).

Framework. As a complement, IFC's support to the agribusiness sector will continue to increase levels of domestic food production and the supply of critical foods, including with potential additional financing to HSA, using the IDA PSW de-risking tools.

44. People and the institutions that serve them will continue to be at the center of the WBG's agenda.

Building on the principles that guided the previous CENs, the Bank will promote human capital to contain irreversible losses and prevent further "lost generations". Particular attention will be placed on the needs of the most vulnerable groups, as their inclusion will not only be a condition, but also an asset for sustainable peace and development. Inclusive bottom-up approaches supporting engagement between authorities and citizens, civil society and community-based organizations will be sustained to further social cohesion and strengthen accountability at the local level. To complement the people-centric approach and maximize the sustainability of interventions, the WBG will continue to invest heavily in strengthening institutions (see paragraph 44 on the institutional agenda). In addition, IFC is exploring opportunities to build institutional capacities for potential Public-Private Partnership projects, with a focus on the energy sector.

45. Institutional preservation will be a fundamental objective across the WBG program. Recognizing the fluidity of the operating environment, the Bank will deepen its engagement on the institutional agenda at three levels in a dynamic and context-specific way:

(i) strengthen the role of local institutions in project implementation and related capacity building; (ii) deepen engagement with local governments (by implementing partners, and ultimately the Bank); (iii) explore possible support on core government functions and salaries for service delivery, when circumstances on the ground allow. The engagement will be dynamic and adaptable. It will vary from one project to the other, depending on the evolution of the situation on the ground, local specificities in different areas of territorial control, and project specificities across different sectors. Institutional strengthening is a long-term goal which can not materialize with IDA support alone. The role of other partners in building strong and sustainable institutions is therefore very important. The new MDTF will offer a convening platform for donors to support the institutional agenda. Furthermore, IFC will support institutional capacities through training with a focus on renewable energy.

(i) *The Bank will continue to strengthen the capacity of local institutions and gradually increase their role in project implementation.* The two largest Bank projects since 2016, the ECRP and the EHNP, have already relied on local institutions to deliver support.²¹ The protracted conflict calls for an even stronger focus on sustainable approaches with greater reliance on and investment in local institutions, based on sectoral governance structures. For example, under the Emergency Social Protection Enhancement Project, the cash transfer program will be implemented through SFD while UNICEF will remain the IDA recipient. This transition is being handled gradually based on an assessment of SFD's readiness to undertake various implementation functions. The Bank's approach to working with these institutions will continue to hinge on robust institutional assessments to ensure fiduciary and safeguards capacity is in place and will be accompanied by continuous capacity building, with support from the MDTF. The Bank will coordinate capacity building approaches with other partners to avoid fragmentation and maximize impact.

(ii) *Deepen engagement at the sub-national level.* Localized approaches will pave the way for an eventual programmatic engagement at the sub-national level. A more systematic engagement

²¹ ECRP worked with SFD and PWP as implementation partners to deliver some of the same programs these institutions were managing before the conflict. EHNP relied on existing local networks, including district and governorate health offices and primary health facilities, to deliver the Minimum Service Package (MSP) developed by MOPHP.

with local governance structures can help strengthen institutions and enhance the sustainability of project interventions. By further engaging communities and local officials, projects will enhance local capacity for participatory planning, which will be an important contribution to peace in the recovery and reconstruction phase. The engagement will vary from one sector to the other. For example, the Bank will explore ways to build on and strengthen established community governance structures for social protection programs, in particular Village and Community Development Councils and local authorities. In health sector, the engagement will continue to focus on governorate health offices, health facilities and communities. Activities to strengthen health and education systems and build local capacity of facilities staff to provide essential services of adequate quality will be embedded in WB projects.²²

(iii) *Building on experience in other FCV countries, options will be explored to support moving towards joined-up approaches to civil service salaries in critical service delivery functions and incentivize incremental reforms through recurrent costs financing and capacity building, if the situation in-country allows.* Through an ASA and dialogue with donors, the UN, and other key stakeholders, the Bank will explore potential pathways towards resumption of civil service payments and harmonization of approaches to incentive payments in key service delivery sectors.

46. Investing in women and girls towards a more equitable and inclusive Yemen. Despite many challenges, women in Yemen are demonstrating resiliency and innovation in the face of crises. Emerging data shows that female entrepreneurship is on the rise and increasingly more women are participating actively in the economy.²³ This not only shows promise in an otherwise bleak context but also serves as a reminder of the urgent need to invest more in women and girls. Promoting gender equality in Yemen will require a dual approach that addresses existing vulnerabilities and harness emerging opportunities. Leveraging the role of local partners, the WBG will aim to contribute to the following objectives:

- Identify gaps in existing programs that target vulnerable women (social assistance, GBV, reproductive health, women with disabilities, female headed households) to improve targeting.
- Design sector specific interventions (WASH, roads, electricity, agricultural value chains, health, education) in a way that allows both women and men, girls and boys to benefit equally.
- Ensure women are actively participating in leadership committee on rehabilitation/reconstruction efforts so that their inputs are reflected in decision making.
- Expand opportunities for women’s economic empowerment, including through self-help groups, as well as improving protection and access to psychosocial support and GBV services.
- Improve financial inclusion and promote women entrepreneurship by supporting increased access to finance through IFC’s engagements in the financial sector.

47. The World Bank Group will enhance and mainstream its engagement with the private sector across the program, supporting its resilience and growth, helping foster job creation, and contributing to reducing the country’s dependence on imports and humanitarian aid.

- *The WB will complement the existing private sector support (of an emergency nature, mainly directed at businesses at the bottom of the pyramid) and support a more sustainable economic development*

²² For example, one subcomponent of the ongoing “Restoring Education and Learning” project aims to strengthen the capacity of education officials at MOE, governorate and district level first by conducting a comprehensive education management capacity assessment at the MOE level as well as in target governorates and districts, followed by training for education officials and strengthening school leadership capacity of school principals, administrators, and pedagogic supervisors.

²³ Women Entrepreneurs Finance Initiative (We-Fi) 2020; ACAPS 2021

model based on addressing businesses across the full economic spectrum. A more comprehensive private sector response is indeed necessary to promote trade finance, promote Micro, Small & Medium Enterprises access to finance and value chain development, sustain firms' viability and promote entrepreneurship, increase private sector engagement in the electricity sector, and improve the business environment. These activities will be mainstreamed into the Bank's program and future scale up. Such support can prepare the private sector to become a homegrown and sustainable engine of the reconstruction effort. Support to the private sector can also help attract foreign direct investment despite Yemen's challenging operating environment, especially from the diaspora.

- *IFC will support the country's development needs further through three key focus areas: i) enhancing the country's infrastructure for inclusive and sustainable growth; ii) supporting the provision of greater access to finance; and iii) enhancing private sector resilience and competitiveness.* It will draw on IDA's PSW as needed. IFC and the WB will also continue to coordinate with the IRG on a framework for WBG support to the electricity sector in Yemen. Additionally, IFC is exploring opportunities to increase private sector engagement in solar energy generation, as well as exploring possible engagement on a sub-national level in the governorate of Hadramout. Also, through upstream IFC is engaged in supporting a local sponsor in developing Yemen's first independent power project.
- *MIGA will participate in WBG efforts to strengthen Yemen's private sector and facilitate foreign direct investment.* MIGA will seek opportunities to leverage its political risk mitigation instruments to facilitate cross-border investments, especially for projects which benefit from IFC and WB support. MIGA's capacity to guarantee projects will be enhanced by the availability of trust funds, including the IDA PSW MIGA Guarantee Facility and Conflict and Fragility-Affected Economies Facility.

48. The World Bank Group will continue to explore opportunities to advance the climate agenda and green recovery in Yemen. Climate-resilient infrastructure solutions will be systematically promoted and aimed at building back better. On the mitigation front, low carbon development presents opportunities for the Yemeni people, in terms of access to clean energy, streetlights and green jobs. IFC is exploring the possibility of financing several solar power projects; several on-going WB projects on urban integrated services, energy efficiency and renewables, as well as water and sanitation services all include significant portions of investments on solar power to be provided to critical facilities. Through an Aden case study, the Bank is exploring the potential for a decarbonized reconstruction of Yemeni cities, including investments in low carbon infrastructure and services. A climate risk diagnostic on 16 cities has been finalized and will inform WB interventions to address climate vulnerabilities. The Bank is also investigating opportunities to reduce greenhouse gas emissions and support livelihoods of vulnerable groups through recycling and support for the solid waste sector. In addition to existing investments in resilient infrastructures under YIUSEP II, upstream interventions have been identified to mitigate the risks of flood, flashfloods, and landslide in specific areas of the country. Opportunities will also be explored to draw from regional initiatives to address Yemen's multi-faceted challenges with regional commonalities.

Staying engaged across scenarios: An adaptive and flexible framework

48. While anticipating Yemen's outlook is particularly challenging at this stage of the conflict, potential scenarios include: (i) Continued armed conflict with a further intensification or protraction with localized hostilities; (ii) If mediation efforts gain traction, a resumption of the peace process and a potential political settlement. Operationally, the Bank would likely continue to operate through the UN and local institutions

in the first scenario and explore potential pivoting to government and local institutions direct implementation in the second scenario.²⁴

49. In the context of a likely non-linear process with a wide range of actors domestically, regionally, and internationally the World Bank Group will aim to “stay engaged” across all possible scenarios in support of the people of Yemen. Operational flexibility and agility will help ensure that the Bank program can quickly respond to the evolution of the situation on the ground, scaling up to address emerging crises or seizing windows of opportunities for peace. Staying engaged throughout the conflict, IDA will continue to help deliver critical services, protect human capital, preserve institutions, and provide de-risking tools that encourages private investments. Considering the fluidity of the local context, working at the local level through a decentralized approach with a focus on local actors and communities will be critical to mitigate potential disruptions at the political level. The Bank will continuously re-assess its policy and operational framework based on developments on the ground. It will also be ready to quickly pivot into recovery and reconstruction, should there be encouraging progress on the peace process, which will also allow for IFC’s increased engagement.

Box 9. Assessing recovery and reconstruction needs

The findings of the DNA series can serve as important analytical underpinnings for a more detailed prioritization and sequencing of recovery needs, for example through follow-up assessments or a more comprehensive Recovery and Peacebuilding Assessment. Subject to the availability of reliable data, the scope of the DNA could be expanded to additional cities and geographic areas as well as incorporate new sectoral dimensions (e.g. forced displacement). The sheer size of the recovery needs, coupled with the limited amount of domestic and international financial resources, require a careful approach towards needs prioritization and sequencing that should be based on key guiding principles, such as national leadership and ownership, access and equity, community participation, building back better, conflict sensitivity, and transparency.

50. Conflict sensitivity will be mainstreamed across operations. In complex fragile environments, projects are always at risk of inadvertently exacerbating drivers of conflict and creating new tensions but also missing opportunities to contribute to community resilience and peacebuilding. Building on the Do No Harm principles applied to IDA projects to date, including through the Environmental and Social Framework, the Bank will explore the use of a more systematic and comprehensive conflict filter/peace lens. Based on the 2022 RRA, which provides high-level directions on *what to do*, conflict sensitive programming will be informed by more granular, ongoing analysis on *how to do it*, allowing for course corrections and further strengthening operational effectiveness.

51. The CEN will build on the selectivity of the existing program. Project prioritization and allocation decisions will be underpinned by the following key principles: (i) integration and consolidation; and (ii) flexibility and adaptability. Initially structured around two interventions, the IDA program selectively expanded to response to shocks and emerging needs, but it has likely reached its limits in terms of sectoral scope and will remain the basis for the selection of interventions in this CEN. Moving forward, the focus will be on additional financing to scale up existing operations with demonstrated results and/or adjust ongoing programs to increase impact. Multi-sectoral approaches and geographically targeted packages of interventions will be prioritized to enhance households’ resilience to shocks, ensure synergies across the portfolio and maximize impact, including through the CoS on food security. In the context of a fluid and

²⁴ In the second scenario, a new strategic document would be prepared (possibly a Country Partnership Framework if the situation on the ground allows for medium-term planning).

rapidly evolving situation on the ground, the IDA20 pipeline will continue to proactively address emerging needs through scalable platforms, demonstrating agility and flexibility in project design.

Analytics

52. An ambitious Advisory Services and Analytics (ASA) agenda will underpin the Bank’s operational engagement and thought leadership on critical issues for Yemen’s resilience, supported by the new MDTF. Several ASA activities will inform WB engagement set out in this CEN. For example, a new flagship Country Economic Memorandum will benefit from the use of innovative analytical approaches, including satellite imagery and big data, to further illustrate the costs of the conflict, and will explore scenarios of recovery. On the institutional front, the Bank will continue to deepen its understanding of key local institutions, explore ways to preserve their capacity and develop a roadmap to assess, maintain, and re-build capabilities for the delivery of critical services. The Bank will also conduct a fiduciary capacity assessment of and expand its TA program to CBY (Aden), which will inform IFC’s engagement in the financial sector. In the CEN period, particular emphasis will be placed on the data agenda (see Box 9).

Box 10. Strengthening innovative data collection and TPM to underpin analysis and programming

Bank teams have incorporated several innovative and remote data sources in broader data systems to overcome some of the challenges with traditional data collection. Teams have incorporated satellite imagery to estimate changes in agricultural output, distances of population centers to geotagged facilities, and conflict-related damages; utilized networks of informants at the district and subdistrict level to better understand needs in regions that are difficult to reach; analyzed social media in response to important conflict events; and used remote data collection, either through mobile phone surveys or mobile applications.

Further expanding these data systems will continue to be critical to help increase the impact of Bank projects and analytics: (i) Through partnerships with organizations with strong country access, the Bank will explore options to draw on a network of trained key informants at a more local level to help improve knowledge of underrepresented regions and populations; (ii) It will also explore ways to incorporating additional types of information in the data universe (e.g. including additional mobile information) to ensure that the portfolio and analytical agenda continue to respond to the most critical needs; (ii) Using administrative and facilities data from each project, the Bank will map out where all projects are operating and the magnitude of total support, and combine this information with data from the largest aid operations to identify underserved population.

Drawing on TPM experience to date and lessons from other FCV contexts, the Bank will also explore the possibility of contracting a portfolio-wide monitoring agent, with a view to triangulating reporting for project-specific TPMs, complementing portfolio supervision and benefitting from additional data collection, verification, and direct reporting sources.

Operating modalities

53. The WB Policy on *Development Cooperation and Fragility, Conflict and Violence* will underpin the Bank’s engagement in Yemen, in particular paragraph 2 which stresses the importance of remaining engaged during conflict to protect human capital and institutions, and paragraph 3 on WB assistance at the international community’s request.²⁵ This is consistent with the Bank’s re-engagement in Yemen in 2016 under OP2.30 (*“Development Cooperation and Conflict”*). IDA-funded operations will continue to rely on a balanced collaboration between the WB and the UN, through which the WB contributes financing

²⁵ The following paragraphs of the updated policy also apply: 2, 3, 4, 6-7, 8, 12, 17.

and technical expertise, while UN agencies are recipients of IDA grants and provide in-country implementation, in collaboration with local institutions (as detailed in paragraph 44). While the Bank maintains an institutional relationship and regular dialogue with the IRG, it does not have a direct operational engagement with the government under the FCV policy.

54. The Bank will further explore opportunities to diversify its implementing partners. During the FY20-21 CEN period, the Bank diversified its partnerships and identified options to work with other international organizations in instances where they have a specific value added and demonstrate close involvement of local institutions. The Bank partnered with a new UN agency, the World Food Programme, and with Save the Children, the first INGO to implement activities under a World Bank program in Yemen. The Bank will continue to explore partnerships with other organizations such as Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), the International Committee of the Red Cross (ICRC) and the International Federation of Red Cross and Red Crescent Societies (IFRC) with targeted objectives related to institutional strengthening, access to data and piloting of innovating operational approaches.

Partnerships

Donor dialogue and coordination

55. IDA is among Yemen’s top donors and the leading financier in the development space, in a context of declining aid flows mostly oriented towards humanitarian assistance. While needs have significantly increased in recent years, available resources and external aid have been falling. The breakdown of aid between humanitarian and development activities is heavily skewed towards the former. For the last year covered by data from the Organization for Economic Co-operation and Development Assistance Committee (2018-2019), humanitarian assistance accounted for 79 percent of total aid to Yemen. Development assistance is led by IDA with commitments of \$2.5 billion since 2016. The WB is the fourth largest donor across both tracks and accounts for 65 per cent of the total development portfolio captured in the German Dashboard.

56. The WBG will continue to play a key role in donor dialogue and help promote a continuum of support across humanitarian and development interventions. The WBG has maintained a close engagement with the international and regional donor community on a bilateral and multilateral basis, including through the Development Partners group, Nexus group and various technical initiatives. The Bank will continue to lead the Economic Working Group to enable timely information sharing and brainstorming among experts on key economic issues. A new Yemen Knowledge Hub co-led with UN Office for the Coordination of Humanitarian Affairs (OCHA) will help promote knowledge dissemination, and the WB will continue to leverage its technical expertise and robust analytical portfolio. Further to the study that quantified the drawbacks of aid fragmentation in the context of the food crisis²⁶, the Bank will work with partners to promote and evaluate the impact of CoS pilots.

57. A broad and flexible MDTF is being established to support Yemen’s resilience, recovery and reconstruction over a 10-year horizon. Building on IDA’s track record, long-standing engagement and partnerships, the new Umbrella Program will enable the Bank and development partners to jointly invest in Yemen’s resilience now, expand the knowledge base for programming, and lay the basis for a transition towards sustainable peace, recovery, reconstruction and development. In the initial phase, the program

26 Ghorpade, Yashodhan; Ammar, Ali. 2021. Social Protection at the Humanitarian-Development Nexus: Insights from Yemen. Social Protection and Jobs Discussion Paper; No. 2104. World Bank.

will prioritize critical analytics, data and capacity building activities to inform dialogue and programming, with a focus on institutional strengthening and programmatic monitoring (including exploring options for portfolio-wide TPM). The MDTF will evolve with the situation on the ground, adjusting its objectives and ambitions as the peace process progresses. All IDA operations will be designed with built-in scalability to allow partners to leverage and co-finance IDA through the MDTF (e.g. regional partners for the Emergency Lifeline Connectivity project). The Bank will continue to explore opportunities to partner with key bilateral, regional, and multilateral players.

Financing

58. Potential sources of financing over the next two years include IDA20 and donor- financed trust fund contributions, including the above-mentioned Umbrella Program. The CEN period spans IDA19 (FY22) and part of IDA20 (FY23). In a context of worsening food insecurity and deteriorating living conditions for the Yemeni population in 2020-2021, the Bank frontloaded IDA19 resources and scaled up its multisectoral response through food security, education, social protection, urban services and connectivity projects. Needs remain large for the remainder of FY22 and the World Bank is exploring availability of additional IDA funds, in particular for social protection and electricity services. Yemen will receive a new Performance-Based Allocation at the beginning of IDA20 and a RECA top-up²⁷. Yemen will also remain eligible for IDA’s special financing windows, in particular the Crisis Response Window. The CEN lays out overarching objectives and principles of engagement under a variety of potential scenarios.

Stakeholder consultations

59. The CEN has benefitted from the Bank’s regular dialogue with the Government of Yemen, local institutions, development partners, the UN, civil society, and non-government actors. A combination of online consultations and face-to-face discussions have helped inform the design of the CEN and shaped its priorities. Yemenis from across the country and from the diaspora participated in the consultations, including from Abyan, Aden, Almahara, Dhamar, Hajjah, Hadramout, Ibb, Lahj, Marib, Taiz, Shabwa amongst others. They identified several key priorities for additional WB support, including, *inter alia*: job creation, improving households’ incomes, basic services, supporting national institutions, and additional investments in M&E to maximize the impact of Bank-funded projects on beneficiaries.

IV. Risks

60. Yemen remains a high-risk, high-impact engagement. While operating in Yemen presents the WBG with multiple challenges that demand continuous monitoring, inaction would be costlier from a strategic, developmental, institutional, and human point of view. Staying engaged to help sustain key local institutions and service delivery is critical to preserve human capital and institutional capacity during the conflict, but also as an investment for recovery and reconstruction. However, the portfolio will continue to face several significant challenges (fiduciary, safeguards, social, security), many of which are external to the program and cannot be fully mitigated. With the continued deterioration of the situation on the ground, overall risks will remain high for the foreseeable future, and continued engagement in Yemen will require a high degree of agility, risk tolerance, and flexibility.

²⁷ Subject to annual review and a satisfactory assessment of RECA eligibility for FY23. IDA’s support for local institutions and its focus on addressing immediate needs and resilience are in line with the RECA priorities and focus on “development activities that preserve institutions and human capital, such as delivery of basic services and capacity building in key institutions.”

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

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

Security, Political and Governance Risks

61. Several risks related to the operating environment have arisen or worsened since the last CEN, in particular: (i) security risks and challenges in access constraints for the implementing partners and TPM agencies, (ii) implementing partners’ ability to maintain operational autonomy from the parties to the conflict throughout the country and risks of political interference, (iii) aid diversion, (iv) project and non-project related fatalities, and (v) the impact of COVID-19 on project implementation. In this context, the Bank has continued to enhance its approach to risk monitoring and mitigation across the entire portfolio. Dynamic risk assessments and frequent communication between WB and UN teams and with other partners have helped identify risks early, put in place mitigating measures and to the extent feasible take quick action when they materialize. As far as the pandemic and the conflict persist, in-country supervision and travel/logistical capacity will remain limited, thus leveraging the use of technology will be key to ensure effective cooperation with all partners and stakeholders, to monitor and mitigate risks. During the CEN period, the Bank will also explore options to re-establish a local footprint on the ground.

62. High risks continue to stem first and foremost from the current conflict context. Peace negotiations remain stalled, and active fighting has continued with a large number of frontlines, including fierce battles in central governorates. The engagement of international third parties has deepened the conflict’s intractability. While the WBG does not have any instrument to directly address the significant security and political risks, mitigation continues to depend in part on the concerted efforts of the international community under the auspices of the UN. The risk that World Bank financing might exacerbate the conflict is mitigated through engagement with UN agencies and local institutions to ensure adequate conflict sensitivity, governance and FM arrangements are in place. Regular assessments, such as the 2022 RRA, and systematized analysis of peace and inclusion issues across the portfolio through a dedicated “lens/filter” will be critical in this regard.

Stakeholders Risks

63. Meaningful engagement with a diverse range of stakeholders during active conflict is challenging. Lack of WB presence on the ground and COVID-19-related travel challenges are further compounding the risk that the WB may not engage widely enough. The WB will mitigate this risk by: i) using online platforms to benefit from stakeholders' views and consult with Yemeni groups, including the diaspora, ii) working in close partnership with the UN, local institutions and other partners to reduce “blind spots”, diversify information sources and triangulate findings; iii) enhancing outreach to a wider range of stakeholders,

where possible, especially those that the WB does not usually engage with. Opposition to the Bank program is possible from stakeholders who do not benefit from project activities, and external interventions may inadvertently create tensions as the conflict has escalated in some locations. This risk will be mitigated by encouraging local partners to consult district local authorities and local communities for project activities. WB-funded projects will also maintain flexibility to adjust project interventions in response to changing conditions on the ground and will continuously re-assess local dynamics.

Macroeconomic Risks

64. Monetary dueling between Aden and Sana’a, coupled with fragmented and strained fiscal policy undermine currency stability and heightened macroeconomic risks. In addition to the physical relocation of the CBY headquarters to Aden, the administrative and monetary nature of the bifurcation was reflected in the ban of the new Aden-CBY banknotes in the areas controlled by the Houthis, and – in response to this – by cuts or delays in the salary and pension payments from the South to recipients in the North. The massive devaluation of Rial in the South,²⁸ fueled by a monetization of the fiscal deficit, represents the tip of an iceberg made of considerable exchange rates differences across Yemeni governorates, sizeable differences between cash transactions and check paid-out transactions²⁹, differences in the value of old and newly printed banknotes, and wide fluctuations in commodity prices. Furthermore, monetary policy and actions have become an additional tool to exert pressure on one or the other side of the conflict. On the fiscal front, the country remains on a structurally weak position, compounded with the end of the DSSI (in December 2021) and – starting April 2022 – the resumption of payments to the IMF, as the CCRT is also expiring.

Fiduciary Risks

65. Risks related to corruption and fraud in various stages of the technical implementation, procurement, and financial management are high. The political and security situation limits the Bank’s ability to provide ‘on the ground’ fiduciary oversight. The risk is further accentuated in projects where cash is being delivered to beneficiaries and spread over large geographical areas. To mitigate fiduciary risks, IDA projects include internal controls and accountability mechanisms, for instance to ensure that the full amount of cash benefits is delivered to beneficiaries in a timely manner. These include: (i) analysis of the database of beneficiaries and list of payments; (ii) independent payment agencies with robust accounting and internal control practices; (iii) defined FM arrangements for transfer of funds and required financial reports for payment; (iv) use of TPM; and (v) Grievance Mechanisms and leveraging social media to analyze community perception and feedback on a real time basis and identify red flags for fraud. The WB continues to work with the UN to enhance the control environment across all WB-funded projects, increase the number of qualified payment agencies and explore the option of introducing digital payment methods. Projects will also continue to use alternative procurement arrangements (APA).

²⁸ The Yemeni Riyal moved from roughly YR 610:US\$1 in 2020, to a peak of YR 1,700:US\$1 by December 2021, in IRG-controlled areas. At the same time, it has showed important signs of recovery since December 2021, hovering around 1,100:US\$1 during the first months of 2022. The currency in the Houthis-controlled areas remained relatively stable, around YR 600:US\$1.

²⁹ A margin of up to 45 percent can be added on check transactions.

Environment and Social Risks

66. Social and Environmental Risks are ‘High’.

- Social risks are high country wide and include: (i) social exclusion of beneficiaries; (ii) security-concerns for project workers and beneficiaries; (iii) insufficient community engagement and elite capture; (iv) sexual exploitation, abuse, and gender-based violence, (v) challenging meaningful stakeholder engagement (see above) and (vi) weak implementation capacity. Common environmental impacts are related to construction and rehabilitation works, including with managing solid and hazardous wastes. In addition, community health and safety risks have resulted in several fatal incidents in recent years.
- To mitigate these risks, the World Bank, in partnership with implementation partners, established environmental and social management systems under each project which are monitored by project staff and TPM agents. Capacity building programs are regularly conducted for UN agencies and key local implementation partners, contractors, and site workers. These measures have resulted in significant improvements in the context of the implementation of the ESF and capacity building will continue to be a focus throughout the implementation of the CEN.

Technical Design and Sector Strategies Risks

67. Risks linked to technical design and sector strategies are rated ‘Substantial’, but the program’s continuity with previous CENs is an important mitigating measure. While both sets of risks were rated as high in the previous CEN, sustained WB engagement in recent years has yielded important lessons which have enabled the Bank to improve project design (e.g. exchange rate modalities, targeting, multi-sectoral approaches etc). and alignment with sectoral needs. The Bank will also continue to work with implementing partners (UN agencies and local institutions) that have a history and track record operating in Yemen throughout the conflict. While during the conflict, sector strategies are at best pursued in a fragmented way, the sector strategy risks in the CEN are largely determined by projects for which the Bank has several years of experience (e.g. health, social protection, WASH, urban services). They build on well-tested approaches, with implementing partners which have experience in these areas and familiarity with the relevant sectoral context.

Other (external support)

68. Reduced levels of external support to Yemen constitute a substantial risk. On the back of a tight fiscal situation in donor countries and fluid regional and local dynamics, a decrease in aid flows to Yemen has been observed since 2019-2020 while food insecurity and humanitarian needs have increased. Based on OCHA Financial Tracking Service, 40% of the US\$3.85 billion Humanitarian Response Plan is currently unfunded, as compared to 13% in 2019. As aid is now more critical than ever to avoid the interruption of basic service delivery, the reduction and possible closure of vital UN and NGO programs would have serious impact on the ground. An overall decline of support may also negatively impact institutional strengthening, a key objective of the CEN, and a long-term goal which cannot materialize with IDA support alone. Continued close cooperation between the World Bank, the IMF, the UN and key donors will be crucial to support the preservation of institutional capacity and enhance economic resilience. Adequate levels of international assistance and coordination will be of paramount importance to address Yemen’s humanitarian challenges and determine its economic development path. The MDTF will offer a convening platform for donors to support the institutional agenda and a risk sharing mechanism to pilot innovative approaches.

Annex 1. WB Portfolio and ASA

Ongoing Portfolio

Project Name	Net Comm. - IDA (\$M)	Net Comm. - TF (\$M)	Net Comm. - Total (\$M)
Emergency Crisis Response Project	840.00	32.14	872.14
Emergency Health and Nutrition Project	683.00	0.00	683.00
Emergency Electricity Access Project	50.00	0.00	50.00
Emergency Social Protection Enhancement and COVID-19 Response Project	203.90	0.00	203.90
COVID-19 Response Project	35.90	11.00	46.90
Desert Locust Response Project	25.00	0.00	25.00
Restoring Education and Learning Emergency Project	100.00	52.80	152.80
Integrated Urban Services Emergency Project II	170.00	0.00	170.00
Food Security Response and Resilience Project	100.00	27.00	127.00
Emergency Human Capital Project	150.00	0.00	150.00
Emergency Lifeline Connectivity Project	50.00	0.00	50.00
Total	2407.80	122.94	2530.74

Ongoing ASA Activities

Task ID	Task Name
P171171	Yemen Human Capital and Gender Assessment
P174838	Yemen Central Statistical Organization (CSO): National Accounts TA
P177508	Phase II Yemen National Institutions Assessment
P177516	Gender-based violence Operational Assessment in Yemen
P178148	Yemen Risk and Resilience Assessment
P175185	Health System Performance Assessment in Yemen
P177361	Yemen Private Sector TA
P177631	CBY Institutional Strengthening TA
P178128	Yemen Energy Sector TA
P178262	Yemen Country Economic Memorandum
P177826	Yemen Poverty Program

Annex 2. Addressing food insecurity and malnutrition through a new Continuum of Support (CoS) approach

Along with the erosion of human capital, food insecurity and malnutrition are the most pressing human development challenges in Yemen. Over 17 million people (more than half of the population) are experiencing acute food insecurity (IPC 2022). About 1.3 million pregnant and lactating women are projected to have suffered from acute malnutrition in the course of 2022. The levels of both acute (i.e. wasting) and chronic (i.e. stunting) child malnutrition are among the highest in the world: 16 percent of children are wasted, 46 percent of children are stunted, and over two million children require treatment for acute malnutrition. Infant and young child feeding practices are poor with more than 80 percent of young children sub-optimally fed and hence are at a risk of malnourishment. Food security and human capital are interrelated through a vicious cycle: the lack of appropriately healthy and diverse food combined with inadequate access to nutrition, health and WASH services contribute to child malnutrition. And severe child malnutrition – especially stunting – causes irreparable damage to their future health, brain development and cognitive potential. Food insecurity and malnutrition worsened during COVID-19 and are now at a scale never seen before. Yemen is in danger of becoming the worst famine the world has seen for decades.

The main drivers of food insecurity and malnutrition in Yemen include destroyed agricultural assets and food production, skyrocketing food prices, plummeting incomes, and lack of access to relevant services

The cost of the minimum survival food basket has increased by more than 150 percent since 2015. Food price inflation accelerated during COVID19, particularly in the south, as global food prices increased and the YER weakened further. The overall decline in domestic agricultural production due to resource constraints (water scarcity, lack of investment) and climate change is making Yemen one of the highest food import-dependent countries in the world. The destruction of local food production and disruption of domestic food supply chains due to the conflict have exacerbated the food availability challenge. It has also been compounded by a severe decline in household income, along with a reduction in food aid in 2020. The lack of access to Maternal, Child Health and Nutrition (MCHN) services as well as safe drinking water and proper sanitation—key to preventing and treating malnutrition—have exacerbated the problem. Many of the factors underlying high prices, low incomes and limited access to relevant services were present before the conflict—the conflict and other shocks made pre-existing conditions a lot worse.

The current approach to food insecurity and malnutrition is almost exclusively focused on addressing immediate needs. Donor support is overwhelmingly focused on supporting consumption (through cash transfers and food assistance), and it also includes curative nutrition services (to treat severe acute malnutrition). Support is often short-lived and almost never complemented with interventions to increase long-term resilience to food insecurity and malnutrition. As a result, interventions often fail to have an impact beyond the period of support and do not help to prevent subsequent food crisis. And there is limited coordination among interventions, resulting in some households receiving support from several sources while other, equally needy households, getting nothing.

The Bank is introducing a new CoS approach to reducing food insecurity and malnutrition in Yemen. The focus should continue to be on addressing immediate needs (through cash transfers, food assistance and treatment of malnutrition), but these efforts need to be better coordinated, expanded in scope (e.g. to explore food import constraints), and complemented by programs that increase long term resilience to food insecurity and malnutrition—a CoS approach. The latter include support to revitalize domestic food production and distribution, as well as investments in MCHN and WASH services. Bundles of short- and medium-term interventions will be targeted first to the places with chronic incidence of food insecurity and malnutrition. The approach is in line with the UN Economic Framework. While the Bank is working

with other donors to have as many geo-focused interventions bundled together as possible, it will start implementing and testing the new CoS across its projects. To complement the CoS approach, IFC will continue to support the private sector’s contribution to food security and affordability by enhancing local food production and building sustainable value chains.

Food security continuum of support across WB projects³⁰

Type of Intervention	Project
Short-term/emergency interventions	
SFD’s cash-for-nutrition (CfN)	Social Protection project
Treatment of severe acute malnutrition	Food security project Human Capital project
Medium- and longer-term interventions	
Labor intensive works, through SFD’s CFW and PWP’s community assets, to build/rehabilitate relevant community assets (e.g. agricultural land, irrigation systems, rural and village access roads), in addition to providing short-term income support	Social Protection project Food Security project Emergency Lifeline Connectivity Project
Promote household level resilience by providing inputs and tools to grow important food crops and prepare nutritious foods (could complement CfN beneficiaries)	Food Security project
Restoring productive agricultural resources through promotion of selected public good interventions (e.g. animal health, seed production, small scale irrigation), targeted food aid for agricultural and food producers	Food Security project
Support to food producers and distributors to improve domestic food production, transportation, marketing and storage	Food Security project
Making preventive and promotive community nutrition a priority and water & sanitation services available in addition to supporting curative nutrition services at health facilities	Human Capital project
Restoring the fishery value chain (including production assets, cold storage, marketing, etc.) and awareness to develop and manage capture fisheries and marine aquaculture	Fisheries project

The implementation of geo-focused bundles requires harmonized targeting and interoperability across project interventions. Bank projects that address food security and malnutrition use a multiplicity of geo-targeting mechanisms. Going forward, these interventions will be bundled together and targeted geographically using a common approach: a combined measure of food insecurity (incidence of Inadequate Food Consumption, IFC) and chronic malnutrition (stunting rates among children under 5 years of age) at the district level as the basis for geographic targeting.³¹ To avoid crowding, the selection of districts will also factor in interventions and targeting of other, non-bank financed projects. Within districts, bundles will try to reach as many communities as possible. Productive investments will be based

³⁰ Yemen Social Protection Enhancement and COVID-19 Response (P177020); Yemen Food Security Response and Resilience Project (P176129); Yemen Emergency Human Capital Project (P176570); Yemen Emergency Lifeline Connectivity Project (P177053); Sustainable Fishery Development in Red Sea and Gulf of Aden (P178143; under preparation).

³¹ Stunting rates are only available at the governorate level, so the combined measure would use district-level incidence of IFC and governorate-level stunting rates.

on an assessment of the productive potential within the target district. The geographic targeting of MCHN and WASH services will also be based on the availability of specific services.

The geographic coverage and content of bundles will depend on funding availability. To the extent possible, and for the purpose of determining the geographic scope of bundles, funding from all related projects will be considered together. Depending on their nature, bundled interventions will happen at the same time or sequentially. For example, the initial emergency support provided to households by CfN will be followed by more sustainable support to grow nutritious foods.

The implementation of these bundles will require some level of interoperability of Management Information Systems (MIS) across project interventions. Bundles will be rigorously evaluated.

Annex 3: CEN Indicative Monitoring Framework

Overarching goal: Supporting the people of Yemen and the institutions that serve them	
<ul style="list-style-type: none"> • Percentage of investments informed by community participation • Number of local institutions assessed, trained, and involved in project implementation 	
Objectives: (1) support for basic service delivery and human capital preservation; (2) promote food security, resilience, and livelihood opportunities through a “continuum of support”	
Objective (1): Support for basic service delivery and human capital preservation	
Sub-objective	Benchmarks
<ul style="list-style-type: none"> • Sustain service delivery in health, education and social protection • Investing in resilient infrastructure and maintaining delivery of basic services in towns and cities through sector integrated and area-based approaches 	<ul style="list-style-type: none"> • People with access to health, nutrition, population, and education services • Travel time to social services in rural areas • People with access to critical urban services
Objective (2): Promote food security, resilience, and livelihood opportunities through a “continuum of support”	
Sub-objective	Benchmarks
<ul style="list-style-type: none"> • Address immediate needs (through cash transfers, food assistance and treatment of malnutrition) • Scale up interventions that increase long term resilience to food insecurity and malnutrition (e.g., food production and distribution, private sector development) • Operationalize geographically focused bundles of short-term and resilience building interventions 	<ul style="list-style-type: none"> • Beneficiaries of social protection programs • People with access to rehabilitated productive community assets • MSMEs that have been created, preserved, or grown • Volumes of agri-food products commercialized by beneficiaries • Improvement in food security and malnutrition outcomes one year after bundled interventions end in target communities

YEMEN

IDA

Emergency and Crisis Response

Working for the Yemeni People.

March 2022

Current Emergency Portfolio Through the UN Comprises 9 Active Operations
Totaling \$2.53 Billion.
Cumulative Disbursement has reached \$1.93 Billion (82 percent annualized disbursement ratio).

WORLD BANK GROUP SUPPORT

- ▶ Emergency Crisis Response Project (ECRP) \$872.1mn
- ▶ Emergency Health & Nutrition Project (EHNP) \$683mn
- ▶ Integrated Urban Services Emergency Project II (YIUSEP) \$170m
- ▶ Emergency Energy Access Project (EEAP) \$50mn
- ▶ COVID-19 Response Project \$46.9mn
- ▶ Desert Locust Response Project \$25mn
- ▶ Restoring Education and Learning Emergency Project \$152.8m
- ▶ Emergency Social Protection Enhancement & COVID-19 Response Project \$203.9m
- ▶ Emergency Human Capital Project \$150m
- ▶ Food Security Response and Resilience Project \$127mn
- ▶ Emergency Lifeline Connectivity Project \$50mn

Leveraging Partnerships for Implementation in Conflict. The Bank has forged an extraordinary operational partnership with key UN agencies and local service delivery institutions for the implementation of our program. By leveraging these local and international partnerships, we aim to preserve the implementation capacity of Yemeni institutions now and for the country's future, and to sustain their ability to deliver the basic services on which millions of Yemenis rely.

Annex 4: Key Development Results and Impact

Econ. Livelihood & Cash Assistance:

- 443,008 direct beneficiaries (of which 29 percent females, 19 percent IDPs, and 60 percent youth) benefited from short-term wage employment opportunities. 11.7 million workdays were created and around 5.4 million people were provided access to key social services. 678,723 women and children have benefited from nutrition interventions.
- 11 rounds of payments to approximately 1.43 million extremely poor and vulnerable households across Yemen's 333 districts.

Emergency Health, Nutrition and Cholera and COVID-19 Response:

- 28 million+ Yemenis reached with basic health and nutrition services.
- 2.5 million+ Yemenis provided with access to improved water sources and sanitation services in cholera-affected areas.
- 5.7 million people received hygiene kits
- 4.6 million women and children received nutrition services and 7.7 million children were immunized.
- Nearly 2,400 electronic Disease Early Warning system sites established.
- 26 functional Emergency Operations Centers in place for COVID-19 response;
- 6 Central Public Health Laboratories are equipped with COVID-19 diagnostic equipment, test kits and reagents.
- 2,757 healthcare staff trained for infection prevention and control.

Integrated Urban Services:

- A total generated power of 62, 859 MWh of electricity from PV installations in 229 health facilities and schools.
- More than a million cubic meters of accumulated waste collected and removed
- Creation of 1.4 million person-days of temporary employment.
- Over a million Yemenis benefited from restored access to rehabilitated water and sanitation services.
- 2.8 million beneficiaries in eleven cities reached with restored access to critical urban services of whom 48.6 percent are females.

Emergency Electricity Access:

- Electricity supply has been restored to 443 clinics, schools, and drinking water wells, and 9 COVID isolation units. An additional 67 facilities are in various stages of implementation in 21 governorates.
- About 480,000 people across 17 governorates have benefited from partial grants for solar kits.

Agriculture, Food Production and Income Generation

- 157 075 households (1 099 525 people) rural households have benefited from the project investments.
- About 60,000 farmers provided with start-up packages to resume crop and livestock production.
- 13,850 farmers adopted improved agricultural technologies.
- 6800 8,400 dairy and horticulture farmers and honey producers received equipment and inputs to improve production.
- 84 people trained as community animal health workers (CAHWs).
- 2.64 million small ruminants vaccinated against peste des petits ruminants (PPR) and sheep and goat pox and treated animals against endo-and ecto-parasites.
- 20 000 heads of cattle vaccinated against lumpy skin disease.
- 28 cold chain facilities provided to veterinary service providers at district and governorate levels to improve vaccine handling and storage.
- 14,038 hectares with improved irrigation, benefiting 22,660 households with the construction/rehabilitation of shallow wells/springs, ponds, agricultural terraces, water harvesting structures, check dikes, retaining walls, and small spate diversion channels, reducing disaster risks.
- 12,300 beneficiaries engaged in the cash-for-works program.

Response to Desert Locust:

- 377 ha treated in Al-Jawf and Shabwah governorates during September 2021.
- The national teams of MOAI supported with mounted vehicles sprayers, field materials, communications equipment, camping equipment, raining materials for desert locust control and field operations, and maintenance of ULV sprayers.
- MOAI received ULV Sprayers and related items, 600 KG of Bio-pesticides, personal protective, and camping equipment.
- Three new Central Desert Locust Control Centers (CDLC) are under establishment, in addition to rehabilitating the infrastructure and operational capacity of two additional centers.
- Desert Locust Early Response System (DLERS) has been designed, tested, and deployed throughout the DLCC network.

