PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA12042

Project Name	Emergency Support to Social Protection Project (P151923)
Region	MIDDLE EAST AND NORTH AFRICA
Country	Yemen, Republic of
Sector(s)	General public administration sector (50%), Public administration-Other social services (30%), Other social services (20%)
Theme(s)	Social safety nets (60%), Social risk mitigation (20%), Other social protection and risk management (20%)
Lending Instrument	Investment Project Financing
Project ID	P151923
Borrower(s)	Ministry of Finance
Implementing Agency	Social Welfare Fund
Environmental Category	C-Not Required
Date PID Prepared/Updated	08-Sep-2014
Date PID Approved/Disclosed	16-Sep-2014
Estimated Date of Appraisal Completion	04-Sep-2014
Estimated Date of Board Approval	28-Oct-2014
Decision	

I. Project Context

Country Context

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, 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 parliamentarian 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.

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. These have negatively affected economic activity and reignited latent political tensions, causing demonstrations and forcing a limited Cabinet reshuffle. 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 8 percent of 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).

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 2 million Yemenis were reported to be working in Saudi Arabia and worker’s remittances to Yemen, mostly from Saudi Arabia, average around 6 percent of GDP. Repatriation of between 300 and 400 thousand workers back to Yemen has certainly added to the unemployment problem and eroded incomes from remittances.

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Estimates by World Bank show that more than half 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. Yemeni families have suffered substantial decline in their purchasing power due to soaring prices and 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. 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. 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.

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 (TPSD) (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. The GOY needs to take strong measures to reduce the fiscal deficit, reverse the declining trend of foreign reserves, and enhance economic growth and job creation. In this context, the GOY has recently decided to sharply increase fuel prices (by about

100 percent on gasoline and diesel) and has committed to remove ghost workers and double dippers from the payroll with the use of the biometric identification cards and making wage payments though bank accounts and postal offices. Increasing fuel prices is expected to reduce fuel subsidies, which represented over 7 percent of GDP and more than 20 percent of total public spending in 2013. However, the aggressive subsidy reform program is expected to lead to a reduction in the real income for households, particularly the poor and vulnerable. Therefore, there is need for strong social protection measures to mitigate the impact and to pave the way for a comprehensive reform program under discussion with the IMF and other development partners.

It is in this context that the proposed operation is being developed. The support of the international community will continue to be essential in the period ahead. 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) would enhance the GOY's ability to protect social expenditures and maintain critical basic services by financing and seeking co-financing for Yemen's signature cash transfer program, i.e., Social Welfare Fund (SWF). It would contribute towards mitigation of the existing vulnerabilities of and the adverse impacts on the poor and vulnerable arising from the 2014 subsidy reform program. The cash assistance through the proposed ESSPP is expected to contribute to thumping down social unrest caused by the fuel price increases. In addition to the Bank's US$110 million, other donors are contributing to the GoY's efforts to mitigate the impact of the subsidy reform program. The Kingdom of Saudi Arabia (KSA) has paid for the first quarter of 2014, totaling about US$80 million. The US Treasury is contributing US$30 million to co-finance ESSPP and support the SWF's cash transfer program. Therefore, the proposed operation can be considered as a part of a coordinated multi-donor support to Yemen.

Sectoral and institutional Context

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Yemen's Social Safety Net (SSN) system, broadly defined and including subsidies, accounts for about a quarter of public spending. However, much of the spending goes to energy subsidies without a commensurate impact on poverty reduction and human development. 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 9 and 7 percent of GDP on fuel subsidies, respectively, more than health, education and social transfers combined. Yemen is a country with the lowest per capita income in the group of high subsidizers; there are only a few countries in the world with lower fuel prices than Yemen, among them Libya, Saudi Arabia, Bahrain, Qatar, and Kuwait, all of them with significantly higher per capita income and higher oil or gas reserves per capita. 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 bold fuel subsidy reform, which is expected to to generate fiscal savings. However, the adverse impact on the poor arising from this reform program will be large and second round effects are likely to be even more significant. The Government intends to use some of the savings from the reform to augment social programs with a direct benefit to the country's large and growing poor population.

Yemen has an array of social policies and institutions providing diverse set of non-subsidy SSN benefits to the population. Yemen's non-subsidy SSN system includes Community-Driven

Development (CDD) programs under the Social Fund for Development (SFD); the Public Works Project (PWP); a national targeted cash transfer (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.

The SWF was established in 1996 by Presidential Law No. 31 and is financed by the government. The program covers 1.5 million families, about 35 percent of the population (approximately 60 percent of the poor), making it the largest programs of its nature in the MENA region in terms of coverage. The Government has shown commitment to the SWF by consistent support for program expansion. 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 beneficiaries. The SWF has established the most comprehensive national record of the poor and vulnerable individuals in Yemen. The database of about 1.65 million HHs 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.

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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, 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. Second, the SWF benefit size is low in international comparison and highly inadequate to cope with the effects of the economic hardships, fuel price increases, and high overall inflation. Although the amount of benefit doubled 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 4 percent of the Program's overall cost. It is inadequate in light of the difficulties involved in reaching beneficiaries, particularly those in rural and remote areas. The increase in fuel prices imposes further limitations on service delivery effectiveness and reduces the SWF's capacity to monitor and ensure compliance. Finally, SWF needs better administrative system that can support regular case management, re-certification, and exit of beneficiaries deemed ineligible, the later requiring political and popular support.

II. Proposed Development Objectives

The Project Development Objective (PDO) is to assist the GOY in providing cash transfers to Social Welfare Fund beneficiaries during a period of particular economic hardship aggravated by the 2014 fuel subsidy reform program.

III. Project Description

Component Name

Support to SWF Cash Transfer Program

Comments (optional)

Component Name

Project Management

Comments (optional)

IV. Financing *(in USD Million)*

Total Project Cost:	140.47	Total Bank Financing:	110.00
Financing Gap:	0.00		

For Loans/Credits/Others	**Amount**
BORROWER/RECIPIENT	2.00
IDA Grant	110.00
US, Govt. of	28.47
Total	140.47

V. Implementation

Given the situation of urgent need of assistance and the need to ensure a rapid delivery of cash transfers to the poor and vulnerable, the project will rely and build on the existing SWF system. The World Bank 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 $100 million IDA-funded Emergency Crisis Recovery Grant. The Bank has an ongoing IDA-funded $10 million ISP for SWF. In this context, there is full confidence in the SWF's ability to implement the proposed project effectively and efficiently.

The project will be implemented under paragraph 12 of the WB's OP10.00 on "Projects in Situations of Urgent Need of Assistance or Capacity Constraints", and hence, the operation is being processed on a fast track basis. The project will be implemented from December 2014 to June 2016. The SWF is governed by a revised Law on Social Welfare 39 (2008). Its Board of Directors, headed by 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.

This project provides cash assistance of up to 4,000 YER per month to about 1.21 million families for six months. 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 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 2 percent service fee, which is funded by the government.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	**Yes**	**No**
Environmental Assessment OP/BP 4.01		✕
Natural Habitats OP/BP 4.04		✕
Forests OP/BP 4.36		✕
Pest Management OP 4.09		✕
Physical Cultural Resources OP/BP 4.11		✕
Indigenous Peoples OP/BP 4.10		✕
Involuntary Resettlement OP/BP 4.12		✕
Safety of Dams OP/BP 4.37		✕
Projects on International Waterways OP/BP 7.50		✕
Projects in Disputed Areas OP/BP 7.60		✕

Comments (optional)

VII. Contact point

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