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Report No: PAD1118

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR 59.3 MILLION
(US\$90 MILLION EQUIVALENT)

TO THE

REPUBLIC OF YEMEN

FOR A

EMERGENCY SUPPORT TO SOCIAL PROTECTION PROJECT

November 26, 2014

Social Protection and Labor Global Practice

MIDDLE EAST AND NORTH AFRICA

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CURRENCY EQUIVALENTS

(Exchange Rate Effective August 31, 2014)

Currency Unit = Yemeni Rial
YER 214.90 = US\$1
US\$0.65 = SDR 1

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

CBY	Central Bank of Yemen
CDD	Community Driven Development
COCA	Central Organization for Control and Audit
CT	Cash Transfer
CSO	Central Statistical Organization
DA	Designated Account
DFID	U.K Department for International Development
ECF	Extended Credit Facility
ECRG	Emergency Crisis Recovery Grant
ESSNEP	Emergency Social Safety Net Enhancement Project
ESSPP	Emergency Support to Social Protection Project
FM	Financial Management
FMS	Financial Management Specialist
GDP	Gross Domestic Product
GOY	Government of Yemen
HBS	Household Budget Survey
IAD	Internal Audit Department, SWF
IDA	International Development Association
IFR	Interim Financial Report
IMF	International Monetary Fund
IPF	Investment Project Financing
ISA	International Standards on Auditing
ISN	Interim Strategy Note
ISP	Institutional Support Project
MENA	Middle East and North Africa
M&E	Monitoring and Evaluation
MOF	Ministry of Finance
MOPIC	Ministry of Planning and International Cooperation
MOSAL	Ministry of Social Affairs and Labor
NDC	National Dialogue Conference
NGO	Non-Governmental Organization
OM	Operations Manual

PA	Payment Agency
PAD	Project Appraisal Document
PDO	Project Development Objective
PFS	Project's Financial Statements
PMT	Proxy Means Test
PWP	Public Works Project
PST	Project Support Team
SFD	Social Fund for Development
SSN	Social Safety Net
SWF	Social Welfare Fund
TA	Technical Assistance
UN	United Nations
USA	United States of America
WA	Withdrawal Application
WB	World Bank
WDR	World Development Report
WFP	World Food Program
YER	Yemeni Rials
YPO	Yemen Post Office

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REPUBLIC OF YEMEN
Emergency Support to Social Protection Project

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PAD DATA SHEET*Yemen, Republic of**Emergency Support to Social Protection Project (P151923)***PROJECT APPRAISAL DOCUMENT***MIDDLE EAST AND NORTH AFRICA*

Report No.: PAD1118

Basic Information			
Project ID P151923		EA Category C - Not Required	Team Leader Lire Ersado
Lending Instrument Investment Project Financing		Fragile and/or Capacity Constraints [X]	
		- Fragile States	
		Financial Intermediaries []	
		Series of Projects []	
Project Implementation Start Date 12-December-2014		Project Implementation End Date 30-June-2016	
Expected Effectiveness Date 01-January-2015		Expected Closing Date 31-December-2016	
Joint IFC No			
Practice Manager/Manager Yasser El-Gammal	Senior Global Practice Director Arup Banerji	Country Director Hartwig Schafer	Regional Vice President Inger Andersen
Recipient: Ministry of Planning and International Cooperation (MOPIC)			
Responsible Agency: Social Welfare Fund			
Contact: Mr. Mansour Alfeadi		Title: Executive Director	
Telephone No.: (967-1) 544-012		Email: info@swf.gov.ye	
Safeguards Deferral (from Decision Review Decision Note)			
Will the review of Safeguards be deferred? [] Yes [X] No			
Project Financing Data(in USD Million)			
[] Loan	[X] IDA Grant	[] Guarantee	
[] Credit	[] Grant	[] Other	
Total Project Cost:	120.47	Total Bank Financing:	90.0

Financing Gap:	0.0									
Financing Source				Amount						
BORROWER/RECIPIENT				2.0						
IDA Grant				90.0						
United States Government				28.47						
Total				120.47						
Expected Disbursements (in USD Million)										
Fiscal Year	2015	2016	2017							
Annual	72.47	40.00	8.00							
Cumulative	72.47	112.47	120.47							
Proposed Development Objective(s)										
The Project Development Objective (PDO) is to assist the Recipient in providing cash transfers to Social Welfare Fund beneficiaries.										
Components										
Component Name						Cost (USD Millions)				
Support to SWF Cash Transfer Program						119.97				
Project Management						0.5				
Institutional Data										
Practice Area / Cross Cutting Solution Area										
Social Protection & Labor										
Cross Cutting Areas										
<input type="checkbox"/> Climate Change <input checked="" type="checkbox"/> Fragile, Conflict & Violence <input type="checkbox"/> Gender <input type="checkbox"/> Jobs <input type="checkbox"/> Public Private Partnership										
Sectors / Climate Change										
Sector (Maximum 5 and total % must equal 100)										
Major Sector			Sector		%	Adaptation Co-benefits %		Mitigation Co-benefits %		
Public Administration, Law, and Justice			General public administration sector		50					
Public Administration, Law, and			Public administration-		30					

Justice	Other social services			
Health and other social services	Other social services	20		
Total		100		
<input checked="" type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.				
Themes				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme	%		
Social protection and risk management	Social safety nets	60		
Social protection and risk management	Social risk mitigation	20		
Social protection and risk management	Other social protection and risk management	20		
Total		100		
Compliance				
Policy				
Does the project depart from the CAS in content or in other significant respects?		Yes []	No [X]	
Does the project require any waivers of Bank policies?		Yes []	No [X]	
Have these been approved by Bank management?		Yes []	No []	
Is approval for any policy waiver sought from the Board?		Yes []	No [X]	
Does the project meet the Regional criteria for readiness for implementation?		Yes [X]	No []	
Safeguard Policies Triggered by the Project		Yes	No	
Environmental Assessment OP/BP 4.01			X	
Natural Habitats OP/BP 4.04			X	
Forests OP/BP 4.36			X	
Pest Management OP 4.09			X	
Physical Cultural Resources OP/BP 4.11			X	
Indigenous Peoples OP/BP 4.10			X	
Involuntary Resettlement OP/BP 4.12			X	
Safety of Dams OP/BP 4.37			X	
Projects on International Waterways OP/BP 7.50			X	
Projects in Disputed Areas OP/BP 7.60			X	
Legal Covenants				

Name	Recurrent	Due Date	Frequency
Schedule 2, Section I A.2.b	No	3 months after effectiveness date	Once
Description of Covenant			
To facilitate the carrying out of its functions, the Recipient shall, no later than three (3) months after the Effective Date, appoint a PST accountant in accordance with the provisions of Section III.C of Schedule 2 to the Financing Agreement.			
Name	Recurrent	Due Date	Frequency
Schedule 2, Section I E.2.a and b.	Yes	The first technical audit report due 6 months after effectiveness date	Ongoing
Description of Covenant			
(b) The Recipient shall have the independent audit firm verify the list of Cash Transfer Beneficiaries for the purpose of Part A.1 of the Project and all other functions specified in Section II.B.5 of this Schedule 2.			
(b) The Recipient shall, not later than six (6) months after the Effective Date, submit to the Association the technical audit report satisfactory to the Association related to the use of the proceeds of the first Cash Transfer, thereafter, not later than three months after the final cash transfer, submit to the Association the independent verification report referred to in Section II.B.4 of this Schedule covering the final cash transfer. The final independent verification report shall be furnished to the Association not later than four (4) months after the end of last withdrawal of the proceeds of the Grant allocated to Cash Transfers under Category (1) of the table set forth in Section IV.A.1 of Schedule 2 to this Agreement.			
Name	Recurrent	Due Date	Frequency
Schedule 2, Section II.B.5,	No	3 months after effectiveness date	Once
Description of Covenant			
No later than three months after the Effective Date, the Recipient shall appoint or cause to be appointed, an independent audit firm with terms of reference, qualifications, experience, and terms and conditions of employment satisfactory to the Association, to be responsible for verifying retroactive expenditures on cash benefits and perform annual audits.			
Name	Recurrent	Due Date	Frequency
Schedule 2, Section II.B.6,	No	3 months after effectiveness date	Once
Description of Covenant			
No later than three months after the Effective Date, the Recipient shall cause SWF to choose and train a SWF qualified accountant to be responsible for overseeing the financial and management aspects of the Project.			
Conditions			
Name			Type

Additional Conditions of Effectiveness as set forth in Article V.5.01(a)			Effectiveness
Description of Condition			
The U.S. Treasury Grant Agreement has been executed and delivered and all conditions precedent to the effectiveness or to the right of the Recipient to make withdrawals under said U.S. Treasury Grant Agreement (other than the effectiveness of this Agreement) has been fulfilled.			
Name			Type
Additional Conditions of Effectiveness as set forth in Article V.5.01(b)			Effectiveness
Description of Condition			
The Subsidiary Agreement has been executed on behalf of the Recipient and the Project Implementing Entity.			
Name			Type
Disbursement Conditions as set forth in Schedule II. Section IV.B.1(b)			Disbursement
Description of Condition			
(b) for payment of Cash Transfers under Category (1), unless the Recipient has issued a complete list of Cash Transfer Beneficiaries in accordance with the eligibility criteria set forth in the Project Operational Manual and in a manner satisfactory to the Association (as the list may be updated from time to time with the prior consultation and agreement of the Association).			
Team Composition			
Bank Staff			
Name	Title	Specialization	Unit
Lire Ersado	Senior Economist	Team Lead	GSPDR
Afrah Alawi Al-Ahmadi	Sr Social Protection Specialist	Sr Social Protection Specialist	GSPDR
Amer Abdulwahab Ali Al-Ghorbany	Environmental Specialist	Environmental Specialist	GENDR
Saleh Qasem Al-Manary	Financial Management Analyst	Financial Management Analyst	GGODR
Samira E. Al-Harithi	Procurement Analyst	Procurement Analyst	GGODR
Fowzia Yahya Musleh Al-Qobi	Temporary	Temporary	MNCYE
Safa'a Abdullah Al-Sharif	Program Assistant	Program Assistant	MNCYE
Moad M. Alrubaidi	Sr Financial Management Specialist	Sr Financial Management Specialist	GGODR
Amir Mokhtar Althibah	Research Analyst	Research Analyst	GMFDR
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Ibrahim Ismail Mohammed Basalamah	E T Consultant	E T Consultant	GURDR
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Aissatou Dicko	Senior Program Assistant	Senior Program Assistant	GSPDR
Elena Gagieva-Petrova	Operations Analyst	Operations Analyst	GHNDR
Maiada Mahmoud Abdel Fattah Kassem	Finance Officer	Finance Officer	CTRLA
Fareeba Mahmood	Senior Operations Officer	Senior Operations Officer	MNADE
Piers E. Merrick	Senior Operations Officer	Senior Operations Officer	MNADE
Jasna Mestnik	Finance Officer	Finance Officer	CTRLA
Khalid Ahmed Ali Moheydeen	E T Consultant	E T Consultant	GSPDR
Edith Ruguru Mwenda	Senior Counsel	Senior Counsel	LEGAM
Henri Joel Nkuepo	Associate Counsel	Associate Counsel	LEGAM
Antonio Nucifora	Lead Economist	Lead Economist	GMFDR
Andrianirina Michel Eric Ranjeva	Finance Officer	Finance Officer	CTRLA
Guido Rurangwa	Senior Country Officer	Senior Country Officer	MNCA3
Paolo Verme	Senior Economist	Senior Economist	GPVDR

Non Bank Staff

Name	Title	City

.

Locations

Country	First Administrative Division	Location	Planned	Actual	Comments
Yemen					

I. STRATEGIC CONTEXT

A. Country Context

1. The political transition in Yemen is advancing, although the outlook remains challenging. After some delay, the National Dialogue Conference (NDC), which started in March 2013, was concluded in January, 2014, with an agreement to establish a six-region federal state. The NDC, a flagship event of Yemen's ongoing political transition, made significant progress on a range of political, governance and social issues. It engaged a broader array of political parties, ordinary citizens, and civil society. Through it, Yemenis have agreed upon a series of guiding principles aimed at guaranteeing rights and freedoms, reducing the centralization of power, and empowerment of women and youth, among others. A new constitution is being drafted and will determine the degree of autonomy that will be granted to the regional governments. The parliamentary and presidential elections have been postponed to 2015 to allow time to complete the transition process. Despite the largely successful conclusion of the NDC, optimism around its outcomes appears to have given way to an upsurge in violence and unrest. Open confrontation with the different factions and with Al-Qaeda remains frequent.

2. While Yemen has made progress in advancing the political transition, the economic recovery since the 2011 crisis remains weak. Yemen's economy, which contracted by about 12.7 percent in 2011, has yet to fully recover. The conflict situation continues to cause significant disruptions in the economy-wide supply and production chains, resulting in, among others, nationwide power cuts, and fuel, electricity and water shortages. The macroeconomic situation, which continued to be relatively stable up until 2013, worsened in 2014 due in large part to repeated attacks on oil pipelines and the electrical grids. Revenue performance is weak due to decline in hydrocarbon revenues, a result of the repeated sabotage of the oil pipelines. The fiscal deficit, while showed a declining trend in 2012, still remained large at about eight percent of Gross Domestic Product (GDP) in 2013. At the same time, average inflation edged up slightly to reach 11 percent (up from about 10 percent a year earlier and a peak of over 23 percent in 2011).

3. With low per capita income, limited resources, and a rapidly increasing population, Yemen faces major challenges in promoting economic and social development of its population. Widespread unemployment and poverty are two of the most important challenges facing Yemen. High unemployment contributes to undermining political and security stability particularly as it is concentrated among the youth. Estimates of unemployment range from 15 to 40 percent, with the Central Statistical Organization (CSO) of Yemen at the lower end of this range. The 2011 political crisis and unfavorable immigration reforms in the Gulf region further aggravated the unemployment situation. About two million Yemenis were reported to be working in Saudi Arabia and worker's remittances to Yemen, mostly from Saudi Arabia, average around six percent of GDP. Repatriation of between 300,000-400,000 workers back to Yemen has contributed to the unemployment problem and eroded incomes from remittances.

4. Estimates by World Bank (WB) show that more than half of the population lives below the national poverty line and nearly as many are food insecure. In addition to the political and economic crisis, the 2010–11 increase in international food prices contributed to exacerbation of

poverty.¹ Yemeni families have suffered substantial decline in their purchasing power due to soaring prices and loss of jobs and incomes. The United Nations (UN) World Food Program (WFP) estimates that about 43 percent of the population was food insecure in 2013, a significant increase from about one in three in 2009. About five million people were found to be severely food insecure, suffering from levels of hunger that is generally considered to require external food assistance.² An estimated 60 percent of children under the age of five have chronic malnutrition, 35 percent are underweight, and 13 percent face acute malnutrition. In addition, 27 percent of pregnant women and 35 percent of lactating women are malnourished. Without immediate support, the poor will likely experience significant further deterioration in their well-being, which could last decades and be costly to reverse.

5. Strong economic reform measures and donor support are needed to achieve fiscal sustainability and inclusive growth and to prevent further deterioration in the living conditions of the population. A number of essential economic reform measures put forth in the Transitional Program for Stabilization and Development (2012-2014) have been postponed for fear of derailing the NDC process. Further delays in reforms, shortfalls in donor support and sabotage activities that curtail oil and electricity supply could undermine the stabilization gains, reduce growth prospects, and threaten fiscal and external sustainability. In this context, the GOY has taken measures to reduce fuel subsidies and committed to remove ghost workers and double dippers from the payroll with the use of the biometric identification cards and making wage payments through bank accounts and postal offices. Increases in fuel prices are expected to reduce fuel subsidies, which represented over seven percent of GDP and more than 25 percent of total public spending in 2013. However, the subsidy reform program is expected to lead to a reduction in the real income for households, particularly the poor and vulnerable. Therefore, there is a need for strong social protection measures to mitigate the impact and to pave the way for a comprehensive reform program.

B. Situations of Urgent Need of Assistance or Capacity Constraints

6. The economic hardships for Yemeni households appear worse now than they were during the 2011 crisis. Continuing political tensions and ongoing conflict and war have contributed to further deterioration of living conditions in the country. The majority of the population suffers from deteriorating public services, including power cuts and chronic fuel and water shortages. Deteriorating security conditions, with recurrent unrest and tensions, have deepened the country's ongoing economic crisis and weakened the Government's ability to provide adequate safety nets to the most vulnerable. With Yemen unable to sustain robust economic growth and job creation, many families are struggling to meet their basic needs.

7. Amidst an historic political transition, the GOY has embarked on a strong economic reform program with the objectives to reduce fiscal deficit, generate growth and employment, and address widespread poverty and unemployment. A three-year reform program to be

¹ Yemen is highly dependent on imports from international markets to satisfy its domestic consumption of wheat, the main staple (see <http://www.fao.org/giews/countrybrief/country.jsp?code=YEM>). In the last five years, on average, about 2.7 million tons per annum of wheat was imported out of a total yearly domestic consumption of about 2.86 million tons. Yemen is thus highly vulnerable to international food commodity price volatility.

² <http://www.wfp.org/news/news-release/food-security-survey-shows-10-million-yemenis-still-struggle-food>

supported by a SDR 365.25 million IMF Extended Credit Facility (ECF) and other donors was approved on September 2, 2014. In recognition of the need to preserve the progress achieved in the political transition and to address the worsening economic conditions, the program aims at reducing the large fiscal deficit and reorienting public expenditure to pro-growth, pro-poor outlays. It also aims at strengthening public financial management, enhancing governance and the business environment, and improving bank soundness and financial intermediation to support inclusive growth and job creation.

8. At the center of the reform program is a substantial reduction in fuel subsidies. While fuel subsidies in Yemen, as in elsewhere, largely accrue to the rich, the adverse impacts arising from the reform program have aggravated the economic hardships, particularly for the poor and vulnerable. WB simulations of the recent fuel price adjustment measures (increase in price of gasoline by 20 percent and diesel by 50 percent) show that the overall real income losses associated with the reform can be significant. The direct welfare impact alone is estimated to be more than two percent of total consumption for the bottom 50 percent of the income distribution. And the indirect and second round effects through higher inflation are likely to be substantially larger. This compounds the already difficult living conditions for many Yemenis struggling to recover from ongoing economic hardships. It will have adverse effects that can be far-reaching, having implications for education and nutrition levels and, hence, for human capital. The reform program has already triggered social unrest and had to be scaled back. Given the prevailing difficult fiscal environment, it is considered highly unlikely that the GOY will have either the financial means or other resources to compensate the poor and offset the adverse impact.

9. It is in this context that the proposed operation is being developed. As Yemen is launching a strong reform program under very difficult conditions and limited domestic financing, donor financing will be essential to help the program go forward and enable the financing of much needed investment and social expenditures. The proposed Emergency Support to Social Protection Project (ESSPP) will support the GOY in protecting social expenditures and maintaining critical basic services. It will finance and seek co-financing to assist the GOY in ensuring that targeted vulnerable households have access to cash transfers during this period of particular economic hardships aggravated by the subsidy reform program. It would contribute towards mitigation of the existing vulnerabilities and the potential adverse impacts on the poor and vulnerable arising from the subsidy reform program. The cash assistance through the proposed ESSPP is expected to contribute towards maintaining social stability in the aftermath of the social unrest prompted by the fuel price increases.

10. The operation is being prepared and implemented under paragraph 12 of the WB Operational Policy 10.00 on “Projects in Situations of Urgent Need of Assistance or Capacity Constraints” and under condensed procedures. The justification for processing the operation under paragraph 12 of OP10.00 and condensed procedure stems from Yemen’s capacity constraints stemming from fragility and the urgent need to address the existing vulnerabilities and the expected adverse welfare impacts on the poor arising from the increases in fuel prices. In addition to the Bank’s US\$90 million, other donors are contributing to the GOY’s effort to protect pro-poor social spending and mitigate the impact of the subsidy reform program. The Kingdom of Saudi Arabia (KSA) has provided grant assistance in parallel that has, among other support, fully covered Social Welfare Fund (SWF) benefits for the first quarter of 2014 (totaling

about US\$80 million). The United States of America (USA) is contributing US\$28.47 million to co-finance the proposed ESSPP and support the SWF's Cash Transfer (CT) program. Therefore, the proposed operation is considered a part of a coordinated multi-donor support to Yemen.

C. Sectoral and Institutional Context

11. Yemen's Social Safety Net (SSN) system, broadly defined and including subsidies, accounts for about 30 percent of public spending. However, much of this spending (about 85 percent) goes to energy subsidies without a commensurate impact on poverty reduction. Fuel subsidies represent a large burden on the budget, crowd out productive spending, distort the economy and resource allocation, largely benefit the rich, and lead to inefficient energy consumption. For example, in 2012 and 2013, Yemen spent over nine and seven percent of GDP on fuel subsidies, respectively, more than health, education and social transfers combined. Meanwhile, spending on non-subsidy and targeted SSN programs -at less than one percent of GDP- is much lower than the average for comparator countries. Spurred mainly by urgent fiscal pressures, the GOY has embarked on a fuel subsidy reform program, which is expected to help reduce the fiscal deficit and generate savings that can be used to finance pro-growth and pro-poor spending programs. However, as noted earlier, the adverse impact on the poor and vulnerable arising from this reform program is significant.

12. Yemen has an array of social policies and institutions providing diverse set of non-subsidy SSN benefits to the population. These include Community-Driven Development (CDD) programs under the Social Fund for Development (SFD); the Public Works Project (PWP); a targeted CT program under the SWF; and a few other smaller programs, such as the Disability Fund and the Agriculture and Fishery Promotion Fund. SFD delivers targeted social and economic services as well as workfare (cash for work) programs. PWP's objective is to create short-term employment through small infrastructure development projects. The SWF is the only national program that does household-level targeting and is mandated to reach chronically poor and vulnerable households with immediate cash assistance. Yemen's public spending on these programs, accounting for 0.6–1 percent of GDP, is quite modest, compared to similar programs in other low income countries (between 1.5 - 2 percent of GDP) and Yemen's spending on energy subsidies (more than seven percent of GDP).

13. The SWF was established in 1996 and is financed by the Government. The program covers about 35 percent of the population (approximately 60 percent of the poor), making it the largest program of its nature in the Middle East and North Africa (MENA) region in terms of coverage. The Government has shown commitment to the SWF through consistent support for its expansion from about 100,000 beneficiaries at inception to about 1.5 million at present. The SWF Law was amended in 2008 to introduce measures to improve the program's targeting and effectiveness. These included shifting to poverty-based targeting; delivering beneficiary development interventions to help poor families integrate into the social and economic development process; and introduction of graduation and/or recertification policies and processes. To operationalize the law, SWF adopted a proxy means test (PMT) targeting approach and conducted a nationwide household survey to recertify existing beneficiaries and identify eligible new ones. As a result, the SWF has established the most comprehensive national record of the poor and vulnerable households in Yemen. The database of about 1.65 million households

is being used by other Government agencies and development partners to target and coordinate different services and benefits across a range of social programs.

14. However, SWF faces a number of challenges that are hampering its service delivery and effectiveness in poverty reduction. Four main challenges are highlighted here. First, there are often long delays in funds flow to SWF because of the fiscal challenges, which in turn lead to undue delays in payments made to the beneficiaries. This has adverse impacts on the welfare of the poor, as it affects household planning and predictability and ability to meet immediate needs. Second, the SWF benefit size is low in international comparison and highly inadequate to cope with the effects of the economic hardships aggravated by the fuel price increases. Although the amount of SWF benefit doubled in 2008 from 1,000 to 2,000 Yemeni Rials (YER) to 2,000 to 4,000 YER per month per family, depending on the number of children, it is less than 10 percent of total expenditure of the poor. As a result, SWF's effectiveness in alleviating poverty is limited. Third, SWF's operating budget is among the lowest in the world at less than four percent of the program's overall cost. It is inadequate in light of the difficulties involved in reaching target beneficiaries, particularly those in rural and remote areas, and for ensuring adequate monitoring and compliance. The increase in fuel prices imposes further limitations on service delivery effectiveness and reduces the SWF's capacity to monitor and ensure compliance.

15. Finally, SWF needs better administrative system that can support regular case management, re-certification, and exit of beneficiaries deemed ineligible, the latter requiring political and popular support. The 2008 SWF Law requires that all beneficiaries shall re-apply on regular basis to ensure their continued eligibility for cash benefits. Moreover, according to this Law, those deemed ineligible on the basis of the targeting exercise should exit the program. However, since 2008, no reassessment of the beneficiaries was made. There is an urgent need to conduct a new nationwide survey to reassess the state of the beneficiaries. Such a survey will provide an up-to-date data on the basis of which the Government can recertify the existing caseload; develop exit options for those beneficiaries that do not meet the eligibility criteria; and identify and enroll those in extreme poverty and whose living conditions are further worsened by the fuel subsidy reform. The Government has committed to take action on those deemed ineligible on the basis of this recertification exercise. The exercise will also be an opportunity for the Government to reconsider new cutoff points, as it may not be fiscally sustainable to indefinitely continue to support about 35 percent of the population with CT safety net.

16. As part of this operation and the ongoing IDA-funded Institutional Support Project (ISP), the Bank will support the GOY and SWF to address several of these institutional and administrative challenges. SWF has developed a short-term and medium-term policy and administrative reform actions that are being supported by ISP and used as a platform to facilitate the SWF and Government and donor and Government dialogue on the CT program. The proposed operation, in addition to ensuring cash transfers for the SWF beneficiaries, aims to support efforts to improve the efficiency and effectiveness of SWF through financing a SWF beneficiary survey, supporting an increase in the benefit size by 50 percent and doubling of the SWF's operating budget, and making the disbursement of the project resources conditional on the verification payments made to the SWF beneficiaries.

D. Higher Level Objectives to which the Project Contributes

17. The project will contribute to Yemen's efforts to improve human and social development through protecting spending on the poor. By assisting the GOY to mitigate the impact of the subsidy reform, the proposed project helps promote equity while at the same time improving the efficiency of public spending and contributing to inclusive growth. Through its support to strengthening Yemen's main SSN instrument and redistributing resources to the poorest, the project will help households manage risk better and invest more in their future. For example, poor households who receive cash transfers may weather hardship periods without selling valuable assets or withdrawing children from school. Greater equity and more efficient public spending in turn foster medium-term economic growth for the country. Moreover, having an improved SSN program plays a major role in mitigation of economic, social and natural shocks by affording the Government the flexibility to scale up during shocks and to scale down to its core function of a safety net for the chronic poor when the shocks have subsided. The importance of such instrument is already evident now with the subsidy reform program and the proposed project relying on existing system to help mitigate the impact.

18. Support for fragile and conflict-affected states is a key priority for the World Bank Group. The Bank has expressed its commitment to be an integral part of the international effort to foster stability and development in Yemen. This has been made explicit in the World Bank Group's Interim Strategy Note (ISN) for Yemen (FY13-14) (Report 70943-YE), discussed by the Board of Executive Directors in October 2012. The ISN supports Yemen's political transition while laying the groundwork for economic growth and poverty reduction. The proposed project, which will form a significant part of a package of Bank support to Yemen to support its political transition, is aligned with the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity. It not only aims to respond rapidly to address the urgent needs of the poor and vulnerable, but also helps preserve Yemen's hard earned gains in political transition.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

19. The Project Development Objective (PDO) is to assist the Recipient in providing cash transfers to Social Welfare Fund beneficiaries.

B. Project Beneficiaries

20. The proposed project would benefit about 1.21 million poor families out of about 1.5 million SWF beneficiaries in all districts of Yemen. The total estimated number of individuals to benefit from the cash assistance provided through the project is about 7.2 million, of which about 52 percent are females. The direct beneficiaries of the project are those currently in the SWF beneficiary list and meeting the eligibility criteria based on the PMT targeting.

C. PDO Level Results Indicators

21. Progress towards the PDO will be monitored through the following key indicators:

- Beneficiaries of safety nets programs (number), of which women (number) (Core indicator). This indicator will track the total beneficiaries of the CT program.
- Completion of SWF beneficiary survey (yes/no).

III. PROJECT DESCRIPTION

22. The proposed project will finance cash assistance to poor families in Yemen through the SWF CT program and SWF beneficiary survey to help improve the efficiency of the CT program. In 2011, the SWF expanded its coverage by 50 percent to reach 1.5 million families, representing over 10 million individuals in all 21 governorates. The PMT method, developed with technical assistance from the Bank, ensured pro-poor targeting SWF benefits and enabled recertification of existing beneficiaries.³ Based on the PMT scores, the families are classified into six categories: A, B, C, D, E, and F. Categories A&B are poor, while C&D are vulnerable groups just above the poverty line. Families in categories A to D are deemed eligible for SWF benefits. On the other hand, families in categories E&F are non-poor, determined ineligible and required to exit the program. The ESSPP will finance cash transfers to A to D groups only, i.e., to poor and vulnerable families deemed eligible on basis of the PMT targeting.

23. While the bulk of the project proceeds will be used to deliver CT for the poor and vulnerable, the operation will finance an urgently needed SWF beneficiary survey. Through the survey, up-to-date information will be collected from families currently in the program, those that were deemed ineligible in the 2008 recertification and re-targeting exercise, and new households that were never considered for SWF benefits before. The recertification exercise will be an opportunity for the GOY to reconsider new cutoff points to recertify or graduate families, as well as identify potential new beneficiaries most in need. While the ESSPP finances only the survey, the actual data analysis and recertification exercise will be supported under the ongoing ISP. The recertification exercise will allow reassessing characteristics of existing and potential new beneficiaries by applying a new targeting formula. For this, information from the 2014 Household Budget Survey (HBS) will be used to develop an updated PMT formula.

A. Project Components

24. The project, which will be implemented over eighteen months, has two components: (i) Support to SWF Cash Transfer Program; and (ii) Project Management.

Component 1: Support to SWF Cash Transfer Program (estimated cost US\$119.97 million, of which US\$89.5 million IDA)

25. This component has two sub-components: (i) Cash Transfers to SWF Beneficiaries; and (ii) SWF Beneficiary Survey:

³ PMT is considered to be by far the most objective *means test* for assessing eligibility for SSN programs. PMT generates a score for applicants based on easily observable characteristics such as location, quality of dwelling, ownership of durable goods, demographic structure, education and, possibly, occupations. Eligibility is determined by comparing the household's score against a predetermined cutoff. A properly designed PMT ensures that benefits go to those who need them most in a most efficient and transparent manner.

- **Sub-component 1.1: Cash Transfers to SWF Beneficiaries** *(total estimated cost US\$108.47 million, with contributions from IDA of US\$80.0 million and USA of US\$28.47 million).* The objective of this sub-component is to ensure the SWF beneficiaries have access to cash transfers during a period of particular economic hardship aggravated by the 2014 fuel subsidy reform. The intervention would provide cash assistance (about 2000-4000 YER per month per family) to about 1.21 million families currently in the SWF CT program and certified as eligible based on the PMT targeting. With an average of over five members per beneficiary family, over six million poor people are expected to benefit from the project.
- **Sub-component 1.2: SWF Beneficiary Survey** *(total estimated cost US\$11.5 million, with contribution from IDA of US\$9.5 million and Government co-financing of US\$2.0 million).* This component would finance a comprehensive survey to revalidate the socioeconomic data and continuing eligibility for SWF assistance, to reassess the economic conditions of those currently receiving cash transfers from SWF, and to identify new beneficiaries and those no longer eligible for SWF benefits. Importantly, the survey will also help generate an updated proxy means test (PMT) formula that takes into account the current economic conditions as well as the specific country and beneficiary characteristics that will enhance the accuracy and efficiency of future beneficiary targeting. The ISP will use the data to update the beneficiary list and produce an updated list of ineligible groups for Government action to remove them from the SWF's benefit. Expenses associated with the sub-component's activities include consultancy and non-consulting services, goods, supplies and travel cost.

Component 2: Project Management (estimated cost US\$0.5 million fully funded by IDA)

26. The component will support strengthening the capacity of SWF and the Project Support Team (PST) for Project management, implementation, coordination, management and monitoring in conformity with the Financing Agreement, the Project Appraisal Document and the Operation Manual (OM). Given the added load of work to the PST, the project will finance additional support in the form of an accountant. For monitoring of project implementation, the component will support the preparation of financial audits, including employment of independent auditors to carry out independent evaluations and periodic audits. Expenses associated with this component's activities include the provision of goods, training and technical advisory services.

B. Project Financing

27. The total estimated cost for the proposed project amounts to US\$120.47 million equivalent. IDA will provide a grant of US\$90 million equivalent under an IDA grant-based Investment Project Financing (IPF) instrument. There will be additional funding from USA in the amount of US\$28.47 million and US\$2 million Government co-financing. The IDA and USA funds will be fully fungible in so far as they are used for Sub-component 1.1: Cash Transfers to SWF Beneficiaries. The Government financing will be used for Sub-component 1.2: SWF Beneficiary Survey and for payments for which there may be restrictions to use the IDA grant, such as incentive payments for Government employees participating in the survey activities. The Recipient of the Grant will be the Republic of Yemen represented by its Ministry of Planning and International Cooperation (MOPIC).

Project Cost and Financing

28. The breakdown of the US\$120.47 million project cost among the three components and sources is as follows:

Table 1: Project Cost and Financing (US\$ million)

Project Components/Sub-components	Project cost	IDA Financing	% Financing	USA Financing	% Financing	Gov't Financing	% Financing
1.1. Cash Transfers to SWF Beneficiaries	108.47	80	73.8	28.47	26.2	0	0
1.2. Survey of SWF Beneficiaries	11.5	9.5	82.6	0	0.0	2.0	17.4
2. Project Management	0.5	0.5	100.0	0	0.0	0	0.0
Total Costs							
Total Project Costs	120.47	90.0	74.7	28.47	23.6	2.0	1.7
Front-end fees	0	0		0		0	
Total Financing Required	120.47	90.0	74.7	28.47	23.6	2.0	1.7

C. Lessons Learned and Reflected in the Project Design

29. **Global experience with CT programs:** Over the past decade, the number of CT programs in the world has expanded substantially. The design of CT programs has been improving over the years, especially with regard to targeting, often using the PMT methodology. Recently, CT programs have been initiated in several countries in Africa and Asia, such as Kenya, Tanzania, Zambia, Bangladesh and Pakistan. International experience has shown that well-designed CT programs can cost effectively reach the poorest and most needy households, and represent an effective alternative to poorly targeted and inefficient subsidies. There is mounting evidence that CT programs are an efficient way of redistributing income to the poor and thereby improving their living conditions. Moreover, robust impact evaluations of CT programs are starting to provide sound evidence of positive impacts on human development outcomes.

30. **Cash transfers as an emergency response to crisis and shocks:** The option of supporting the SWF CT program is in line with the recommendations of the 2011 Independent Evaluation Group (IEG) report on SSN. While the choice of instrument should depend on the country context, the report presented evidence showing that cash transfers were the most appropriate SSN instruments to use in a crisis situation for at least two reasons: (i) they are administratively simpler than other programs and can be implemented more quickly than, for example, programs involving complex procurement procedures; and (ii) cash transfers are often more politically acceptable during times of crisis and economic shocks, as people are aware of the need to protect the population affected.

31. **Simplified project design:** One of the key lessons learned with the ongoing emergency projects is that they should have a simple project design that can be quickly and efficiently implemented with a clear project development objective and easily monitored indicators

established from the beginning. The proposed project design builds on an existing program with improved targeting to ensure effectiveness and maximize impact on the poor.

32. **Use of existing systems with appropriate capacity:** The implementing agency should have the capacity to quickly mobilize human and financial resources to carry out the project activities. The SWF is an existing agency in operation for the past two decades. It has successfully implemented a US\$100 million ECRG funded by the WB and is currently implementing a US\$10 million ISP.

33. **Effective implementation requires sustained World Bank support:** Experience from rapid responses undertaken in the context of the global financial crisis and emergency support operation emphasizes the importance of sustained implementation support from the WB. Similar operations in countries needing emergency support needed careful implementation support to resolve unanticipated issues (e.g., those relating to verification of payments and eligibility of expenditures). In Yemen, the WB's existing working relationship with the SWF, including the earlier emergency operation, is expected to permit the necessary intensive and sustained technical and fiduciary implementation support. In addition, the WB team expects to provide intensive and frequent implementation support throughout the project drawing on multi-sectorial staff based in Sana'a and at headquarters.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

34. Given the situation of urgent need of assistance and the need to ensure rapid delivery of cash transfers to the poor and vulnerable, the project will rely and build on the existing SWF system. While SWF is responsible for implementing project activities through its head office in Sana'a and branch offices, a Project Support Team (PST) already established through the existing WB ISP will provide coordination and fiduciary management support to complement the skills not available in-house. The WB has supported SWF over an extended period during which the SWF has implemented measures designed to expand its reach, and to enhance targeting efficiency and overall effectiveness. For instance, SWF has successfully implemented with full disbursement a US\$100 million ECRG. The Bank has an ongoing US\$10 million SWF Institutional Support Project (ISP). In this context, there is full confidence in the SWF's ability to implement this project effectively and efficiently.

35. The project will be implemented by SWF from December 2014 to December 2016. The SWF is governed by a revised Law on Social Welfare 39 (2008). Its Board of Directors, headed by the Minister of Social Affairs and Labor, is composed of the Vice Minister of Finance, Deputy Minister of Social Affairs and Labor, Deputy Minister of Local Administration, Executive Director of the SWF (member and secretary), Executive Managers of Social Security Network Programs, and community representatives of private sector and civil society organizations. The SWF is headed by an Executive Director who is responsible for its day-to-day operations. As of January 2014, the SWF had 1,810 staff operating through a three-level organizational structure: head office in Sana'a with 190 staff; 23 branch offices covering all Governorates in Yemen, with 762 staff; and 214 district offices with 816 staff.

36. The implementation of the cash transfers will be carried out using the existing CT mechanism of the SWF and start immediately after project effectiveness with about 40 percent of the Grant amount expected to be used for retroactive financing. The remaining balance of sub-component 1.1 will be disbursed during first quarter of 2015. The disbursement schedule is aligned to address the impacts of fuel price increases and with the understanding that the GOY's fiscal difficulties are far worse in 2014 than they will be in 2015 when fuel subsidy reform measures are expected to generate savings. The survey work is similarly expected to start immediately after effectiveness. SWF will be supported by a long-term international firm hired as part of the ISP.

B. Results Monitoring and Evaluation

37. The WB will supervise the project in accordance with the WB's applicable policies and procedures. Project activities will be monitored on an ongoing basis to support achievement of the PDO. Monitoring reports covering the key Project Outcome Indicators will be prepared in accordance to the schedule in Annex 1. Supervision of the project will be carried out by a WB project management team, including a task team leader, social protection specialist, financial management specialist, and a procurement specialist, all based in the Yemen Country Office. The team should be able to visit the SWF regularly, interact with SWF staff and have direct access to relevant documentation. Supervision will be supplemented by the use of consultants, as needed, and implementation support missions will take place at least twice a year. SWF's M&E Department and governorate branch offices will monitor the cash transfers as well as verify that the ESSPP cash benefits have been received by eligible beneficiaries. Cash transfers will be delivered through PAs on a quarterly basis. In addition, Component 2 will finance consultancy services to monitor implementation and evaluate project outcomes. An Implementation Completion and Results Report (ICR) will be prepared after project implementation is completed.

C. Sustainability

38. SWF is fully funded by the GOY and enjoys strong Government ownership. The project is providing temporary financing to the existing SWF beneficiaries and does not add new beneficiaries that would become a liability to the Government. The ongoing energy subsidy reform measures are expected to free additional resources that would create adequate fiscal space to finance the SWF cash transfer program. Moreover, the SWF beneficiary survey financed by the project would enable the Government to identify ineligible beneficiaries and take measures to remove them from the program. These measures will likely result in substantial savings on the medium to long run, thus ensuring SWF's financial viability and sustainability.

V. KEY RISKS AND MITIGATION MEASURES

A. Risk Ratings Summary Table

Risk Category	Rating
Stakeholder Risk	Moderate

Implementing Agency Risk	
- Capacity	Substantial
- Governance	High
Project Risk	
- Design	Moderate
- Social and Environmental	Low
- Program and Donor	Moderate
- Delivery Monitoring and Sustainability	Substantial
Overall Implementation Risk	Substantial

B. Overall Risk Rating Explanation

39. The overall risk rating for the project is Substantial because of the fragile country context, as well as capacity and governance risks. Given the overall weak governance at the institutional and country levels, the fiduciary risks are considered high for the proposed project. These risks will be mitigated through a number of measures. First, the ISP, which is under implementation, is providing intensive staff training as well as introducing performance monitoring measures through the M&E system. Further technical assistance will be provided through the ISP to strengthen the capacity of the SWF in targeting, management and administrative processes as well as M&E. The ISP Project Support Team (PST) in place will handle project financial and procurement management. The SWF's Internal Audit Department (IAD) will add the proposed project to its scope of work. The IAD will be responsible for checking the list of proposed beneficiary families and confirming eligibility, including conducting regular visits to a sample of selected beneficiaries and submitting internal audit reports to the SWF Executive Director. The SWF's Department of Allocation will be responsible for follow up on payments to the project beneficiaries. Also, the Project's External Auditor's TOR will include a special provision for the Auditor to conduct field visits to a sample of selected beneficiaries to validate the beneficiaries' eligibility and proper receipt of their payments.

40. The possibility of not reaching the right beneficiaries targeted by the project is another risk of interest to the project. Social and political pressures may arise which might exclude some regions from the project benefits during the current period of political instability, with the result that extremely vulnerable families may not be reached by the program. This risk is managed through prior selection of project beneficiaries which have been selected using data from the SWF database (covering 1.65 million families) and using PMT targeting. The beneficiaries have been reviewed by a tripartite committee, including the SWF, Central Organization for Control and Audit (COCA), and Ministry of Finance (MOF).

41. There is a risk of less than the full amount being paid to the beneficiaries and not timely delivery of cash benefits in remote areas. This risk is mitigated through the use of the Yemen Post Office, which has a wide network throughout Yemen and proven to be the most efficient way of delivering cash in the country. In addition, both the EU and the Bank are providing technical assistance to strengthen SWF's M&E system and to establish a complaint handling mechanism which will be used for the ESSPP. This strategy has been proven effective during the implementation of the ECRG.

VI. APPRAISAL SUMMARY

A. Economic Analysis

42. **Project's development impact in terms of expected benefits and costs:** Recent evidence shows that safety net interventions can be quite effective in reaching the poor and serve to improve development outcomes. CT interventions enable reform of inefficient subsidies, which would create fiscal space for more growth-enhancing expenditures and more efficient and effective social protection. They are found to be much more effective in reducing poverty than universal fuel subsidies that largely accrue to the rich. Reduction in fuel subsidies would thus create space for pro-growth pro-poor expenditures, while improving fiscal sustainability. The project would support the GOY in protecting the poor and vulnerable families in this time of economic difficulty as well as in mitigation of the adverse impacts of the economic reform program, including subsidy removal measures.

43. Economic analysis indicates that financing of US\$135 million for cash benefits for the poor would nearly fully offset the adverse impacts resulting from the subsidy reform program. The analysis uses the 2005 HBS, with adjustments for inflation up until 2013. Simulations by WB show that the recent fuel price adjustments (increase in price of gasoline by 20 percent and diesel by 50 percent) will result in an increase of poverty headcount by about 1.9 percentage points from its projected level for 2013. In other words, about 500,000 people could be pushed into poverty. On the other hand, simulations of the mitigation role of the timely payment of the SWF's cash benefits show that poverty would be 3.1 percentage points lower than it would be without the SWF's cash assistance. Thus more than compensating for the direct real income loss resulting from the fuel price adjustments.⁴ Please note that the simulations assumes that the distribution of project funds follows the SWF's formula currently in use, i.e., ranging from 2000-4000 YER per family per month, depending on family size.

44. With the planned policy changes, the proposed increase in the SWF benefit size will more than fully compensate for the impact of the fuel price increases. The GOY intends to increase the benefit size by 50 percent once the recertification process is completed. Further, about 500,000 extremely poor and poor families meeting the eligibility criteria are planned to be enrolled in the SWF CT program. Under these planned changes, Yemen would be able to reduce poverty incidence by about 4.4 percentage points from its projected level in 2013 without the

⁴ Please note that the simulations assume the GOY will not be able to pay the SWF benefits without the financing provided under the project. The simulations do not account for second round effects (indirect impact) through increase in the prices of other goods and services. The indirect impacts can be substantially larger than the direct one. But they are not estimated due to lack of relevant data, such as input-output tables.

timely payment of the SWF cash benefits (more than needed to compensate for the direct impact of the fuel price adjustments). Poverty gap would decline by about 1.3 percentage points, from its level under the subsidy reform program and without timely payment of the SWF cash benefits.

Table 2: Poverty Impact of Subsidy Reform and ESSPP

	Under Current SWF Benefit Level		Under Planned Policy Changes	
	<i>Poverty Headcount</i>	<i>Poverty Gap</i>	<i>Poverty Headcount</i>	<i>Poverty Gap</i>
Poverty Impact of Subsidy Reform (<i>percentage points</i>)	+1.9	+1.0	+1.9	+1.0
Poverty Impact of ESSPP (<i>percentage points</i>)	-3.1	-1.8	-4.4	-2.6
Level of mitigation achieved through ESSPP CT program (<i>percent</i>)	160	180	230	260

Source: WB staff calculations based on 2005 HBS, SWF data, Yemen CPI and Subsidy Reform Parameters.

45. As importantly, the CT program achieves the same level or more impact on poverty at a significantly lower cost than fuel subsidies. The potential savings from the reform program are substantially larger than the cost incurred to fully compensate the poor (i.e., the bottom 50 percent of the population). By providing additional impetus for the GOY to proceed with the fuel subsidy reform, the proposed project will lead to a large and immediate positive impact on Yemen's fiscal position. For instance, the savings from the fuel reform program from the household sector alone would be substantially larger than the resources needed to fully compensate the bottom 50 percent of the population.

46. **Rationale for public sector provision/financing:** The proposed project is aimed largely at mitigation of the adverse impacts on the poor arising from the 2014 fuel subsidy reform program. While fuel subsidies in Yemen, as in elsewhere, disproportionately benefit the rich, as shown above, Yemen could see significant increase in poverty incidence without a compensation scheme to mitigate the real income losses associated with the reform. Therefore, activities to be financed under the proposed project merit public support. Through the cash benefits, households will be able to maintain their pre-reform consumption, resulting in less food insecurity and less drawing down on productive assets. The cash transfers are also likely to keep more children in school and fewer morbidity and malnutrition among 0 to 5 year-old children than would have been possible without timely delivery of the benefit. These are in return expected to contribute to improved health and education outcomes of children and ultimately their labor market outcomes and income-earning potential as adults.

47. **Value added of Bank's support:** The partnership between the WB and GOY in the area of social protection is not recent and the project will capitalize on the on-going engagement. This project is building on the knowledge and the lessons from the previous and ongoing WB projects in Yemen and similar ones in other countries with similar socio-economic and political context. The Bank's rich international experience in designing and supporting CT programs in situations of urgent needs would benefit Yemen. Moreover, the WB global knowledge and experience will

help Yemen in developing a socially inclusive, financially sustainable, and efficiently targeted SSN system. The WB has a comparative advantage on these domains given its wide-ranging experience in design, implementation, and evaluation of SSN programs worldwide.

B. Technical

48. The proposed project aims to support the GOY in mitigating existing vulnerabilities and the expected adverse impacts arising from the 2014 subsidy reform program. The beneficiary families are chosen based on objective criteria of poverty and vulnerability. The project design builds on the experience of the implementing agency in delivering benefits to the targeted beneficiaries and the improved targeting through the use of the PMT database. The project aims to make use of the extensive experience that SWF has in directly dealing with the target beneficiaries on a regular basis. SWF has a large number of field offices that are engaged in welfare activities as well as maintaining records of the beneficiaries. The implementing agency, the SWF, is the main cash-based SSN program in Yemen, and has been operating for over 15 years delivering cash assistance.

49. The proposed project will benefit from the SWF's experience and lessons learned from the Emergency SSN Enhancement Project (ESSNEP) funded through the European Union Food Crisis Rapid Response Facility, as well as from the successful implementation of the WB's ECRG. The implementation of the proposed project will take advantage of the technical assistance being provided to the SWF through the Bank-financed ISP and the presence of a long-term international consulting firm hired to support the improvement of the SWF's CT program.

50. The design and implementation of the SWF beneficiary survey will be led by experienced international consulting firm hired as part of the ISP. The SWF beneficiary survey will involve collecting and registering socio-economic information of around 2.5 million families, including on the current 1.65 million families in the SWF database and on about 0.8 to 0.9 million new families. The latter group will include families that were excluded on the basis of 2008 targeting process; families that were not poor in 2008 but are now poor; and newly established poor families that were not present in 2008. The survey form will be designed in such a way that (i) all socio-economic information of families needed for the program purpose can be gathered in a clear and simple manner; (ii) household information can be broken down to families; and (iii) socio-economic and poverty related indicators can be extracted so as to enable calculation of the PMT score through a PMT formula.

C. Financial Management

51. Due to the emergency nature of this operation and the need to respond quickly, the financial management approach was streamlined and based on more simplified ex-ante requirements, while relying more heavily on ex-post requirements as additional fiduciary controls and review. The SWF retains a qualified Financial Management Specialist (FMS) supported by an Accountant within the PST and whose salaries are financed under the ISP. Due to additional responsibility for the new operation, the PST will be strengthened by hiring an Accountant. The SWF has an accounting system capable of recording project transactions and generating financial reports. The SWF has an operational manual setting out the structure of the CT program, including fiduciary arrangements, which are deemed to be adequate and will be

used for this project. It will issue Interim Financial Reports (IFRs) on a quarterly basis and Project Financial Statements (PFS) on an annual basis, to be reviewed and audited respectively by an external auditor acceptable to the Bank. IFRs and PFS will be approved by the Bank.

52. The SWF's flow-of-funds procedures, including the use of the Payment Agencies (PA) to transfer funds to beneficiaries and the reconciliation of the PA records, are acceptable and will be used under the project. The risk of project funds being used for unintended purposes is mitigated through the project design, including the SWF's use of PMT; the SWF beneficiary survey being carried out under the project and supervised by the SWF, MOF and COCA; the SWF's Operations Manual (OM); the PST's accounting system; the SWF's internal audit; the use of PA to channel the funds to beneficiaries and the reconciliation of data provided by them; the COCA's audits of SWF; and the use of an independent external auditor. Annex 3 provides additional information on the FM assessment and the recommended mitigation measures.

53. The disbursement methods in the project will include Advances, Direct Payment, and Reimbursement. To ensure that funds are readily available for project implementation, a Designated Account (DA) for each source of funds (the IDA Grant and the USA Trust Fund) will be opened by the SWF at the Central Bank of Yemen (CBY). The DAs will be managed by SWF. The project funds will be channeled through the SWF under conditions acceptable to the WB (see Chart 1 in Annex 3). Disbursement to the beneficiaries from the SWF will follow the SWF's Operational Manual and cash payments to beneficiaries will be carried out through PA branches in the governorates. The disbursement will follow the report-based disbursement method.

D. Procurement

54. The procurement under the project will be processed under paragraph 20 of OP 11.00 "Procurement under Situations of Urgent Need of Assistance or Capacity Constraints", where "Simplified Procurement Procedures" may apply. A procurement capacity assessment of the implementing agency SWF was carried out by the Bank and it was noted that SWF has gained significant experience with carrying out procurement according to WB Guidelines, as demonstrated by its ongoing IDA-funded ISP project. The PST is in the process of hiring procurement officer and has international Procurement Advisor with extensive knowledge in Bank procurement and who provides support to the PST during the critical stages of the procurement process. The Procurement Advisor will provide quality control of project procurement documents process, contract management and on-the-job capacity building for the SWF's staff.

55. The procurement activities under Components 1 and 2 involve goods, training and consultant services. Procurement of consultant services will be carried out in accordance with the Bank's "Guidelines: Selection and employment of consultants under IBRD Loans and IDA Credits and Grants by WB Borrowers", dated January 2011 and revised July 2014, and the provisions stipulated in the Financing Agreement. Procurement activities are open to all bidders from eligible countries as defined in the guidelines. Procurement of goods and non-consulting services will be conducted in accordance with WB Guidelines: Procurement of goods, works and non-consulting services under IBRD Loans and IDA Credits and grants by the WB Borrowers dated January 2011 and revised in July 2014 and the Financing Agreement. In addition,

procurement under the proposed operation will be carried out in accordance with the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and the provisions stipulated in the legal Agreement. See Annex 3 for details.

E. Social

56. Since the project’s main activities are cash transfers and survey, it is not expected to cause any impact on land or source of income. Therefore, OP4.12 is not triggered and the project is classified as category (C). The project will benefit both urban and rural families and those most in need and identified on the basis of poverty targeting based on the PMT formula. About 52 percent of the project resources are expected to go to women and children. The project will support participation by a wide range of stakeholders, including local Civil Society Organizations, Non-Governmental Organizations, government officials and government offices. The inclusion of these groups will strengthen the SWF’s gender focus at the community level.

F. Environment

57. The project is classified as an **Environmental Category C** according to the WB’s Operation Policy (OP 4.01), requiring no environmental assessment. The project does not finance civil works.

G. Climate Change and natural Disaster Risks

58. Using the applicable tools, the project has been screened for potential impact of climate change and natural disaster risks. It was determined that this project, which is largely aimed at providing cash transfers to targeted poor families, does not pose any such risks.

Annex 1: Results Framework and Monitoring
YEMEN: Emergency Support to Social Protection Project

Results Framework

Project Development Objectives

PDO Statement

The Project Development Objective (PDO) is to assist the Recipient in providing cash transfers to Social Welfare Fund beneficiaries.

These results are at | Project Level

Project Development Objective Indicators

Indicator Name	Baseline	Cumulative Target Values								
		Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	End Target
Completion of the SWF beneficiary survey (Yes/No)	No	No	No	No	No	Yes	Yes	Yes	Yes	Yes
Beneficiaries of Safety Nets programs (Number) - (Core)	0.00	7248510	7248510	7248510	7248510	7248510	7248510	7248510	7248510	7248510
Beneficiaries of Safety Nets programs - Other cash transfers programs (Number - Sub-Type: Breakdown) - (Core)	0.00	7248510	7248510	7248510	7248510	7248510	7248510	7248510	7248510	7248510
Beneficiaries of Safety Nets programs – Female (Number - Sub-Type: Breakdown) - (Core)	0.00	3769225	3769225	3769225	3769225	3769225	3769225	3769225	3769225	3769225

Intermediate Results Indicators

Indicator Name	Baseline	Cumulative Target Values								
		Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	End Target
Timely submission of Monitoring Reports (Text)		MR 1 submitted by Mar 31, 2015	MR 2 submitted by Jun 30, 2015	MR 3 submitted by Sept 31, 2015						MR 4 submitted by Mar 31, 2016
Updated PMT formula agreed upon (Yes/No)	No	No	No	No	No	Yes	Yes	Yes	Yes	Yes
Grievances registered related to delivery of project benefits addressed (Percentage) - (Core)	0	50	60	70	80	80	80	80	80	80
Grievances related to delivery of project benefits that are addressed-(Number - Sub-Type: Supplemental) - (Core)	0	100	150	200	250	300	300	300	300	300
SWF beneficiary survey methodology agreed upon (Yes/No)	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Indicator Description

Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Completion of SWF Beneficiary Survey	No description provided.	Quarterly	-2014 HBS -Reports	-SWF -WB -Ayala Consulting
Beneficiaries of Safety Nets	This indicator measures the number of	Quarterly	Reports	SWF

programs (number)	individual beneficiaries covered by safety nets programs supported by the Bank. Safety nets programs intend to provide social assistance (kind or cash) to poor and vulnerable individuals or families, including those to help cope with consequences of economic or other shock.			
Beneficiaries of Safety Nets programs - Other cash transfers programs (number)	Follows the safety nets programs' classification used in SP Atlas. Includes: family, child and disability allowances.	Quarterly	Reports	SWF
Beneficiaries of Safety Nets programs - Female (number)	This indicator measures female participation in SSN programs. It has the same definition as the "Beneficiaries of Safety Nets programs" but applies only to female. This indicator will yield a measure of coverage of SSN projects disaggregated by gender (in absolute numbers)	Quarterly	Reports	SWF

Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Timely submission of Monitoring Reports	No description provided.	Quarterly	Reports	SWF
Updated PMT formula agreed upon	No description provided.	Quarterly	HBS, SWF Beneficiary Survey	SWF, WB, Ayala Consulting
Grievances registered related to delivery of project benefits addressed (%)	This indicator measures the transparency and accountability mechanisms established by the project so the target beneficiaries have trust in the process and are willing to participate, and feel that their grievances are attended to promptly. It is understood that local sensitivities and	Quarterly	Reports	SWF

	tensions will not allow grievance or redress mechanisms to be established in all projects.			
Grievances related to delivery of project benefits that are addressed-(number)	No description provided.	Quarterly	Reports	SWF
SWF beneficiary survey methodology agreed upon	No description provided.	once	2014 HBS	SWF, WB, Ayala Consulting

Annex 2: Detailed Project Description

YEMEN: Emergency Support to Social Protection Project

Background

1. The political transition in Yemen is advancing, although the outlook remains challenging. After some delay, the National Dialogue Conference (NDC), which started in March 2013, was concluded in January, 2014 with an agreement to establish a six-region federal state. The NDC, a flagship event of Yemen's ongoing political transition, made significant progress on a range of political, governance and social issues. It broke through political and social barriers to engage a broader array of political parties, actors, ordinary citizens, and civil society. Through it, Yemenis have agreed upon a series of guiding principles aimed at guaranteeing rights and freedoms, reducing the centralization of power, and empowerment of women and youth, among others. A new constitution is being drafted and will determine the degree of autonomy that will be granted to the regional governments. The parliamentary and presidential elections have been postponed to 2015 to allow time to complete the transition process. Despite the largely successful conclusion of the NDC, optimism around its outcomes appears to have given way to an upsurge in violence and unrest. Open confrontation with the different factions and with Al-Qaeda remains frequent.

2. While Yemen has made progress in advancing the political transition, the economic recovery since the 2011 crisis remains weak. The economic hardships for Yemeni households appear worse now than they were during the 2011 crisis. The cycle of food price increases, flood, economic crisis and political instability since 2008 has taken a toll on the Yemeni population, particularly the most vulnerable and in regions affected by war and conflict. Widespread unemployment and poverty are two of the most important challenges facing Yemen. High unemployment contributes to undermining political and security stability particularly as it is highly concentrated among the youth. The political instability at home and unfavorable immigration reforms in the Gulf region further aggravated the unemployment situation. Due to the suspension of most investment projects and the decline in economic activity in the aftermath of 2011 crisis, many workers were laid off or forced to take unpaid leave or lower salaries. Unofficial estimates suggest that as many as one million workers may have lost their jobs during the crisis. About two million Yemenis were reported to be working in Saudi Arabia and worker's remittances to Yemen, mostly from Saudi Arabia, average around six percent of GDP. Repatriation of between 300,000-400,000 workers back to Yemen has certainly added to the high unemployment rate and further eroded incomes due to reduced remittances.

3. More than half the population lives below the national poverty line, with about 43 percent food insecure. In addition to the political and economic crisis, the 2010–11 increase in international food prices contributed to exacerbation of poverty. Yemeni families have suffered substantial decline in their purchasing power due to the soaring prices and the loss of jobs and incomes. The U.N. World Food Program estimates that about 43 percent of the population was food insecure in 2013, a significant increase from about one in three in 2009. About five million people were found to be severely food insecure, suffering from levels of hunger that is generally considered to require external food assistance, according to the WFP data. Yemen has one of the

highest malnutrition rates in the world. An estimated 60 percent of children under the age of five have chronic malnutrition, 35 percent are underweight, and 13 percent face acute malnutrition. About two-thirds of Yemen's children are stunted and severe (life threatening) stunting affects one-third of all children in the country. In addition, 27 percent of pregnant women and 35 percent of lactating women are malnourished. Maternal mortality, at 365 per 100,000 live births, is among the highest in the world. In general, Yemen ranks poorly in all social indicators and occupies the 154th position (out of 184) on the U.N. Human Development Indicators list. Without immediate support, the poor will likely experience a significant further deterioration in their well-being, which could last decades and be costly to reverse.

Economic Reform Program

4. A reform program supported by a SDR 365.25 million IMF Enhanced Credit Facility (ECF) and other donors is expected to be undertaken over the next three years. The program was approved by the IMF Board on September 2, 2014. The ECF-supported program entails strong fiscal adjustment and effective measures to protect the poor. In addition to measures already taken by the Government to reduce untargeted subsidies, the GOY is expected to take measures to contain the wage bill and enhance tax revenue mobilization. Other reforms will include measures to fight smuggling, and to gradually improve the compliance rate of tax filing and payment towards more reasonable levels. According to the IMF, increasing fuel prices to full pass-through levels will lead to a reduction of about 10 percent in the real household income for households in the bottom 40 percent of the welfare distribution. For this reason, the GOY will need to mitigate the impact of reforms on the poor by increasing transfers to the poor. In addition, infrastructure investment will be gradually increased to boost job creation and potential growth. The Government will also improve public finance management, including by completing the deployment of the Accounting-based Financial Management Information System (AFMIS).

5. The support of the international community will be essential in helping the reform program go forward and enable the financing of much needed investment and social expenditure. The Government's desire is to expand its signature CT program, i.e., the SWF, to mitigate the impact on the poor. The proposed ESSPP would support the GOY in mitigating the existing vulnerabilities and the potential adverse impacts on the poor arising from the 2014 fuel subsidy reform program. It aims to help protect social expenditures and maintain critical basic services by financing and seeking co-financing for SWF. The cash assistance for families that are affected by the reform and already burdened by difficult living conditions through the proposed ESSPP will contribute to thumping down the social unrest caused by the fuel price increases.

The Social Welfare Fund

6. The SWF, established in 1996, is Yemen's main CT program. As one of the largest programs of its nature in the MENA region in terms of coverage, it reaches about 35 percent of the households in Yemen. The Government has shown commitment to the SWF which resulted in its gradual expansion. SWF's coverage has expanded from 100,000 beneficiaries at its establishment to about 1.5 million in 2013. Correspondingly, the SWF's budget has grown from US\$4 million in 1996 to US\$311 million in 2013. A 2008 Law on Social Welfare stipulated that SWF reorient its objectives so that poverty is the primary criteria for eligibility. The law also

established that the SWF beneficiaries be reassessed on a regular basis to ascertain their eligibility and recertified within a defined period of time. To operationalize the law, SWF adopted a PMT targeting approach and conducted a nationwide household survey to recertify existing beneficiaries and identify eligible new beneficiaries. The SWF has established the most comprehensive national record of the poor and vulnerable individuals in Yemen. The database is being used by other government agencies and development partners to target and coordinate different social services and benefits across a range of social programs.

7. In 2008, due to the increase in food prices, the Government doubled the amount received by SWF recipients. Since then, the cash transfer ranges from 2,000 to 4,000 YER per household per month, and is transferred on a quarterly basis, mainly through the post offices. In remote rural areas, beneficiaries receive their payments through SWF's district cashiers. Beneficiaries who meet specific criteria can get an advance payment equivalent to one year entitlement, to purchase income-generating assets. The current monthly amount of cash benefit is based on the number of household members:

Table 3: Monthly Amount of SWF CT by Family Size

Family size	Current monthly amount in YER
1	2,000
2	2,400
3	2,800
4	3,200
5	3,600
6 and more	4,000

Project Description

8. The proposed project will finance cash assistance to poor families in Yemen through the SWF CT program. It would benefit about 1.21 million poor families outside of about 1.5 million SWF beneficiaries in all districts of Yemen. The total estimated number of individuals to benefit from the cash assistance provided through the project is about six million, of which about 52 percent are females. The direct beneficiaries of the project are those currently in the SWF beneficiary list and meeting the eligibility criteria based on the PMT targeting.

9. The project will be implemented over a period of 18 months and has two components: (i) Support to SWF Cash Transfer Program; and (iii) Project Management.

10. The design and implementation of the SWF beneficiary survey will be led by experienced international consulting firm hired as part of the ISP. The SWF beneficiary survey will involve collecting and registering socio-economic information of around 2.5 million families, including on the current 1.6 million families in the SWF database and on about 0.8 to 0.9 million new families. The latter group will include families that were excluded on the basis of 2008 targeting

process; families that were not poor in 2008 but are now poor; and newly established poor families that were not present in 2008. The survey form will be designed in such a way that (i) all socio-economic information of families needed for the program purpose can be gathered in a clear and simple manner; (ii) household information can be broken down to families; and (iii) socio-economic and poverty related indicators can be extracted so as to enable calculation of the PMT score through a PMT formula.

Component 1: Support to SWF Cash Transfer Program (estimated cost US\$119.97 million, of which US\$89.5 million IDA)

11. This component has two sub-components:

- **Sub-component 1.1: Cash Transfers to SWF Beneficiaries** (*total cost US\$108.47 million, with contributions from IDA of US\$80.0 million and USA of US\$28.47 million*). The objective of this sub-component is to ensure the SWF beneficiaries have access to cash transfers during a period of particular economic hardship aggravated by the 2014 fuel subsidy reform. The intervention would provide cash assistance to about 1.21 million families currently in the SWF beneficiary list and certified as eligible based on the PMT targeting. The project will finance cash benefits (about 2000-4000 YER per month per family) to eligible families for quarters 3 and 4 of 2014 and quarter 1 of 2015. With an average of over five members per beneficiary family, over 6 million poor people are expected to benefit from the project.
- **Sub-component 1.2: SWF Beneficiary Survey** (*total estimated cost US\$11.5 million, with contribution from IDA of US\$9.5 million and Government co-financing of US\$2.0 million*). This component would finance a comprehensive survey of beneficiaries to revalidate the socioeconomic data and continuing eligibility for SWF assistance, to reassess the economic conditions of those currently receiving cash transfers from SWF, and to identify new beneficiaries and those no longer eligible for SWF benefits. Importantly, the survey will also help generate an updated proxy means test (PMT) formula that takes into account the current economic conditions as well as the specific country and beneficiary characteristics that will enhance the accuracy and efficiency of future beneficiary targeting. The ISP will use the data to update the beneficiary list and produce an updated list of ineligible groups for Government action to remove them from the SWF's benefit. This sub-component takes advantage of the current support being provided to SWF under the ISP to undertake beneficiary recertification exercise based on the survey data without delaying the provision of rapid assistance under the ESSPP. Expenses associated with the sub-component's activities include consultancy and non-consulting services, goods, supplies and travel cost.

Component 2: Project Management (estimated cost US\$0.5 million fully funded by IDA)

12. The component will support the strengthening the capacity of SWF and the Project Support Team (PST) for Project management, implementation, coordination, management and monitoring in conformity with the Financing Agreement, the Project Appraisal Document and the Operation Manual (OM). Given the added load of work to the PST, the project will finance additional support in the form of an accountant. For monitoring of project implementation, the

component will support the preparation of financial audits, including employment of independent auditors to carry out independent evaluations and periodic audits. Expenses associated with this component's activities include the provision of goods, training and technical advisory services.

13. **Financing:** The total estimated costs for the proposed project amount to US\$120.47 million equivalent. IDA will provide a grant of US\$90 million equivalent under an IDA grant-based Investment Project Financing (IPF) instrument. There will be additional funding from the USA in the amount of US\$28.47 million and US\$2 million Government co-financing, thus making the total estimated costs of the proposed project US\$120.47 million. The IDA and USA funds will be fully fungible in so far as Sub-component 1.1 is concerned. The Government financing will be used for Sub-component 1.2. The Recipient of the Grant will be the Republic of Yemen and the representative of the Recipient will be the Ministry of Planning and International Cooperation (MOPIC).

Annex 3: Implementation Arrangements

YEMEN: Emergency Support to Social Protection Project

A. Project Institutional and Implementation Arrangements

1. The proposed project will finance cash assistance grants to about 1.21 million SWF eligible beneficiaries and a SWF beneficiary survey. It will be implemented by SWF using its existing cash-transfer mechanism. The WB has supported SWF over an extended period during which the SWF has implemented measures designed to expand its reach, and to enhance targeting efficiency and overall effectiveness. SWF has successfully implemented with full disbursement a US\$100 million emergency recovery grant project. The Bank has an ongoing US\$10 million SWF ISP with established Project Support Team. Hence, there will be no separate project implementation or management unit established. However, training will be provided to a qualified accountant that will be appointed by SWF from its staff who will follow up on the financial management and disbursement aspects of the project. In addition, the project will finance the following additional support for SWF: (i) hiring an audit firm to verify retroactive expenditures on cash benefits; and (ii) hiring an audit firm to perform the annual audit on the project (could be same firm).

2. While the SWF is responsible for implementing project activities through its head office in Sana'a and branch offices, a Project Support Team (PST) already established through the existing WB ISP will provide coordination and fiduciary management support to complement the skills not available in-house. The PST will be supported by a long-term international consultant firm already in place. The PST, comprised of a Technical Coordinator, Financial Management Specialist, Accountant, Procurement Specialist, Procurement Advisor, and Executive Secretary, reports to the Executive Director. Due to additional responsibility for the new operation, the PST will be strengthened by hiring an accountant. The PST will: (i) coordinate between units, departments and branch offices responsible for implementation; (ii) support the SWF in monitoring and evaluation (M&E) of the project targets and evaluation of the project results; (iii) handle procurement, financial, and disbursement management, including the preparation of withdrawal applications; (iv) facilitate the work of the external auditor and prepare the financial statements; (v) prepare the financial and procurement parts for the quarterly progress report; (vi) act as the liaison between the SWF and the WB; and (vii) ensure that all reporting requirements for the Bank have been met in accordance with the project's legal agreements.

3. Under Sub-component 1.1, the project will provide cash assistance of up to 4,000 YER per month per beneficiary family for about 1.21 million families. The beneficiary families have been identified through PMT targeting formula. Payments are made quarterly through Payment Agencies (PA). The main PA used by SWF is the Yemen Post Office (YPO) which has about 600 branch offices and mobile units, and is the most wide-reaching PA in the country. The YPO delivers the checks/payments through its branch offices and mobile units. In addition, a small share of payments will be serviced by Al-Amal and CAC banks. For payment to SWF beneficiaries, the PA charges a two percent service fee, which is funded by the Government.

4. For Sub-component 1.2, the design and implementation of the SWF beneficiary survey will be led by experienced international consultant firm hired as part of the ISP. The long-term international firm already on the ground will play the lead role in designing the SWF beneficiary survey. The SWF beneficiary survey will involve collecting and registering socio-economic information of around 2.5 million families, including on the current 1.65 million families in the SWF database and on about 800,000 to 900,000 new households. The latter group will include families that were excluded on the basis of 2008 targeting process; families that were not poor in 2008 but are now poor; and newly established poor families that were not present in 2008. The survey form will be designed in such a way that (i) all socio-economic information of households needed for the program purpose can be gathered in a clear and simple manner; (ii) household information can be broken down to families; and (iii) socio-economic and poverty related indicators can be extracted so as to enable calculation of the PMT score through a PMT formula.

5. The inherent flexibility of newly introduced OP10.00 has helped expedite preparation and the WB's overall ability to respond to the situation of urgent need. This operation is one of the first Bank-wide to apply the revised OP10.00, paragraph 12 (Projects in Situations of Urgent Need of Assistance or Capacity Constraints) and under condensed procedures. As noted in the WDR 2011, the imperative to respond quickly in fragile situations places a "particular premium on speed" in an overall attempt to build confidence in the state's ability to respond to challenging circumstances. The project has been specifically designed to minimize the need for time-intensive procurement, make use of the country systems to the degree possible, and to make use of the higher proportion of retroactive financing permitted under OP10.00.

B. Financial Management, Disbursements and Procurement

Financial Management

6. The proposed project will finance cash assistance grants to about 1.21 million families currently in the SWF list in 2014 through (a) providing retroactive financing, not exceeding 40 percent of the Grant amount, for eligible expenditures paid from the Government budget in 2014; and (b) financing eligible expenditures made in 2014-2015. The project will also finance a SWF beneficiary survey to enhance SWF program efficiency.

7. Under the Bank's policy (OP/BP 10.00), the Bank requires that for each Bank-funded operation, the borrower/recipient maintain acceptable FM arrangements that can provide reasonable assurance that the proceeds of the loan/grant are used for the purposes for which the loan/grant was granted. Consistent with this requirement, one of the guiding principles of OP10.00, is the provision of appropriate oversight arrangements, including corporate governance and fiduciary oversight, to ensure appropriate scope, design, speed, and monitoring and supervision of rapid response operations.

8. An FM assessment was conducted with the objective of determining whether: (i) the SWF has adequate FM arrangements to ensure project funds will be used for the purposes intended in an efficient and economical way; (ii) the controls and processes at the SWF can be

relied upon; and (iii) the system in place is able to generate reliable and accurate project reports on a timely basis.

9. **FM Risks:** The inherent risk in the Country is **High** and the project FM risk assessment is **High**. The successful implementation of the agreed FM arrangements will eventually reduce the project financial management risk to **Substantial**.

Risk Rating Summary and Mitigation Measures			
Risks	Risk Rating	Risk Mitigating Measures	Residual Risk
Inherent Risk			
• Country Level	H	The Project design follows the ring-fencing method based on a supportive implementation arrangement at an existing PST which will be managing all the FM activities including preparing and submitting withdrawal applications to the Bank and also the quarterly IFRs and annual financial statements reviewed and audited respectively by an external auditor.	S
• Entity Level	H		
• Grant Level	H		
Overall Inherent Risk	H		S
Control Risk			
❖ Budgeting	S	The successful implementation of the agreed FM arrangements detailed in the FM assessment will reduce the FM risks and provide a supportive environment for the project implementation.	S
❖ Accounting	S		
❖ Internal Control	H		
❖ Funds Flow	H		
❖ Financial Reporting	H		
❖ Auditing	S		
Overall Control Risk	H		S
Overall FM Risk	H		S

10. The Assessment confirmed that SWF has adequate FM capacity to implement the project. The SWF has successfully implemented a WB-administered and EU funded project which financed cash transfers to about 40,000 eligible poor families that were identified by the PMT targeting. Similarly, the SWF has successfully implemented an IDA funded project which financed cash transfers to about 400,000 eligible poor families that were identified through beneficiary certification carried out by the SWF, MOF and COCA.

11. The External Audit, which recently has been conducted on the annual financial statements of the Emergency Crisis Recovery Project (ECRP), indicated a clean audit opinion. The associated Management Letter outlined the results of field verification on sample beneficiaries, which was acceptable by the Bank.

Implementation Entity and Staffing

12. The SWF will be implementing the proposed project, including the financial management and disbursement aspects (e.g. planning, budgeting, internal controls, disbursement, supervision of the activities, and reporting on these activities to stakeholders). The SWF is overseen by a Board of Directors, responsible for the overall policy of the Fund and the Minister of the Ministry of Social Affairs and Labor (MOSAL) is the chairman of the board. The main executive agency is the SWF Head Office in Sana'a and it has 23 Branch Offices (one in each governorate) and 214 District Offices. The SWF Head Office is headed by its Executive Director who is also a member and secretary of the SWF's Board of Directors. The Head Office has eight departments and five units dealing with all SWF affairs on the national level.

13. The Finance Department of SWF is managed by a Director General from the MOF who reports directly to the Executive Director and is also accountable to the Internal Audit Department (IAD), the MOF, and the Government's Central Organization for Control and Audit (COCA). This department is responsible for preparing the annual SWF Program budget, undertaking all procurement for the SWF, and maintaining the SWF entities. As a result of the Finance Department's low capacity and conflict of interest in its mandate (e.g., finance and procurement), the SWF retains a Financial Management Specialist (FMS) within the Project Support Team (PST) who reports to the SWF's Executive Director and supported by an accountant. The FM consultants' salaries are financed from the WB-financed ISP. Due to additional responsibility for the new operation, the PST will be strengthened by hiring an Accountant whose salary will be financed by the Project and who will mainly focus on the FM transactions of the Project. The FMS will be responsible for managing the FM and disbursement activities of the project.

14. In addition, the SWF has an Internal Audit Department (IAD) which is responsible for: (i) conducting audits on the SWF CT Program as required by the Program Management and at least on annual basis in accordance with COCA; (ii) performing audits for the SWF Branch Offices; (iii) preparing all required documents for annual external audits; and (iv) reviewing and investigating in case any irregularities are found. The department has five staff whose experiences are relevant to the proposed project. The IAD submits its audit reports to the SWF's Executive Director. Under the ISP, the Bank is providing a technical assistance to the IAD in conjunction with the project's activities supporting SWF's institutional capacity in order to strengthening and improving the capacity of the Internal Audit Department of the SWF.

Accounting System & Internal Controls

15. The SWF has internally developed an automated accounting system capable of recording project financial transactions, including allocation of expenditures, disbursement categories and source of funds. Furthermore, the SWF is working on improving the reporting features by procuring a new system under the ISP based on TOR cleared by the Bank.

16. The SWF has developed an OM setting out the structure of the CT program, including the FM and disbursement arrangements, and controls over the use of the YPO, and the OP and these arrangements have been approved by the WB. The SWF's FMS will prepare monthly bank reconciliations. The FMS will prepare quarterly IFRs showing the source and use of funds by component and sub-component, expenditure category, governorate and number of beneficiaries.

Additionally, the FMS will prepare the reconciliation between SWF and the YPO (as a Payment Agency) detailing status of the payment to the beneficiaries and reflecting the amount of paid and unpaid (returned) cash transfers to beneficiaries by Governorate. Also, the Independent Verification Report will be prepared on the result of the field visits and verifications on sample beneficiaries to validate the beneficiaries' eligibility and proper receipt of funds. In the reimbursement cases, these reports will be attached with the application requesting funds for reimbursement.

17. All payments from the grant's proceeds will be done centrally by the SWF's Head Office in Sana'a or direct payments through the Disbursement Office of the World Bank in Zagreb. Disbursement to the beneficiaries under Sub-component 1.1 will be made from the Designated Accounts and following the SWF procedures. Afterward, the SWF will prepare proper documents, payment evidences, reconciliations, and IFRs for the reimbursement based on the Fund's Operational Manual and WB Disbursement Guidelines. Cash payments to beneficiaries will be done through the YPO branches. The YPO has proved its ability to manage a large volume of cash payments through the SWF's experience with their current program and also through the WB experience in other IDA-financed/administered projects. There are controls in place at the YPO to ensure proper transfer of funds. The SWF provides the YPO with the list of beneficiaries generated from their system in an electronic form (Microsoft Access or Excel) which is then imported into the YPO internal system. The data imported into the YPO system is compared with the data generated from the SWF and once approved, the data is locked into the YPO system. The YPO has access to view the names and generate and send reconciliation reports showing the contact information of the beneficiaries who received and did not receive the allocated payments. The post office reconciliation report will be in data form. This data once received by the SWF will be compared with the data in the SWF's system. Also prior to disbursement, the allocation department reviews the list in the YPO to ensure that the total number per area is consistent.

Flow of Funds and Disbursement Arrangements

18. The table below specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of taxes)
(1) Cash Transfers under Part A.1 of the Project	52,700,000	74% of amounts paid by the Recipient under the Cash Transfer
(2) Goods, non-consulting services, consultants' services, Training	6,600,000	100 %

and Operating Costs for Parts A.2 and B of the Project		
TOTAL AMOUNT	59,300,000	

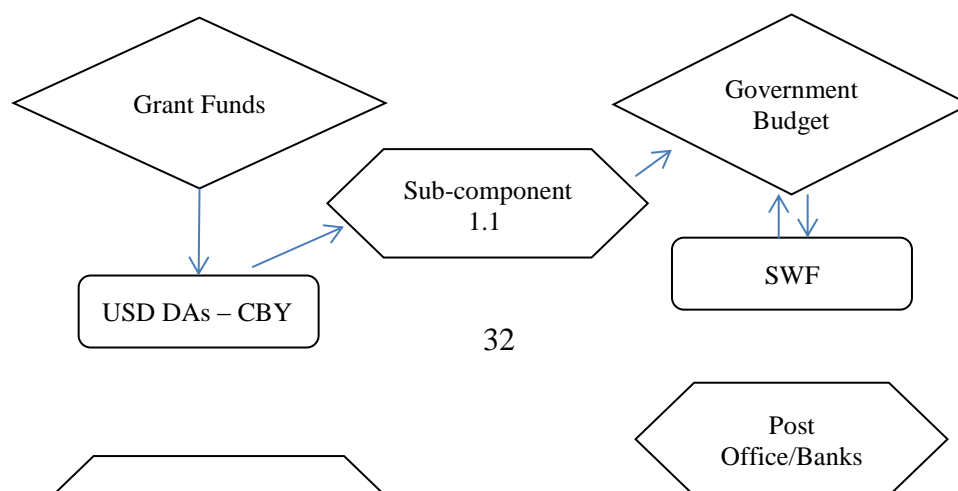
19. The project funds will be channeled through the SWF and deposited into a separate segregated US\$ Designated Account (DA) in the Central Bank of Yemen (CBY) to be opened for each source of funds (the IDA Grant and the USA Trust Fund) and maintained by the SWF (See Chart 1 below), under conditions acceptable to the WB. The main disbursement methods in the project will be Advances, Direct Payment, and Reimbursement. Requests for payments from the Grant funds will be initiated through the use of the Bank's Withdrawal Applications (WAs) supported by agreed upon IFRs, PA's Reconciliation Reports and DA Bank Activity statements. Disbursement to the beneficiaries from the SWF will follow the SWF's Operational Manual and cash payments to beneficiaries under Sub-component 1.1 will be carried out through PA branches in the governorates. The project is designed to retroactively disburse up to 40 percent of the Grant amount for eligible expenses made on or after June 1, 2014. These payments were made using acceptable arrangements including the use of PA. This project will follow the report-based disbursement method.

20. **Retroactive Financing:** Under the SSPP, an amount not to exceed 40 percent of the Grant amount may be made for payments made prior to the signing date of the Financing Agreement but on or after June 1, 2014 for eligible expenditures.

21. For Reimbursement requests and for reporting eligible expenditures under Sub-component 1.1, the SWF will use the IFRs for eligible expenditures in connection with cash benefits and eligible expenditures under sub-component 1.2 and Component 2. The IFRs, which will be submitted along with the Withdrawal Applications for reimbursement, will be reviewed and approved by the Bank.

22. The SWF will open and maintain the DAs and keep replenishing/documenting the eligible expenditures based on IFRs for SWF beneficiary survey and project management activities. Since the cash benefits are expected to be disbursed against reimbursement requests for eligible expenditures pre-financed by the Government, the SWF will submit WAs to request for reimbursements through the Project's DAs (which will then be transferred to the Government of Yemen account) and to record the eligible cash benefits using the IFRs and related reconciliations as supporting documents.

Chart 1: SWF Flow of funds chart

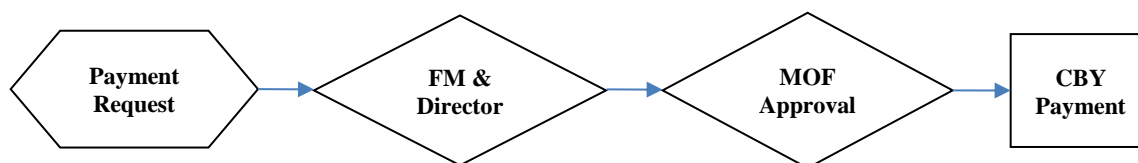




23. For retroactive payments, the Government will have already paid the cash benefits and some preparation cost for the SWF beneficiary survey from their budget so the SWF will request a reimbursement of the eligible expenditures (up to 40 percent of the total project cost). The reimbursement amount will be paid to the GOY account through the Project's DAs. For amounts financed by the Government after project effectiveness, the MOF will deposit their funds into the SWF's bank account, from which the SWF will make the payments to eligible beneficiaries. The SWF will then request reimbursement of eligible funds to GOY account. Chart 1 above summarizes the flow of funds from the Grant and the Government to the SWF's DAs and YPO to finance the project's eligible expenditures.

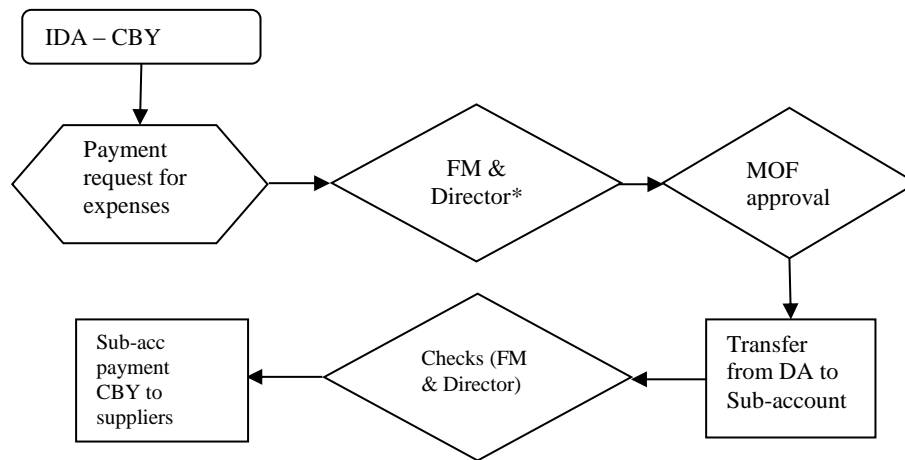
24. Chart 2 below summarizes the flow of funds from the project's DAs. Payment requests from the DA for eligible expenditures will be approved by the SWF's Director and FMS and then the payment requests will be sent to the MOF for approval of payment from the DA at CBY.

Chart 2: Illustrating process for requests of payments from the SWF's DA



25. Additionally, a sub-account will be opened by the SWF and managed by the PST to facilitate small payments for the activities of SWF beneficiary survey and project management (i.e. the Subcomponent 1.2 and Component 2). The sub-account will be denominated in Yemeni Rial and will also be opened at the CBY with a ceiling of US\$2 million to be reviewed by the MOF and adjusted during project implementation as needed. The PST will fund the sub-account through transfers from IDA DA based on a request sent to the CBY, reviewed and approved by the MOF and supported by cash forecast. Payments out of the sub-account will be made through checks signed by the SWF Director and FMS and can be replenished as disbursements occur and proper supporting documents are filed. Disbursements out of the sub-account are subject to the internal controls as per the SWF's Operational Manual and will be subject to the annual external audits.

Chart 3: Sub-account Flow of Funds Chart



Process to ensure eligibility of families to receive cash payments

26. The SWF has developed an information system which records the list of all their beneficiaries. The system has the capacity to generate *exception reports* showing potential duplication of benefits by running specific queries. Access to the SWF system is limited to a few staff members of the SWF and is subject to tight controls. All payments are initiated at the central level by the SWF's Head Office in Sana'a. Disbursement to the beneficiaries follows the SWF's Operational Manual. Cash payments to beneficiaries are being made through Yemen's YPO branches throughout the country. The YPO has proven ability to manage large volume of cash payments based on its services delivered to the SWF and its beneficiaries. There are proper controls in place at the YPO to ensure transfer of funds. The SWF provides the YPO with the list of beneficiaries generated from their system in an electronic form (Microsoft Access or Excel) which is then imported into the YPO own IT system. The data imported into the YPO system are then compared with the data generated from the SWF and once approved, the data are *locked* into the YPO system. The YPO has access to view the names and generate and send reconciliation reports showing the contact information of the beneficiaries who received and did not receive the allocated payments. The post office reconciliation report will be in data form. This data received by the SWF will be compared with the data in the SWF's system. Also prior to disbursement, the list in the YPO is reviewed by the SWF Allocation department to ensure that the total number per area is consistent.

27. The Bank recommends that the SWF posts the list of beneficiaries in each of the post offices used to deliver the cash payments to the beneficiaries as long as the project is ongoing, with eventually a hotline for complaints if someone is informed to be eligible for cash assistance but never received at a later date any funds from the project.

28. The SWF's IAD will include the Project to its scope of work. Internal Audit will be responsible for checking the list of beneficiary families and confirm eligibility including conducting regular visits to a sample of selected beneficiaries and submit internal audit reports to the Executive Director. The SWF's Department of Allocation is responsible for following up on

payments to the beneficiaries. Also, the Independent Verification Report will be prepared by the Project's External Auditor based on the results of field visits and verifications on sample beneficiaries that validate the beneficiaries' eligibility and proper receipt of funds. In the reimbursement cases, these reports will be attached with the application requesting funds for reimbursement. Finally, the Project's External Auditor's TOR will include the financial audit of all the expenditures under the project according to the Financing Agreement and World Bank procedures.

Project Financial Reporting

29. **Interim Financial Reports arrangement:** IFRs will be prepared by the SWF and submitted to the WB every quarter. IFRs will be submitted to the Bank no later than 45 days after the end of the quarter. The IFRs will be reviewed by an independent external auditor acceptable to the WB and the reports will consist of (a) source and uses of funds by Component and Expenditure Category, (b) a reconciliation of the DAs, and (c) cash transfers by governorate and number of beneficiaries, a progress report detailing status of the payment to the beneficiaries, reflecting the unpaid and remaining balance in the DAs, and the amount of paid and unpaid (returned) cash transfers to beneficiaries by Governorate.

30. **Annual External Audit:** Separate Annual Audited Financial Statements of the project is required to be submitted to the WB within six months from the end of the fiscal year. Requirements for external auditor will include:

- The Terms of Reference (TOR) for the external auditor and the required Project Financial Statements will be agreed by the WB.
- The Project's External Auditor's TOR will include a special provision for the Auditor to conduct field visits to a sample of the selected beneficiaries to validate the beneficiaries' eligibility and their proper receipt of funds. This will be explicated as an independent Verification Report.
- The external auditor report (in English and Arabic) shall encompass all Project's components and activities and shall be in accordance with internationally accepted auditing standards e.g., International Standards on Auditing (ISA). The audit report and opinion will cover the Project's financial statements, reconciliation and use of the Designated Accounts (DAs) and withdrawals based on Interim Financial Reports.
- The auditor is required to prepare a "management letter" identifying any observations, comments and deficiencies, in the system and controls, that the auditor considers pertinent, and shall provide recommendations for their improvements.

31. **Independent Verification Reports:** The Project's External Auditor's TOR will include a special provision for the Auditor to conduct field visits and verify on a sample beneficiaries to validate the beneficiaries' eligibility and proper receipt of funds. The TOR will also require the audit firm to have sufficient skills and experience in such tasks. Two reports will be required for cash benefits under Sub-component 1.1 as the first one will cover the retroactive financing and the second one will cover the final cash transfer. The TOR will include the sample of sample of selected beneficiaries and the targeted governorates for the field visits to validate the beneficiaries' eligibility and their proper receipt of funds.

Corruption

32. Fraud and corruption may affect the project resources. The above fiduciary arrangements, including the mitigating measures implemented by the SWF through the use of a Project Support Team (PST), reliance on the work of COCA and SWF's Internal Audit Department, the use of the YPO to flow the funds to the beneficiaries, the use of SWF's acceptable manuals and procedures, tailored financial reporting and external audit arrangements, and the capacity building activities implemented by the SWF are designed to mitigate these risks. The SWF will contract an independent external auditor, with a TOR acceptable to the Bank, and with an expanded scope to audit the compliance of the internal controls process and eligibility of beneficiaries associated with cash transfers program. In addition, the External Audit contract will include independent verification report to validate the beneficiaries' eligibility and proper receipt of funds on a satisfactory sample basis.

Procurement

A. General

33. All procurement activities for the proposed project will be carried out in accordance with the WB's Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers, dated January 2011 and revised in July 2014, and procurement activities are open to all bidders from eligible countries as defined in the guidelines. Consultants will be selected in accordance with WB Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by the WB Borrowers dated January 2011 and revised in July 2014 and the Financing Agreement. In addition, procurement under the proposed operation will be carried out in accordance with the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011 and the provisions stipulated in the legal Agreement. For each contract to be financed by the Grant, the different procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame are to be agreed between the Borrower and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. However, given the emergency nature of the operation, exceptional procedures may be used as needed, as per paragraph 20 of OP 11.00.

B. Procurement Arrangements

34. **Procurement of Goods:** Goods procured under this project would include but not limited supply of stationary for supervisors and enumerators, reproduction of communication materials, purchase of TV and radio spots and equipment for enumerators.

35. The Procurement of Goods with estimated cost above US\$1,000,000 will be implemented using the Bank's Standard Bidding Documents (SBD) for Goods for all International Competitive Bidding (ICB). The procurement of goods with estimated cost less than or

equivalent to US\$1,000,000 will be implemented using NCB procedures. The bidding documents for NCB shall be acceptable to the Bank. Contracts below US\$500,000 could be procured using National Shopping (NS) on case by case basis

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

- i. A State owned enterprise in the Republic of Yemen shall be eligible to bid only if it can establish that it is legally and financially autonomous, operates under commercial law, and is not a dependent agency of the Recipient;
- ii. Bidding (or pre-qualification, if required) shall not be restricted to any particular class of contractors or suppliers, and non-registered contractors and suppliers shall also be eligible to participate;
- iii. National standard bidding documents approved by the Association shall be used;
- iv. Registration shall not be used to assess bidders' qualifications; qualification criteria (in case pre-qualification was not carried out) and the method of evaluating the qualification of each bidder shall be stated in the bidding documents, and before contract award the bidder having submitted the lowest evaluated responsive bid shall be subject to post-qualification. In addition, a foreign bidder shall not be required to register or to appoint an agent as a condition for submitting its bid and, if determined to be the lowest evaluated responsive bidder, shall be given reasonable opportunity to register, without let or hindrance; the registration process shall not be applicable to sub-contractors;
- v. Rejection of all bids is justified when there is lack of effective competition, or bids are not substantially responsive; however, lack of competition shall not be determined solely on the basis of the number of bidders; and
- vi. Each contract financed from the proceeds of the Financing shall provide that the contractor or supplier shall permit the Association, at its request, to inspect their accounts and records relating to the performance of the contract and to have such accounts and records audited by auditors appointed by the Association.

37. **Selection of Consultants:** Consulting Services procured under this project will include but not be limited to the following: (a) Selection of enumerators to conduct the survey (b) Hiring NGOs/firms for data collection for weak SWF districts, (c) Selection of supervision and enumerator sets, and (d) recruitment of external auditors.

38. For firms, all contracts will be procured using Quality-and Cost-Based Selection (QCBS), Fixed Budget Selection (FBS), or Least-Cost Selection (LCS) methods. Contracts less than US\$500,000 equivalent could be procured using Selection Based on Consultant's Qualification (CQS). Single-Source Selection (SSS) for hiring firms for services that meet the requirements of paragraph 3.10 of the Consultant's Guidelines may be used on an exceptional basis, with prior agreement of IDA. Shortlist of consulting firms for services estimated to cost less than US\$300,000 or equivalent may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. All individual consulting assignments can be done on the basis of comparison of CVs in accordance with Section V of the Guidelines.

Table 4: Summary of Procurement Arrangements

<i>Expenditure category</i>	<i>Contract value threshold (US\$)</i>	<i>Procurement method</i>	<i>Contracts subject to prior review</i>
Goods	>1000,000	ICB	All contracts if any
	≤ 1000,000	NCB	
	≤ 500,000	Shopping	
Consulting (firms)	>500,000	QCBS	All process
	≤ 300,000	CQS/LCS	All single source contracts
Consulting (individuals)		Section V in the Guidelines	All cases above US\$ 100,000 and all single-source contracts
Direct contracting			All cases regardless of the amount

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

39. Procurement activities will be carried out by the existing PST. The PST has a proven record in handling technical, fiduciary, and contract management responsibilities. All procurement related activities under the ongoing project are handled efficiently. For this Grant, this arrangement would be revised and the PST would recruit a full-time procurement specialist selected competitively from the local market in addition to the international procurement specialist Short Term Consultant.

40. The overall project risk for procurement is Moderate as the proposed project is the third IDA-financed project to be implemented through SWF and there are limited procurement activities involved.

D. Procurement Plan

41. The draft Procurement Plan for the one year duration of the project reflecting the major project activities under sub-component 1.2 was prepared by Ayala Consulting, a long-term international consult firm hired as part of the ISP. This Procurement Plan, dated September 24,

2014 will be updated annually or as needed to reflect the actual project implementation needs and improvements in institutional capacity.

42. **Advance Procurement:** Procurement of the main goods package and several consulting contracts will start on January 2015. The award of those contracts will be expected shortly after effectiveness.

43. **Shortlist Comprising Entirely of National Consultants:** Short list of consultants for services estimated to cost less than US\$300,000 equivalent per contract may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

44. **Frequency of procurement reviews:** The capacity assessment of the Implementing Agency has recommended two annual implementation review missions, including procurement post reviews.

E. Details of the Procurement Arrangements Involving International Competition

Supply of Goods

List of goods contracts:

1	2	3	4	5	6	7
Ref. No.	Description of Assignment	Estimated Cost (US\$)	Selection Method	Review by Bank (Prior/ Post)	Expected Bid opening Date	Comments
	Stationary material for supervisors and enumerators (2000 enumerators)	72,000	NS	Post		
	Reproduction of communication materials (333 districts)	349,900	NS	Post		
	Purchase of TV and radio spots (333 districts)	166,590	NS	Post		
	Reproduction targeting forms & guidelines (300,000 forms)	100,000	NS	Post		
	Equipment (1700 enumerators)	872,500	NCB	Post		
	Area Maps (3330 maps)	33,300	NS	Post		

Consulting Services

List of consulting assignments with short-list of firms:

1	2	3	4	5	6	7
Ref. No.	Description of Assignment	Estimated Cost (US\$)	Selection Method	Review by Bank (Prior/ Post)	Expected Proposals Submission Date	Comments
	External Auditor	200,000	LCS	Prior		
	NGOs/firms for data collection (700 enumerators)	2,040,000	QBS/CQS	Prior		
	Multiple contracts					
	NGOs/firms for spot checks (50,000 forms)	596,000	CQS	Post		
	Hiring data entry firm (300,000 forms)	190,800	CQS	Post		

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

Environmental and Social

45. In Yemen, about half of the population lives below the poverty line, with households in some areas unable to meet acceptable level of food consumption. Yemen is an overwhelmingly rural country with about 73 percent of the population living in the countryside. Rural communities, in addition to small and fragmented agricultural holdings, suffer from inadequate access to services in large part due to rough terrain and scattered settlements. SSN programs need to have effective targeting mechanism to identify and protect the poorest segments of the society. In 2008, the SWF introduced a poverty based targeting using the PMT, which is widely used in many other countries.

46. Gender of the head of household is one of the variables in the PMT poverty targeting method used for the selection of project beneficiaries. The percentage of families covered by the project and having a woman as head of the household is about 40 percent. It is also estimated that about 52 percent of direct beneficiaries of the ESSPP will be females. A recent survey by OXFAM in Hodeida governorate found that women were empowered as decision-makers through the SWF CT program because, even though they are not head of the household in most cases, they are the ones who determine “what foods were brought home, often choosing to buy vegetables, medicine or livestock needs, in addition to the purchase of staple goods”. The project will also benefit the youth, as about 52 percent, out of the nine million ESSPP beneficiaries, are less than 18 years old.

47. The project, through its sub-component 1.2 activities, will involve local stakeholders such as CSOs, NGOs, and local authorities in surveying, identification, enrollment and recertification of the SWF program beneficiaries. The SWF has a CSO Coordination Unit in order to maximize resources and build social accountability for SWF practices and procedures at the grassroots level. Through the SWF beneficiary survey, information will be collected from households

currently in the program, those that were deemed ineligible in the earlier targeting exercise, and new ones that were never considered before. The recertification exercise also allows reassessing characteristics of existing beneficiaries by applying a new targeting formula. For this, information from the 2014 HBS will be used to develop an updated PMT formula. Therefore, the exercise will be an opportunity for the GOY to reconsider new cutoff points to recertify or graduate families, as well as identify potential new beneficiaries most in need.

48. The project is classified as an Environmental Category C according to the WB's Operation Policy (OP 4.01), requiring no environmental assessment.

Monitoring & Evaluation

49. M&E will be undertaken by the SWF. Project activities will be monitored on an ongoing basis to support achievement of the PDO. Monitoring reports covering the key Project Outcome Indicators will be prepared according to the schedule of frequency in Annex 1 (Results Framework and Monitoring). SWF's M&E Department and governorate branch offices will monitor the cash transfers as well as determine whether the ESSPP cash benefits have been made to eligible beneficiaries. The cash benefits will be delivered through a tested intermediary (the YPO and selected banks) on a quarterly basis, with financial monitoring reports submitted to the SWF. The SWF will use information from these reports to identify families not collecting benefits and will request a follow-up by the nearest SWF Social Researcher or other appropriate Governorate and district staff member to determine the cause of no withdrawal. These financial reports will be monitored to determine benefits received by female-headed households. An Implementation Completion and Results Report (ICR) will be prepared after project implementation is completed.

Role of Partners

50. While the Bank will provide up to US\$90 million financing for the project and will support its design and implementation, the project would benefit from co-financing by USA (US\$28.47 million). Co-financing for sub-component 1.2 by other development partners, including U.K's DFID and EU is being sought. Additional resources would allow the proposed project to reach more needy families with more meaningful cash benefits.

Annex 4
Operational Risk Assessment Framework (ORAF)
Yemen, Republic: Emergency Support to Social Protection Project (P151923)

Risks

Project Stakeholder Risks

Stakeholder Risk	Rating	Moderate				
Risk Description: There are no major issues related to stakeholders. However, the country is in political transition and the overall social and political picture is still evolving. Two possible risks: (i) Ministry of Finance and Ministry of Planning and International Cooperation (MOPIC) may not reach an agreement to increase SWF's operating budget; and (ii) development partners (DPs) may have concerns with the SWF governance and efficient transfer of funds to the eligible beneficiaries.	Risk Management: The project team will have continuous and close consultations with the Government counterparts as well as DPs. Close supervision will be made to ensure the commitments made by GOY under the ESSPP are honored. In addition, the WB ongoing ISP, which will be implemented in parallel, will continue to focus on strengthening targeting, case management, effective payment mechanism, communication, and instituting complaint handling mechanism in close collaboration with other DPs supporting SWF. The SWF beneficiary survey being financed by the project will allow the government to clean-up the SWF's beneficiary list, improve eligibility determination and improve targeting.					
	Resp: Bank	Status: Not Due Yet	Stage: Implementation	Recurrent: Yes	Due Date:	Frequency: Continuous

Implementing Agency (IA) Risks (including Fiduciary Risks)

Capacity	Rating	Substantial
Risk Description: - The SWF staff capacity is limited without a proper HR strategy in place, and the staff	Risk Management: SWF Staff Capacity: -The project will make use of the current fiduciary support provided to the SWF through the ISP which has been in place for over three years, and have developed some knowledge of the Bank's financial and	

<p>appointed by the Ministry of Civil Service do not have required skills. Further staff morale is low without appropriate compensation scheme and inadequate operating budget for proper case management.</p>	<p>procurement requirements. Further technical assistance will be provided through the ongoing ISP to strengthen the capacity of the SWF in targeting, management and administrative processes as well as M&E.</p> <p>-The SWF's internal audit will audit the cash transfers which will be disbursed to the beneficiaries through the YPO, and according to the SWF's OM acceptable to the Bank. Additionally, the project's accounts will be audited quarterly and annually by an independent private external auditor acceptable to the WB.</p>					
	Resp: Client	Status: Not Due Yet	Stage: Implementation	Recurrent: Yes	Due Date:	Frequency : Continuous
<p>The SWFs does not have an acceptable accounting system and OM.</p>	<p>Risk Management:</p> <p>SWF Accounting System:</p> <p>-Through the Institutional Support Project, financed by the WB, the SWF is working on improving their accounting system to be able to properly record and report on all their transactions and prepare acceptable financial statements. In addition, to mitigate this risk, the SWF has developed internally an automated accounting system which is used to record and report transactions financed from the WB projects. The system is deemed adequate for this project. Also, the SWF has an OM acceptable to the WB.</p>					
<p>-The SWF operating budget has shrunk from 2.3 percent to .58 percent of the total SWF budget excluding payment agency fee and the staff salary between 2008 and 2011 at a time when its operation has increased by more than 50 percent.</p>	Resp: Both	Status: Not Due Yet	Stage: Implementation	Recurrent: Yes	Due Date:	Frequency : Continuous
	<p>Risk Management:</p> <p>Operating Budget:</p> <p>-The MOF and the Ministry of Labor and Social Affairs (MOLSA), took advantage of the ESSPP to increase the annual operating budget of the SWF. However, for proper operation of the SWF CT program as whole, the Bank together with other donors will continue dialogue with the MOPIC, MOF and MOSAL on this issue especially for the recertification-related budget. The Bank will provide technical assistance through ISP to help SWF to prepare a proper operational budget plan to facilitate annual budget planning process.</p>					
	Resp: Both	Status: Not	Stage: Imple	Recurrent: No	Due March 31,	Frequency

-The SWF has limited experience in managing IDA Projects		Due Yet	ment ation		Date: 2015	:
	Risk Management: Limited Experience with IDA Projects: -IDA will monitor closely through carrying out supervision mission, coordinated with other Bank interventions in the sector at least twice per year; the Sana’a Office will provide additional operational support, including a qualified Sr. FMS supervising the FM activities of the project.					
	Resp: Bank	Status: Not Due Yet	Stage: Implementation	Recurrent: Yes	Due Date:	Frequency : Continuous
Governance	Rating	High				
Risk Description: (i) Extremely vulnerable families may not be reached by the program (ii) Social and political pressures may arise and result in excluding some regions from the project benefits during the current period of political instability and widespread poverty. There may also be a lack of oversight and auditing function (iii) No proper complaint handling mechanism is in place. (iv) The risk of less than full amount being paid to beneficiaries.	Risk Management: Not Reaching Vulnerable Beneficiary Families: -To avoid such risks, project beneficiaries have been selected through (i) utilizing data of poor families from the SWF national survey (covering 1.6 million families) and using PMT for targeting. The proposed SWF beneficiary survey will enable further clean-up of the beneficiary roster.					
	Resp: Both	Status: Completed	Stage: Preparation	Recurrent: No	Due Date: September 30, 2014	Frequency :
	Risk Management: Social and Political Pressures: -An independent qualified private external auditor acceptable to the WB will be engaged to audit the project's accounts, quarterly and annually, according to TORs acceptable to the WB. The TOR will include a special provision for the Auditor to conduct field visits to a sample of the selected beneficiaries and post offices to validate the beneficiaries’ eligibility and their proper receipt of funds. The SWF’s internal audit will audit the cash transfers which will be disbursed to the beneficiaries through the YPO, and according to the SWF’s OM acceptable to the Bank.					
	Resp: Both	Status: Not Due Yet	Stage: Implementation	Recurrent: No	Due Date: March 31, 2015	Frequency :
	Risk Management:					

	No Proper Complaint Handling Mechanism: -Both EU and the Bank are providing technical assistance to establish a complaint handling mechanism in the SWF.					
	Resp: Bank	Status: Not Due Yet	Stage: Implementation	Recurrent: Yes	Due Date:	Frequency : Continuous
	Risk Management: Risk of Less Than Full Payment: -YPO and banks (instead of cashiers) will continue to be used for cash payment as in the closed ECRG.					
	Resp: Client	Status: Not Due Yet	Stage: Implementation	Recurrent: Yes	Due Date:	Frequency :
Project Risks						
Design	Rating	Moderate				
Risk Description: (i) The project is being implemented using SWF existing CT system and utilizing the PMT poverty targeting mechanism; there is no new design involved, and sufficient control is in place. (ii) Cash transfers are done through the Country's post offices and banks. (iii) Eligibility of beneficiaries to receive cash payments.	Risk Management: -The Bank has ensured that beneficiaries are indeed those selected through the approved PMT mechanism.					
	Resp: Bank	Status: Completed	Stage: Preparation	Recurrent: No	Due Date: September 30, 2014	Frequency :
	Risk Management: -The YPO has proved its ability to manage large volume of cash payments through the SWF's experience with their current program and also through the WB experience in other IDA-financed and administered projects. There are proper controls in place at the YPO to ensure proper transfer of funds. The SWF provides the YPO with the list of beneficiaries generated from their system in an electronic form (Microsoft Access or Excel) which is then imported into the YPO internal system. The data imported into the YPO system is compared with the data generated from the SWF and once approved, the data is locked into the YPO system. The YPO has access to view the names and generate and send reconciliation reports showing the contact information of the beneficiaries who received and did not receive the allocated payments. The post office reconciliation report will be in data form. This data once received by the SWF will be compared with the data in the SWF's system. Also prior to					

	disbursement the allocation department reviews the list in the YPO to ensure the total number per area is consistent. The funds for the unpaid cases will be refunded to the project's DA.					
	Resp: Both	Status: Not Yet Due	Stage: Implementation	Recurrent: Yes	Due Date:	Frequency :
	Risk Management: -The beneficiaries under this project are those certified to be eligible following the PMT exercise and does not include old cases determined to be ineligible on the basis poverty targeting through the PMT. Through the ISP, the SWF has improved the beneficiary database and SWF’s internal reviews will further help reduce the number of ineligible beneficiaries. The set-up and implementation of the Beneficiary Development Program funded by the ISP and the recertification process under this new operation has also helped to maintain an up-to-date list of eligible beneficiaries and phase out the ineligible ones.					
	Resp: Both	Status: Completed	Stage: Preparation	Recurrent: No	Due Date: September 30, 2014	Frequency :
Social and Environmental	Rating					
Risk Description: There are no specific safeguard risks identified, and the project does not trigger any environmental or social policies.	Risk Management: -There are no negative environmental or social risks associated with the project.					
	Resp:	Status:	Stage:	Recurrent:	Due Date:	Frequency :
Program and Donor	Rating	Moderate				
Risk Description: While there is good donors' coordination in Yemen, donors often express concerns about SWF targeting efficiency and whether the cash benefits reach in full amount to beneficiaries in rural and remote areas. In addition, financing of the SWF beneficiary survey will depend in part on funding from donors, including EU and DFID. There will be a risk of timely	Risk Management: The WB team ensured that only resources that are fully committed are included in the project. The ESSPP will support only households that have met eligibility criteria based on the PMT. An independent and qualified private external auditor acceptable to the WB will be engaged to audit the project's accounts, quarterly and annually, according to TORs acceptable to the WB.					
	Resp: Bank	Status: Not Due Yet	Stage: Implementation	Recurrent:	Due Date: March 31, 2015	Frequency : Once

availability of these funds.						
Delivery Monitoring and Sustainability	Rating	Substantial				
Risk Description: Sustainability of CT program	Risk Management: Cash programs which target the poor and underserved require long-term funding. Some institutional sustainability will come through capacity building of Yemeni institutions such as SWF (in cash transfer management) and other government partners involved in coordination (governance). Additionally, the Coordination or Steering body will act as the main agency for leveraging additional funding. The economic reform program supported by the program will also generate savings for the SSN program.					
	Resp: Client	Status: In Progress	Stage: Implementation	Recurrent: Yes	Due Date:	Frequency : Ongoing
Overall Implementation Risk						
Overall Implementation Risk:				Substantial		
Risk Description: The overall risk rating for project implementation is “Substantial”. The main risks for the project pertain to the country context, as well as capacity and governance issues, including high fiduciary risks given the overall weak governance at the institutional and country levels. In order to meet project fiduciary and monitoring and evaluation (M&E) requirements, the project will finance costs associated with the M&E of cash transfers implementation, as well as expanded external auditing.						

Annex 5: Implementation Support Plan

YEMEN: Emergency Support to Social Protection Project

Strategy and Approach for Implementation Support

1. The WB's implementation support to the project will consist of technical, fiduciary and evaluation assistance as follows:
 - a. **Technical assistance:** The Bank's policy guidance and advice has been an integral part of preparation of the project. The Bank will continue to seek advice internally and global expertise outside of the Bank during implementation.
 - b. **Fiduciary support:** The WB team includes fiduciary management staff based in the country office to provide routine supervision of FM and procurement activities. This will include review and clearance of the TORs of the accountant, audit firm, and technical consultancy firm. The Bank's fiduciary staff will also provide guidance to the fiduciary staff of SWF on financial management guidelines, preparation of IFRs, compliance with the Bank guidelines and other issues as they arise during implementation.
 - c. **Monitoring and verification support:** The Bank will provide monitoring and verification support with respect to delivery of the cash assistance to the beneficiaries and the implementation of the SWF beneficiary survey and its subsequent analysis and application.

Implementation Support Plan

Time	Focus	Skills Needed
Year 1	1. Technical and advisory support to ensure that project financing is targeted towards achieving project objective.	<ul style="list-style-type: none"> - TTL - Senior Social Protection Specialist - Social Protection Specialist - Senior Country Economist - Country Economist
	2. Technical and advisory support for the recertification of SWF beneficiaries, including design of the survey, training of enumerators, data collection, and data analysis.	<ul style="list-style-type: none"> - TTL - Senior Social Protection Specialist - Social Protection Specialist - Ayala Consulting
	3. Fiduciary management support for verification of supporting documents to ensure that cash benefits are delivered to the beneficiaries and complied with the relevant FM and procurement guidelines.	<ul style="list-style-type: none"> - TTL - Senior FM Specialist - FM Specialist - Procurement Specialist

	4. Technical support for preparation of TORs for audit and technical firm.	<ul style="list-style-type: none"> - TTL - Senior FM Specialist - FM Specialist - Procurement Specialist
	5. Audit planning	<ul style="list-style-type: none"> - Senior FM Specialist - FM Specialist
	6. Training for SWF on Bank Guidelines	<ul style="list-style-type: none"> - Senior FM Specialist - FM Specialist - Procurement Specialist