



**Republic Of Yemen**  
**Ministry of Planning and International Cooperation**

**Transitional Program for Stabilization and Development  
(TPSD)  
*2012-2014***

**YEMEN DONOR CONFERENCE** Riyadh September 4-5, 2012



Printed with a support from UNDP- ECDF Project

[WWW.MPIC-YEMEN.ORG](http://WWW.MPIC-YEMEN.ORG)

[WWW.YEMENSDP.ORG](http://WWW.YEMENSDP.ORG)

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

## Table of Contents

<b>CHAPTER ONE: CURRENT SITUATION, PROCESS, &amp; PRIORITIES</b> .....	<b>5</b>
Part I: Current Economic, Social, and Humanitarian Situation .....	5
1- Negative economic growth: .....	5
2- Reduced public basic services: .....	5
3- Deterioration in the position of the public budget: .....	6
4- Price hikes and depreciation of national currency against foreign currencies: .....	7
5- Regression of foreign currency reserves in about 24.4%: .....	7
The Social and Humanitarian situation: .....	7
1- Rise of unemployment rate: .....	7
2- Exacerbation of poverty and food insecurity: .....	8
3- Deterioration of the humanitarian situation: .....	8
Part II: The Process of Developing the Program .....	10
1. Preparatory Stage: .....	10
2. Consultation Stage: .....	10
3. Finalization, Ratification, and Approval Stage: .....	10
Part III: Overarching Goal & Main Focus Areas .....	10
On the Issue of Sequencing and Priority Setting .....	11
<b>CHAPTER TWO: TOP PRIORITIES &amp; URGENT ACTIONS</b> .....	<b>12</b>
Priority One: Finalizing the peaceful transfer of power and restoring political stability (FA-1&2) .....	13
Priority two: Achieving security stability and enhancing the rule of law (FA-1&2) .....	13
Priority three: Meeting urgent humanitarian and material needs (FA-3) .....	14
Priority four: Achieve macroeconomic stability (FA-4) .....	14
Some Selected Interventions .....	14
Needed Resources .....	16
Financing Modality .....	18
Transitional Compacts .....	18
<b>CHAPTER THREE: MEDIUM TERM ECONOMIC RECOVERY PROGRAM</b> .....	<b>20</b>
1. Priority one: Revive Economic Growth (FA-4).....	20
2. Priority two: Improve infrastructure (FA-4) .....	21
3. Priority three: Expand social protection (FA-5) .....	21
4. Priority four: Human Resources Development Youth and women aspirations (FA-5)....	22
5. Priority five: Enhance the role of private sector and improve business climate (FA-2; 4; and 5) .....	23
6. Priority six: Developing the system of good governance and state building (FA-2).....	24
Needed Resources .....	25
The Funding Gap .....	27
Financing Modality .....	27
<b>CHAPTER FOUR: IMPLEMENTATION ISSUES</b> .....	<b>28</b>
Part I: Coordination, Inclusion, and Partnerships .....	28
Part II: The Public Investment Program PIP.....	29
Part III: The Role of Sectors & Line Ministries .....	31
Part IV: Local Balanced Development .....	33

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

Part V: Monitoring & Evaluation .....	34
Part VI: Working in Transition .....	35
Part VII: Implementation Capacities .....	36
Part VIII: Complex Issues.....	36
Definition .....	36
The Qat Dilemma.....	37
Immediate Suggested Interventions .....	38
Water Depletion .....	38
Immediate Suggested Interventions .....	39
Population growth.....	40
Immediate Suggested Interventions .....	41
<b>List of Annexes .....</b>	<b>41</b>

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

## **Foreword**

Yemen is classified as the poorest country in the Middle East and North Africa region. During the last few years the Yemeni economy faced a range of successive crises and urgent challenges leading to the aggravation of poverty and food insecurity. As a result and during the year 2011, Yemen saw a continuous popular uprising in different governorates claiming for the change of the regime resulting in acute deterioration of the political scene, loss of security and partial destruction of the infrastructure, and hence aggravating an already bad situation. Consequently, the economic and livelihood situation of the majority of the population deteriorated in a critical and unprecedented manner.

Following the escalation of violence in the country during 2011, the UN Security Council adopted its resolution (2014) on 21 October 2011 which called different parties for immediate engagement and cessation of violence. A Gulf Cooperation Council's brokered agreement that is accompanied with an implementation mechanism was signed on 23 November 2011, and is since being implemented. In the face of such challenges, and as a result of the GCC sponsored transition agreement, a Government of National Reconciliation was formed.

The GCC implementation mechanism supporting the transition calls for a Government of National Reconciliation entrusted with formulating and implementing an initial program of economic stabilization and development that addresses the immediate needs of the population in all regions of Yemen.

This program was developed, entitled "The Transitional Program for Stabilization and Development TPSD" and is presented in this paper. As seen in the paper implementing this program cannot be achieved under a "business as usual" process. Transition has its own rules and so does the fluid situation that we have now in Yemen. Hence, the need for innovative, swift, and flexible approaches cannot be underestimated.

**Dr. Mohammed Saed Al-sadi**

**Minister of Planning and International Cooperation**

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

## CHAPTER ONE: CURRENT SITUATION, PROCESS, & PRIORITIES

### Part I: Current Economic, Social, and Humanitarian Situation<sup>1</sup>

#### ECONOMIC SITUATION

The deterioration in the political and security scene since the beginning of 2011 caused an acute regression of the economic, financial and monetary indicators and unprecedented deterioration of the livelihood and humanitarian situations. This situation may be presented as follows:

##### 1- Negative economic growth:

The preliminary estimates indicate that GDP growth rate decreased to -10.5% during 2011. This level of economic growth represents a record loss in the economic history of Yemen since the reunification of the Republic of Yemen in 1990. This may be attributed to the stagnation and stoppage of most economic activities influenced by the deterioration of the political and security situations in the country and the associated severe shortages of petroleum products supply and electricity outages. This is in addition to the suspension of a number of planned national and foreign investment projects. The destruction of economic and service infrastructure reached roads, electricity towers and transmitting lines and numerous government and private installations. Moreover, calls for civil disobedience and strikes erupted in many production and service facilities which negatively impact the national economy, the production rates in many sectors, and the resulting regression in the income per capita and the standard of living.

##### 2- Reduced public basic services:

The Yemen economy suffered from an acute weakness in the level of coverage of basic services even before the recent events. Electrical power covers only 42% of the population and the security, judiciary and local authority services are only provided in the percentage of 35.2%. Water supplies and sanitation services from the public network cover approximately 26% and 16% of the population respectively.

The situation worsened at the beginning of 2011 particularly in the electricity sector which witnessed its worst levels of coverage due to the sabotage acts against electricity towers and transmission lines. Moreover, the limited supply of petroleum products necessary for

---

<sup>1</sup> For more details about the current situation of Yemen's socio-economic conditions refer to the Joint Socio Economic Analysis JSEA prepared by the World Bank, the United Nations, the European Union, and the Islamic Development Bank. 2012.

## Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

the operation of the electricity stations operated by diesel and gas resulted in persistent outages of power that reached up to 20 hours per day in certain areas. In some areas, outages continue for several days. Consequently, the negative impacts of these large and exceptional outages affected all aspects of life both private and public.

### **3- Deterioration in the position of the public budget:**

During the year 2011, Yemen's public finance reached very critical levels created by the crisis and the resulting regression of the tax revenues, the loss of substantial portion of oil revenues. The latter was due to the detonations of the crude oil pipeline Safer - Al-Hodeidah. This is in addition to the suspension of foreign loans and assistance by donors.

As a consequence, the public budget faced enormous difficulties in securing the wages and salaries of public employees. The budget was forced to adopt a set of austerity financial policies. Some of these policies had harsh impacts on the development process and living standards particularly the freezing of most public investment program projects and the gradual reduction of oil derivatives' subsidies.

Despite all these austere measures, the public budget deficit worsened and it became impossible to finance it through public treasury bonds alone. The government referred to partial financing of the deficit through unreal sources entailing further pressures on the balance of payments and accelerated losses of the foreign currency reserves. This resulted in deterioration of the value of the national currency and increasing inflation.

During the current year 2012, the public budget faces critical risks due to the additional expenditures necessitated by the transitional phase and the shutoff of the crude oil pipeline (Mareb-Ras Essa) as a result of political fights and terrorist acts.

The situation of the public budget is a very complex one and this necessitates the acceleration of economic, financial and administrative reforms which shall bring about medium and long term benefits. In the short run, there is no option other than the mobilization of sufficient foreign resources in the form of grants due to the weak sustainability of indebtedness. The control of the public budget deficit within safe limits and improving the capacity of the government to provide public services requires the provision of direct budget support.

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

## **4- Price hikes and depreciation of national currency against foreign currencies:**

The disturbances Yemen witnesses since the beginning of 2011 caused prices to soar. The inflation rate in consumer prices (end of period) reached 23.2%. The Yemeni Riyal exchange rate was subject to hard pressures. This pushed the Central Bank of Yemen to adopt a number of policies and measures including the reduction of its reserves of foreign currency to fund the imports bill of basic commodities and the protection of the national currency. Despite the stabilization of the official exchange rate of the Yemeni Riyal at about 213.85 YR/one US Dollar (used for financing basic commodities and all transactions involving the Ministry of Finance), a parallel interbank rate emerged ranging between 235-240 YR/1 USD contributing to the rise of imports prices, higher inflation rates and deterioration of the livelihoods of the Yemeni population.

## **5- Regression of foreign currency reserves in about 24.4%:**

The net value of foreign assets of the Central Bank of Yemen decreased from about 5.7 billion USD in 2010 to about 4.3 billion USD in 2011 causing a decreased coverage of import months and weak credit worthiness of the national economy.

## **The Social and Humanitarian situation:**

### **1- Rise of unemployment rate:**

The unemployment problem is considered the most important challenge facing the development process. It contributes to undermining the political and security stability in the country particularly as it is highly concentrated among youth at 52.9% (age group 15-24 years). It also reaches a percentage of 44.4% in the age category (25-59 years). Unemployment is widespread even among educated people. Around 25% of unemployed people are holders of secondary school qualifications and above.

During the year 2011, the problem of unemployment aggravated further due to the suspension of most investment projects and the hampering of various economic activities that accommodate the majority of the workforce such as agriculture, manufacturing, building and construction, tourism and transport. Workers were laid off and some were forced to go in unpaid leaves. Some entities reduced working hours and reduced salary payments. Consequently, unemployment becomes an issue that has economic, social, political, and security ramifications.

To curb unemployment, it is crucial to accelerate the reconstruction of damaged infrastructure and revive the productive sectors. Yemen is working on the continuation of

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

efforts to absorb some of its manpower in the Gulf labor markets that would impact swiftly and positively livelihoods, poverty, and inward transfer of foreign currency from those working abroad.

## **2- Exacerbation of poverty and food insecurity:**

The developments the Yemeni economy witnessed during last year left myriad negative impacts on the living standards of the population. These impacts include the decreasing purchasing power of households due to the soaring prices on one hand and the loss of jobs and incomes on the other. This led to increased poverty levels, especially among those who are already poor to start with. In addition, the slippage of many families below the national poverty line was widely witnessed. Estimates indicate that poverty rates have reached nearly 54.4% of the population in 2011.

The results of a survey implemented by the World Food Program in 2011 revealed an increased rate of food insecurity to around 44.5% of the population in 2011 compared to approximately 32.1% in 2009. This means that the number of people who cannot access sufficient food has increased to more than 10 million people by the end of 2011. Although social protection schemes continued for most of the crisis, recipients were not able to receive all the payments especially during the last quarters of 2011. This affected millions of Yemenis and added to the difficulties the poor are facing. This is calling for not only resuming such payments but the urgent expansion of the social protection programs and mechanisms for the benefit of the poorest and most vulnerable groups.

## **3- Deterioration of the humanitarian situation:**

Estimates indicate that the number of those affected by the deterioration of humanitarian situations increased to about 8 million people during the year 2011. If food insecurity and malnutrition indicators are used, this number can be well over 10 million people. The suffering of the people living in the areas that saw armed conflicts has aggravated especially in Al-Hassabah, Sufan, Bani Al-Hareth in the Capital Municipality, Arhab and Nihm districts of Sana'a governorate and Taiz town in addition to the war against Al-Qaida in Abyan governorate. This is in addition to Sa'ada, Amran, and Hajjah.

The armed conflicts resulted in thousands of martyrs and injured people. The number of Internally Displaced Persons is estimated at 465.9 thousands. The events also affected about 440 thousand small and medium farmers and caused the migration of 26 thousand people. This is in addition to the destruction war and conflict left behind in



## Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

infrastructure, public and private buildings. The number of damaged buildings in the Capital Sana'a alone is estimated at 2,526 buildings.

On the other hand, the armed conflicts also left remnants of explosives, UXOs and mines all representing a hazardous security and humanitarian challenge obstructing the return of the displaced and homeless people to their homes and the resumption of their normal activities and work. Consequently, the need remains critical for effective means and mechanisms to handle this challenge.

### Some Groups are More Vulnerable than Others

It is to be noted that in all the above analysis and the ramifications of the 2011 crisis, some groups were more affected than others and were more vulnerable. These include (but not limited to):

- **Female-headed households:** Identified as extremely vulnerable with only 1-10% of its members being supported by WFP in the July Food Security Monitoring report of Hajja, Ibb, Amran. It includes families whose livelihoods are not based on Qat production, destitute families not targeted by the government safety net program (Source: FS Monitoring July 2011). A 2012 WFP study found that 52% of women-headed households were food-insecure compared to a lower percentage for male headed households.
- **Children & Infants:** Half the Yemen population consists of children (SCF, 2011) and this group continues to be at risk of death or injured as a result of mines; child soldier recruitment, and child labor. For infants, the low rate of breast feeding (10% in some areas), the limited availability of formula milk, the lack of health care facilities with emergency services, and the lack of clean water make infants particularly vulnerable. More than half of all children in Yemen are chronically malnourished; the rate of stunting is 56%, which is the second highest in the world, and the proportion of underweight children (46%) is the third highest (OCHA, Yemen Humanitarian Response Plan 2011).
- **IDP's, Returnees, and Host Communities:** despite the increase in their access to food and non-food assistance, IDPs who reside outside the camps in Yemeni communities still face limited coverage of such benefits. As of February 2010 shelter assistance to such groups was not provided. This is compounded by the problem of losing official documents and ID cards during displacement resulting in limited mobility and substantial delays in registration to receive IDP benefits. Many returnees return home post conflict to find that their property, livelihoods, and possessions have been damaged or destroyed. Recent assessments raise concern over the "overstretching" of host communities' limited resources.

Source: JSEA (2012); WFP (2010); OCHA (2012); ICRC (2010); IDMC (2011).

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

## Part II: The Process of Developing the Program

Due to the nature of transition and the short time span within which the Transitional Program for Stabilization and Development (TPSD) was to be completed; three stages were followed to develop the program balancing feasibility against inclusion as described below. Unlike a fully fledged 5 years national economic plan; a number of approval steps will be condensed to expedite the ratification process within the government. The program in its development recognized the framework provided within the 4<sup>th</sup> Socio Economic Development Plan for Poverty Reduction 2011-2015 (for which all the steps of approval and ratification were followed) and benefited a lot from the availability of the GCC agreement and its implementation mechanism.

1. **Preparatory Stage:** Preparing the suggested structure for the program through consultation and participation, identifying and preparing technical requirements to fill the prepared structure, initiating contacts with different line ministries, and other government organizations to obtain input, establishing the technical committee, preparing of the rough draft of the document, hiring of international consultants to enhance the PIP, working with different organizations and on-going efforts such as the UN Humanitarian Appeal, the Joint Socio-Economic Analysis, and other ongoing initiatives on data and information alignment and sharing.
2. **Consultation Stage:** Holding consultative meetings within the government, line ministries, and other government institutions; holding a consultative meeting with the private sector and another with NGOs and academic institutions and experts; and holding of a consultative meeting with donors and external partners.
3. **Finalization, Ratification, and Approval Stage:** Presenting a summary program during the Friends of Yemen (FoY) meeting and benefiting from comments and interventions; sharing of a draft program with donors for their input; improving the different drafts utilizing comments from partners, establishing a joint government-donor working group to further enhance the program in preparation for the Consultative Group Meeting, presenting the final draft for discussion and approval in cabinet, and establishing implementation and other working groups during the implementation of the program.

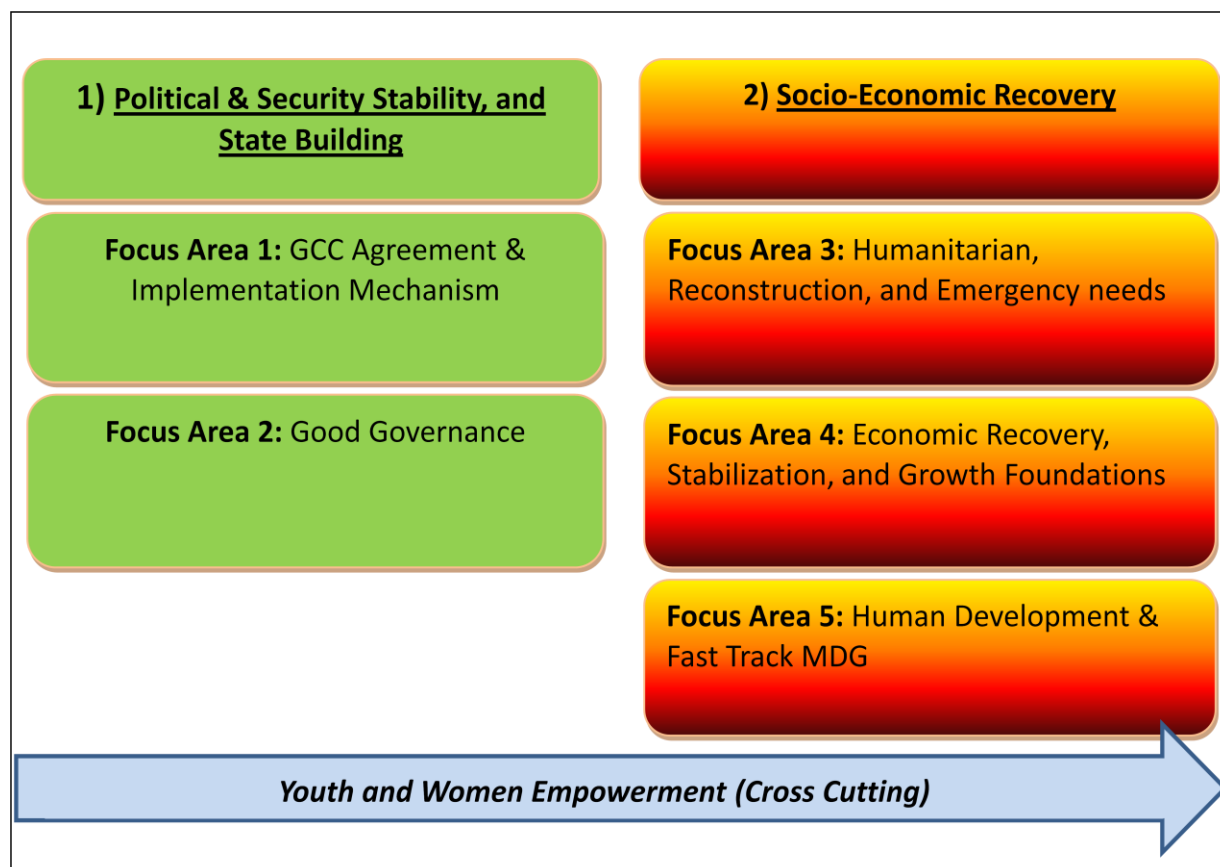
## Part III: Overarching Goal & Main Focus Areas

TPSD has been developed with an overarching goal of “Restoring political, security and economic stability and enhancing state building”. It is build around two major pillars that include 5 focus areas (FA) to be addressed during transition and beyond as shown in the diagram below. TPSD considers the issue of youth and women empowerment as cross cutting as well as stand alone in certain areas as will be described in more details within

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

each of the following sections. In addition, within each area a set of reform measures that have great potential benefit to the entire program and the success of the transitional period will be presented.



## On the Issue of Sequencing and Priority Setting

2 years is a very short time to achieve every single goal within these five focus areas. However, the 5 focus areas provide a framework for any further interventions that are needed even post the transition period. In what follows certain aspects within these focus areas (FA) will be identified and presented as priorities in regards to their importance, urgency and need to address as soon as possible. This should not indicate that during transition top priorities are only those of a short-term nature (an example is the need to address population growth). That is why this prioritization during transition needs to be coupled with an effort of sequencing and alignment of development partners resources to: 1) Focus the attention of development partners to certain aspects within each of the 5 focus areas (presented as urgent/medium needs below) and help align and make resources (internal and external) available swiftly and when needed. 2) Help tailor

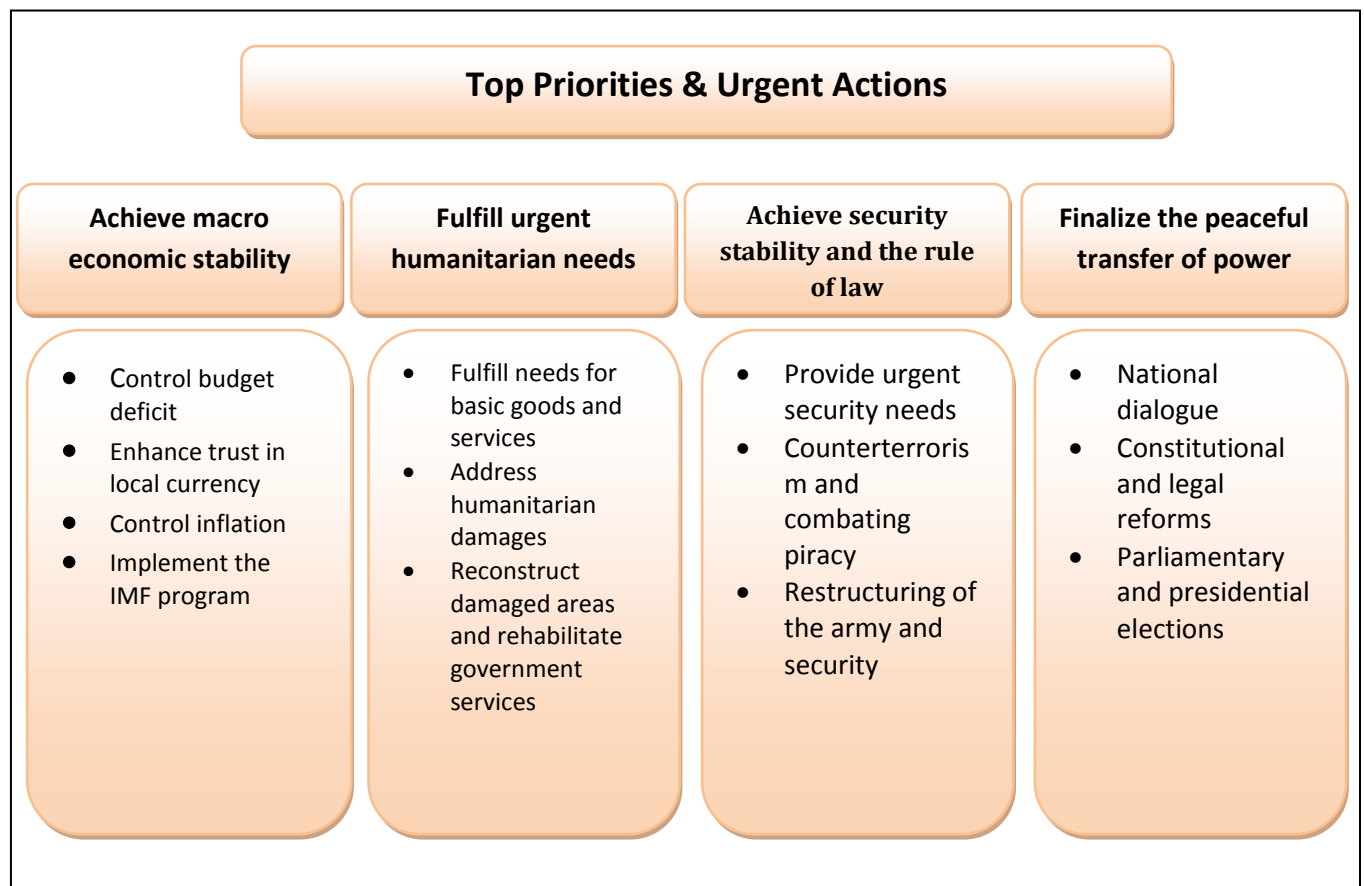
# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

financing modalities to fit the need for speed and flexibility to handle certain issues; and  
3) Leave room for laying the ground to hand top priorities that of longer- term nature.

## CHAPTER TWO: TOP PRIORITIES & URGENT ACTIONS

To overcome the negative consequences of the recent crisis, the government sets on top of its priorities the finalization of the peaceful transfer of power, the restoration of political and security stability, the fulfillment of urgent humanitarian needs and achieving economic stability. The following diagram summarizes the main issues.



# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

To achieve these priorities, the government is focusing on a well-defined package of measures and interventions during the transitional phase. These measures include:

## **Priority One: Finalizing the peaceful transfer of power and restoring political stability (FA-1&2)**

- Conducting inclusive national dialogue for all political forces and groups including youth and women. The national dialogue shall produce a fair national solution maintaining the unity, security and stability of Yemen. A committee for preparation for the ND conference and a committee for interpretation are to be established in addition to holding the national dialogue conference itself and learning from other countries experiences.
- Introducing constitutional reforms to improve the structure of the state and its political system. A constituent assembly for drafting a new constitution is to be formed and a referendum on the new constitution is to take place.
- Building the appropriate electoral system. This includes the development of electoral legislations, the formation of the Supreme Commission for Elections and Referendum, and based on consensus the creation of new voters' lists or updating of existing ones. In addition, the parliamentary and presidential elections are to be conducted.

## **Priority two: Achieving security stability and enhancing the rule of law (FA-1&2)**

- Stop all forms of violence, including sexual and gender based violence, and violations of international humanitarian law. Work to put an end for all armed conflicts.
- Take legislative and institutional measures to realize transitional justice, ensure the protection of human rights and criminalize any violations.
- Rehabilitate those who do not meet the conditions of service in armed forces and security agencies.
- Integrate armed forces under unified professional and national commandment.
- Apply international standards in public prosecutions, police departments and prisons. Release the illegally detained persons.
- Continue security deployment in different regions. Pass and enforce Transitional Justice Law
- Enact and enforce a law on regulating the carrying and possession of firearms
- Enact and enforce the anti terrorism law
- Continue with security sector reform and institutional capacity building.

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

- Enhance trust between security institutions (formal and informal) and the general population.
- Review and further develop national legislation pertaining to address issues of vulnerable groups such as women, IDPs, asylum seekers, and refugees in addition to issues relating to trafficking and migration management.

## **Priority three: Meeting urgent humanitarian and material needs (FA-3)**

- Secure basic and social needs of citizens in terms of goods and services. Ensure sufficient supply of petroleum products and cooking gas. Meet the local demands for power and water in a regular and uninterrupted manner.
- Restore humanitarian damages by providing humanitarian assistance and compensations to the families of martyrs and treating injured people. Assist IDPs and expand humanitarian efforts to cover affected groups in all regions.
- Rehabilitate damaged infrastructure and reconstruction of public facilities and buildings. The priority shall be given to health and education facilities, roads, power and water networks, city streets and rehabilitation of damaged government services. This is in addition to compensating those whose private properties were damaged. This however, is to be achieved without diverting necessary resources from humanitarian and life saving required interventions.
- Plan for residual needs as part of the medium and long term to accommodate all needs not met during the transitional period.
- Address immediate needs for nutrition. This is one example where humanitarian assistance is to be linked to longer term economic development. The latter can focus on increasing the resilience of the most vulnerable.
- Ensure that compensation for martyrs and rehabilitation of private property is administered through a transparent and monitored selection criteria.
- Enhance the role of social protection in relation to achieving this priority.

## **Priority four: Achieve macroeconomic stability (FA-4)**

### **Some Selected Interventions<sup>2</sup>**

- Control public budget deficit and finance it from none-inflationary sources through measures such as direct budget support to cover the additional expenses of social security, the savings from the subsidies of petroleum products and the government contribution in ongoing projects.

---

<sup>2</sup> Detailed macro interventions by sector are provided in Annex 2.

## Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

- Enhance the confidence in local currency by maintaining the exchange rate of Yemeni Riyal against foreign currencies in a market oriented manner. Enhance the control on exchange bureaus and banks. Meet the market demands for foreign currency to import basic needs. Work diligently on securing a deposit of 5 billion USD at the Central Bank of Yemen.
- Control inflation rates by monitoring the prices of basic goods and adopting non inflationary measures when financing the budget deficit.
- Implement the financial and monetary reforms program signed with the International Monetary Fund.
- Expanding the tax base and enhance collection of resources including increasing taxes on unessential and mood enhancing goods such as Quat. Ensuring that such resources are channeled back to help the poorest segments of society.

### **The Macroeconomic Framework and the IMF 2012 Program**

The National Accord Government agreed to enter into a new program with the IMF for one year (2012) to reduce fiscal imbalances including entering a state of fiscal discipline, reforms, and strong budget execution in line with this program. The International Monetary Fund, and under this program, provides about \$ 100 million during 2012 in support of which 20% is a grant. This program is flexible enough, with a target to control the budget deficit at about 405 billion Yemeni Riyals. Although the actual budget deficit for 2012 has exceeded that limit (amounting to 561 billion riyals), the Government is committed to the agreed deficit with provisions to finance the difference between the two numbers only if external financing exists for such purpose.

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

## Needed Resources

The disturbances in 2011 caused serious harm to the economy and to living conditions of many people. They also adversely affected the political and security environment, which made it hard for the government to subsequently deal with aftermath of the crisis and to introduce and implement policies that could put the economy back on track. The GCC initiative helped to achieve a political settlement, which created the conditions for the Government to address rehabilitation needs, offer humanitarian support to those whose livelihood was badly affected, and take steps towards the resumption of economic growth and the creation of jobs.

The Government's strategy is two-pronged: (1) to deal with urgent needs of the people and the economy in the short run through measures focused on political stabilization, enhanced security, reconstruction and easing poverty, and (2) to create the foundation for inclusive growth in the medium and longer term through public investment and appropriate policy reform. While the Public Investment Program is discussed later in this paper, the present section deals specifically with financing the Government's emergency response. A funding gap of 4,260 million US\$ is identified and development partners are requested to consider funding the following categories.

Item	Cost (million USD)
Peaceful transfer of power	300
Security stability	445
Urgent humanitarian, reconstruction, and rehabilitation	3542
Economic stabilization	470
<b>Grand total</b>	<b>4,757</b>

Below each of these resource requirements are provided in more details. Responsible government administrative units and institutions identified for each task are identified in the summary resource matrix completed in consultation with development partners and represented in Annex 5.

### Peaceful Transfer of power

Program / Project	Cost (million USD)
National dialogue	30



## Transitional Program for Stabilization and Development (TPSD) 2012-2014

Constitutional and legal reforms	80
Elections	190
<b>Grand total</b>	<b>300</b>

### Security stability

Program / Project	Cost (million USD)
Delivery of police services to all regions	120
Counterterrorism	135
Restructuring of army and security	130
Urgent needs of judiciary	60
<b>Grand total</b>	<b>445</b>

### Urgent humanitarian, reconstruction, and rehabilitation

Program / Project	Cost (million USD)
Reconstruction of damaged public facilities	276
Reconstruction of damaged private buildings	398
Fulfill humanitarian needs (IDPs)	2047
Improve electrical power system	308
Improve water and sanitation services in affected areas	30
Rehabilitation and maintenance of damaged streets in cities	29
Compensation of martyrs and injured people	130
Other needs	324
<b>Grand Total</b>	<b>3542</b>

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

## Economic stabilization:

Program / Project	Cost (million USD)
Finance 1.5 million social security cases	350
Finance government share in foreign-funded ongoing projects	120
<b>Grand total</b>	<b>470</b>

The above estimated amounts for economic stabilization assume that the oil pipeline will be fixed and the below in kind contribution of petroleum products will be received from Saudi Arabia and other countries. The below in kind support will be vital for economic stability and to bridge the gap of losses to the budget, estimated at 250 million dollars a month, resulting from the damage to the oil pipeline. This in-kind support will also eliminate the risk of reductions to central bank reserves and deterioration of currency value. Hence, the following needs are not part of the above funding tables as they will be negotiated differently and bilaterally. They are to be considered as special needs.

Other Special Needs	
Supply of petroleum products	Provided in kind from Saudi Arabia as well as other countries
Deposit at the Central Bank to restore confidence in local currency in the amount of 5 billion dollars.	Will be provided in the form of a deposit to be reversed once the critical period for currency stabilization is over.

## Financing Modality

### Transitional Compacts<sup>3</sup>

It is suggested that development partners and the Government of Yemen agree on a transitional compact to support the implementation of the TPSD<sup>4</sup>. Such a compact should

<sup>3</sup> Transitional compacts are explained more in the document of absorptive capacity. The document is to be published by MoPIC and presented as one of the required documents in the upcoming donors meeting in September.

<sup>4</sup> It is suggested based on the need for more effective and focused collaboration to support transition, greater national ownership of financing processes, faster, more flexible and predictable financing, and higher tolerance for risks. Country compacts were found to be effective modalities to better align international financial support to country-specific priorities, establish /reassess transition priorities, improve transparency in financial flows, facilitate delivery, and define monitoring and accountability structures to deliver results.

## Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

include commitments to finance the above and increase the absorptive capacity of the country in line with OECD recommendations<sup>5</sup>.

The transition compacts should take the form of a light and flexible mutual agreement between the Government of Yemen and international partners, based on a collective agreement on the key priorities of the TPSD and on an explicit strategy for how, and from which instruments, implementation will be financed. It would improve the coherence and effectiveness of aid, reduce the risk of strategic failure, improve results focus, and provide real steps towards stronger national engagement and leadership. A compact would also allow for frequent reviews of progress, thus addressing donor concerns about capacity, legitimacy and risks as well as government concerns about speed and flexibility of funds that are necessitated by the fluid situation placed by transition.

By linking the priorities of the TPSD with appropriate funding sources, the compact will ensure that (i) the critical results envisaged by the TPSD are delivered and reassessed on a regular basis; (ii) risks are jointly identified, mitigated and managed; and (iii) aid instruments are specialized and configured to deliver rapidly while supporting a gradual transition towards using national systems.

The transition compact to support the TPSD should focus on four basic elements: (i) confirming joint agreement between development partners and the Government of Yemen on the key priorities that require urgent attention and that are spelled out in the TPSD, and joint risk assessments. (ii) Identifying the appropriate mix of financing instruments that can deliver on priorities and facilitate more rapid release of development funding. An effective mix will be based on a financing strategy that identifies the different instruments needed to deliver on different transition objectives using different budget lines. (iii) Establishing a transparent overview of multiannual funding that will be available to finance these priorities. Compacts will map relevant funding sources (humanitarian, development, non-ODA, national revenue etc) and modalities against identified priorities (iv) Defining “best-fit” governance structures and monitoring frameworks to assess progress and compliance: Priorities and funding arrangements should be reassessed regularly to ensure relevance. Frequent reassessment of priorities would also provide a mechanism to more effectively identify emerging risks to development investments. To facilitate such reassessment, compacts should identify a limited set of basic progress and compliance indicators rather than a complex monitoring framework.

---

<sup>5</sup> OECD International Network on Conflict and Fragility INCAF. Discussion Note. 2011.

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

Transition Compact will also serve to review and discuss linkages between external support to the short term top priorities and urgent actions as well as the medium term economic recovery program (through the PIP).

## CHAPTER THREE: MEDIUM TERM ECONOMIC RECOVERY PROGRAM

Due to the limited resources and the expanding needs and challenges, the government identified the top urgent priorities for the transitional phase. However, any immediate solutions shall remain deficient and require longer term policies and programs in order to promote economic growth at the medium and long term, reduce unemployment and alleviate poverty. Based on that, the Transitional Stabilization and Development Program 2012-2014 aims at bolstering the immediate priorities by a medium-term economic recovery program. The program relies on six main themes as follows:

### 1. Priority one: Revive Economic Growth (FA-4)

Reviving economic growth to reduce poverty through a package of inclusive and equitable policies and programs to create the appropriate environment for promoting productive sectors. Special attention shall be given to gender equality and women's labor force participation as a cross cutting issue in developing the agricultural sector, enhancing food security, achieving the optimum exploitation of fisheries, reviving the tourism sector (in preparation for longer term development) and intensify the efforts for expanding the exploration activities for oil and gas. In light of that, it is expected that the GDP will grow at an average rate of 4.5% during 2012-2014. In addition, the increase in net per capita income is expected to be an average of 1.5% annually. The low growth rate is logical and realistic as the TPSD's period of 2 years is barely enough for preparing and laying the ground for longer term growth and development. Therefore, this period will have a favorable impact on creating job opportunities, especially for women, and reducing poverty in the years to follow the program. A set of detailed structural and budgetary economic reforms and policies are essential and presented in Annex 2 under macroeconomic sectors.

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

<b>Projections of economic growth 2011-2014</b>					
<b>Years</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>Average</b>
					<b>2012-2014</b>
GDP growth – market price	-19.1	3.4	6.5	3.7	4.5
Non-Oil GDP growth	-19.3	4.5	5.8	6	5.4
Oil and gas GDP growth	-17.9	-3.6	11.5	-11.5	-1.2
Oil Sector GDP growth	-24.4	-5.0	14.2	-13.9	-1.6

## **2. Priority two: Improve infrastructure (FA-4)**

- Expand the production, transmission and distribution of electrical power to meet the growing demands.
- Finalize existing road projects and finalize connection of roads networks with neighboring countries
- Improve and modernize water resources management. Expand the provision of water and sanitation services, especially to rural areas and secondary cities. Implement environmental programs to adapt to climate changes and environment protection.
- Create investment and competition favorable environment in the field of land transportation through partnerships with the private sector. Upgrade existing seaports and promote investments in port services.
- Ensure a marginalized groups’ (such as women, youth, etc) perspective in infrastructure development.

## **3. Priority three: Expand social protection (FA-5)**

- Enhance the social safety mechanisms and networks. Expand social protection network and support poor groups.
- Expand mechanisms and programs for financing small and micro projects for poor people. Empower poor groups, especially rural women, to access productive assets.
- Give priority to labor-intensive investments in all economic sectors, with special emphasis on women’s and youth labor force participation.
- Expand cash transfers system through Social Welfare Fund to assist poorest groups.

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

- Introduce provisions to deal with crisis related issues such as providing shelter to IDPs and the poor and address the critical needs of affected children.

## Social Assistance or Social Development?

The TPSD will adopt a national coordinated approach to address in an integrated way the dual objective of social assistance (short term and during transition) and economic development (long term and post transition). A livelihood strategy that focuses on rural areas and the most vulnerable can be used to help marginal cases graduate from the social protection program in the medium to longer term. The Social Welfare Fund is already utilizing targeting mechanisms for cash transfers that can become conditional (Conditional Cash Transfers) upon the education enrollment of children from beneficiary families thus addressing the dual objective of social assistance and social development. This integrated human development cum social assistance approach can be particularly relevant for interventions aiming at children and youth who constitute the majority of Yemen's population. The Public Works project can also provide support to the most vulnerable populations through targeted selection for workfare participants. Implementing the national food security strategy including promoting public health campaigns targeting malnutrition and integrating food security risk management strategies (such as grain buffer stocks) can help the very poor in the long run and reduce the cases eligible for cash assistance especially when crisis strikes.

## 4. Priority four: Human Resources Development Youth and women aspirations (FA-5)

- Increase basic education enrolment rates. Encourage girls' enrolment and reduce dropouts.
- Increase the number and improve services of central hospitals in governorates. Expand primary health care and reproductive health services.
- Implement the employment strategy to reduce unemployment among young people. Support partnerships between universities and private sector to train youth for further integration in labor markets.
- Increase the numbers of Yemeni labor in GCC countries by increasing training and qualification opportunities for Yemeni labor. Facilitate visas and entry requirements to GCC countries.
- Ensure that women and youth needs are addressed separately and based on assessments of actual needs for each group. At the same time, utilize approaches that enhance synergies when the needs are similar.
- Engage youth and women in all committees for transition, including the national dialogue conference and in formulating the future of the political life in the country in ways that serve the interest of both groups.

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

- Create effective mechanisms for involving civil society organizations in monitoring the implementation of applicable laws.
- Introduce amendments to laws related to women and youth rights and enforce laws that end violence against women.
- Spread awareness and advocate on youth and women rights and issues including their participation in all dialogues on peace and security.
- Utilize quotas for political participation in a manner that ensures the interests of both youth and women are taken into account. Utilize women quotas in decision making positions.

## Targeting Unemployment: The Role of Technical Education & Vocational Training

By developing skills needed in the economy, TEVT contributes to economic development and prepares people for employment. While growing rapidly before 2005, enrollment in vocational training slowed down, but continued to rise at a fast pace in technical education. Training programs and curricula based on labor market needs were developed and the quality of instructors improved. However, teachers remained in short supply.

The aim of the TPSD is to meet the demand of the economy for skilled labor. TEVT will also help integrate Yemeni workers into the GCC labor market. It can also help in absorbing existing unemployed professionals through re-training and better aligning of skills to labor market needs. In pursuing these goals, the government faces three main challenges: (i) a severe shortage of teachers and trainers, with many teachers lacking proper qualifications; (ii) insufficient funds to expand the system and, in particular, to provide it with needed equipment and to allow it to keep pace with technological development; and weak linkages with the labor market

The strategy for the sector is to set some funding aside through PIP, increase recruitment, ensure that the absorptive capacity of TEVT institutes keeps pace with market demand, that skills taught match those needed (market demand adapted curricular), develop special programs for women that reflect market needs, and to establish institutes that cater for women, and to recruit teaching staff and upgrade the quality of teachers and trainers. The government is keen to attract funding from the private sector for TEVT and to get advice from employers on what skills are most needed. This involves building an effective partnership with the private sector, encouraging it to participate actively in strengthening TEVT.

## 5. Priority five: Enhance the role of private sector and improve business climate (FA-2; 4; and 5)

- Continue improving the legislative and institutional framework by enacting and implementing new laws, the most important of which is the law on Public-Private Partnership in the field of infrastructure.
- Develop an investment map showing promising economic sectors and priority projects for marketing them to investors.

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

- Improve follow up services for investment programs.
- Develop information systems and automate the procedures for registration and implementation of investment programs.
- Finalize the procedures for simplifying business activities. Open a window for businesswomen under the one-stop-shop system at the Ministry of Industry.
- Focus on Small and Medium Enterprises as main vehicles for sustainable growth
- Enact and enforce the PPP law.
- Enhance private sector competitiveness, accountability, transparency, and free entry.
- Start the implementation of the national investment promotion strategy.
- Promote gender/youth aware work policies in the private sector and provide attractive incentives for private firms to employ qualified women and youth.

## **6. Priority six: Developing the system of good governance and state building (FA-2)**

- Modernize civil service and continue administrative reforms. This includes the implementation of job rotation law and continuing the implementation of the biometrics system for all employees and retirees.
- Enhance the performance of judicial authority by restructuring the Ministry of Justice, the Judicial Inspection Authority and the Attorney General Office in order to enhance judicial independence. Develop clear and transparent criteria for judicial movements.
- Enhance transparency, accountability and anticorruption efforts. Focus on creating the national anticorruption coalition. Restructure the Central Organization for Control and Auditing, ensure its independence, and enhance its role in financial auditing. The same efforts are to be taken to enhance the roles of SNACC and the High Authority for Tender Control.
- Enhance national protection for human rights and public freedoms through comprehensive review of national law and legislations, building national capacities in the field of human rights and spreading the concepts of human rights.
- Start the implementation of the National Local governance Strategy to support the development process in governorates. Finalize the legislative and institutional framework for local governance system.
- Develop and implement a strategy to prevent discrimination against women, ensure their political and economic empowerment, enhance women's access to justice and legal protection. Enhance budgetary allocations to women issues.



# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

- Implement the job rotation law.
- Implement the National Anticorruption Strategy.
- Implement the National Local governance Strategy.

## Needed Resources

Public investments are some of the government's key instruments for achieving Yemen's medium and long term development goals. The Public Investment Program PIP creates the necessary physical infrastructure, provides basic services such as education and health care, and finances critical interventions in certain productive sectors. The PIP is a collection of projects submitted by line ministries that are included in the program provided they meet strict selection criteria. A first PIP covering the period 2006-10 was prepared for the London CG meeting in 2006. A second PIP for the years 2011-15 was a central part of the fourth Socio Economic Plan for Poverty Reduction DPPR. The latter is modified by prioritizing existing projects and including new ones to fit the transition as presented below.

Implementation of the 2011-15 PIP was seriously disrupted by the crisis of 2011. Many ongoing projects were halted and new projects postponed. Existing infrastructure and facilities were damaged and people suffered serious hardships resulting in a rise in the already high poverty rate. While the Emergency Needs program sets out the cost of rehabilitation of assets and humanitarian support for those hit hardest, a revised PIP for the years 2012-14 addresses the longer term development needs of the country. Hence, to achieve the above intermediate program; the following resources are needed. The following table sets out some main elements of the PIP by year. Annex 2 provides a list of projects to be included in each of the areas identified below.

### **Some Supportive Measures**

- Enacting measures and procedures to expedite project implementation
- Work with donors on modifying procedures to expedite fund disbursements and increase accountability

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

To construct the PIP, line ministers submitted a huge number of projects utilizing a uniform format in which the following information was provided: a project brief for each project describing the project, timetable for implementation, expected financing, results of feasibility study, and any other related information. TPSD recognizes the fact that not every project is possible to implement, hence under each priority the TPSD selected certain elements of the PIP based on a specific selection process to define priority projects and programs (please note that some of them will actually be started during transition but ending after).

Priority is given to ongoing projects (under implementation) to:

- Complete their implementation with co-financing (government – external)
- Focus on implementing projects for which co-financing is confirmed
- Focus on implementing ongoing projects which has local funding 100%
- Focus on projects with large economic, development, and safety impact
- Evaluate all projects' economic and social impact and align it to TPSD priorities

For new projects the following criteria was utilized for selection:

- Project/Program economic impact focusing on growth, job creation (permanent or temporary); social impact focusing on poverty alleviation and human resources development
- Evaluate all projects based on readiness in terms of studies, economic, technical, and environmental feasibility.
- Focus on projects with ready designs, tender documents, and transparency of procedures
- Focus on projects that have possibility of medium to high absorptive capacity, and existence of successful PIU or ease of establishing new ones

#### **Costing of New Programs & Projects**

- For programs and projects implemented through the Social Fund for Development, Public Works Project, etc; the cost was calculated based on the organization's phased plan adopted and approved by the government and including donors' participation;
- For programs and projects that reflect a specific strategy such as education (basic education, technical education, etc.), the cost is calculated as part of the specific activities and programs listed under the strategy's implementation plan;
- For programs and projects that had detailed visibility studies and designs; including tender documents, the estimated cost of these programs and projects contained in the different studies are used. This applies to most projects and programs of the PIP, especially those with relatively high cost estimates;
- For programs and projects that are of special nature and continuous implementation; such as those under the primary health care program, the cost estimates adopted by the PIP are those submitted by the concerned party or organization and that are prepared in cooperation with specialized international organizations in the subject matter of the program or project.

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

## INTERMEDIATE ECONOMIC RECOVERY PROGRAM

S	Sector	On going Projects *	New Projects**				Total PIP
			Govern.	External	Gap	Total	
1	Productive	926	245	42	1148	1435	2361
2	Infrastructure	12632	2050	330	2812	5192	17824
3	Human resources development	1960	576	367	1553	2496	4456
4	Good Governance	369	141	0	298	438	807
5	Public Administration	902	332	0	387	719	1621
6	Safety Net	1078	459	520	1012	1992	3070
7	<b>Grand total</b>	<b>17867</b>	<b>3803</b>	<b>1259</b>	<b>7210</b>	<b>12272</b>	<b>30139</b>

(\*) Presents the total cost for projects within which work was started for a number of years  
(\*\*) Presents total cost for new projects that will be implemented during transition, even if some of which will be completed after transition.

To implement the medium term program a total of almost 30 billion dollars is needed. The above total shows the distribution of this amount by major sector including funding gaps. As seen from the table the majority of investments are need for building and rehabilitating the infrastructure sector (49.6%) mainly in water and electricity. Although these investments are capital intensive, it opens the door to creating employment opportunities if targeted correctly. Investments in human resources sectors are around 18% of the total, productive sectors (13.4%), and social protection 11%.

### The Funding Gap

The funding gap for the PIP medium term program is estimated at 7,210 million dollars. Infrastructure sectors have the most gap estimated at 2.8 billion (39% of the total gap); followed by human resources development sectors (21.5% of the gap); followed by productive and social protection sectors (representing 16% and 14% respectively). Public administration and good governance sectors have the least gap of 5.4% and 4.1% of the total funding gap respectively.

### Financing Modality

A number of financing modality can be used for longer term financing. These include: General budget support, Sector budget support, jointly managed pooled funds that maximize the use of country systems, Project /program support to state institutions;

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

Project /program support to and through non-state actors; and direct Humanitarian support. A mix of these can be utilized depending on the priority to be financed.

The choice of funding mix should be guided by four criteria: 1) ease of coordination and harmonization, 2) institutional transformation, 3) speed and flexibility, and 4) scope for risk management.

A number of instruments that were discussed and/or used in Yemen in the past and that can be suggested include:

- Special implementation funds benefiting from the experience of other countries post or undergoing conflict and transition
- A special multi-donor basket fund that is administered by international organizations such as the World Bank and the United Nations
- A fund utilizing the positive experience from the Sada'a Reconstruction Fund (this could be especially for the reconstruction of damaged private and public infrastructure)
- A Multi Donor Trust Fund with special and flexible conditionality mechanisms

## CHAPTER FOUR: IMPLEMENTATION ISSUES

### Part I: Coordination, Inclusion, and Partnerships

Implementation with the help of development partners and friends of Yemen and expanding and improving the development cooperation aspects with them is a crucial element for a successful transitional program. It materializes the concept of development partnership and fulfills common responsibility locally and internationally in economic growth, poverty combating and human development. Hence, the government program and through its Strategic Partnership Forum (a concept note describing the SPF is attached in Annex 2) will move towards optimizing the following tracks:

- Strengthen and extend the base of international donors and friends of Yemen through:
  - Developing a comprehensive funding plan to mobilize external resources, maximize potentials and enlarge the base of donor countries;
  - Increasing the overall and the sectoral assimilation capacity of the national economy for loans and assistance and diversifying the mechanisms of projects' implementation based on the international best practices;

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

- Activating the system of foreign assistance management as a basis to direct and improve the utilization of foreign assistance and improve the coordination of donors' interventions based on the 2 years program priorities;
- Strengthening the monitoring exercise over the projects funded by the donors' loans and assistance in order to optimize them on the one hand and foster cooperation relations with the donors on basis of transparency and credibility on the other; and
- Enhancing communication and coordination with the development partners to increase cohesion by adopting regular dialogue mechanisms.
- Promote partnership with Civil Society Organizations and private sector through:
  - Supporting their involvement in setting the development policies and plans and getting it actively involved in building and designing the projects that meet the needs of local communities and poor people;
  - Integrating them in the preparation of the regular and annual follow-up and progress reports of the government program, development projects and shadow reports in addition to conducting surveys to measure the projects' impact in the society and foster the development awareness and rational economic behavior;
  - Initiate a system of report cards to measure beneficiary satisfaction of the development process; and
  - Improving the partnership between CSOs, the private sector and the local authority.

For the implementation of the TPSD, a special donor-government working group has been established and will work on a detailed matrix that aligns funding to priorities, suggest funding modalities, include time frame and dates, and suggest implementation responsibilities. In addition, this matrix will be the basis for a monitoring and evaluation framework in which certain targets and indicators for measuring progress will be added. A number of these working groups will be established per each priority to establish a mutual accountability and monitoring mechanism with development partners.

## **Part II: The Public Investment Program PIP**

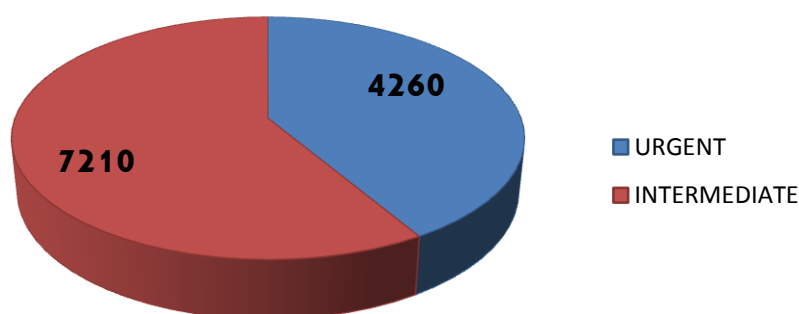
The PIP's broad aim is to generate inclusive growth and create jobs; however the following issues were considered when developing the PIP for the TPSD.

**Balancing immediate and longer term needs.** This program presents request for assistance based on two distinct components: one of a short term nature to help the

## Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

country deal with urgent needs arising from the disturbances during 2011, and the other focused on the medium and long term to provide financing for the public investment program (PIP) as shown in the below diagram. Assuming a total figure for aid to Yemen, the more of it is allocated to meet urgent needs, the less there is likely to be available for investment. Determining the right balance between the two is important and hence was focused upon during the development of the TPSD PIP.



**Balancing the size of the PIP.** The size of the PIP depends on the targeted GDP growth and the consequent need for investment, public and private, as well as on the projected availability of financing. The actual PIP can be somewhat larger than the macroeconomic analysis indicates, because not all projects proceed as planned. A cushion was built into the PIP to ensure that the needed level of investment can be achieved despite delays in some projects. However, a large gap between planned and actual investment will result in a low implementation rate, which reflects badly on the planners. It can also be costly if planned projects have started and are then held back due to a lack of funds. And if only a few of many planned projects can go ahead, it raises a question about priorities. These conflicting issues were a challenge when the PIP was developed for the TPSD.

**Composition of the PIP and the very long term.** Although implementation of the Fourth Plan 2011-15 has been disrupted by the events in 2011, its objectives and development strategy should continue to guide public investment. This is vital for long term development of Yemen. While there may be some adjustments in certain sectors because of the events of last year, on the whole the sector strategies and investment priorities outlined in the 4<sup>th</sup> Plan still apply. This was recognized when developing the PIP for the TPSD.

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

**Ongoing projects/Co-financing.** Ongoing projects have committed foreign funding, but their implementation can be delayed if agreed co-financing is not available. The funding for ongoing projects usually cannot be channeled to other uses as these projects cannot be stopped mid-way. This is even if they don't meet the very top priorities set out for transition. Budget allocations for co-financing are therefore a high priority. Project implementation delays can increase project cost and will obviously postpone the return on investment. Through co-financing the Government can achieve substantial investments at a small cost to the budget. Hence, securing co-financing is a major goal of the TPSD PIP.

**PIP implementation.** Given the long delays in implementing the projects financed with pledges given at the previous CG meeting as well as subsequent commitments, one focal point of preparing the TPSD is to enhance a couple of old studies on Yemen's absorptive capacity and the monitoring of project implementation. It is expected that a study on absorptive capacity; would deal specifically with this issue and make a number of recommendations.

## **Part III: The Role of Sectors & Line Ministries**

Implementation of the TPSD relies heavily on the strong linkages with sector plans. In preparation of the 4<sup>th</sup> Socio Economic Plan for Poverty Reduction 2011-2015; uniform reports were collected by sector containing: an analysis of the past 5 years with lessons learned from implementation of the 3<sup>rd</sup> plan; current sector challenges, goals and strategies for the 4<sup>th</sup> Plan's intervention, interventions (policies, programs, other) to achieve the specified goals for the years 2011-2015, and work plans. Specific budgeted programs were collected to form the PIP for 2011-2015. Hence, both the PIP and 4<sup>th</sup> Plan goals were aligned to the information and data provided by the following sectors.

These plans are still valid and constitute what is needed to achieve these sectors' long term development. However; the modified PIP for TPSD is more focused and contains only a sub-section of all that is required and based on the need to implement during a very short time. This is done without jeopardizing the need to tackle most important priorities. In addition, some sectors such as the production sector were highly affected by the current crisis. For example, a number of line ministries within certain sectors actually lost their buildings, their means of development, resources, and leadership during the 2011 crisis. This was incorporated in the modified PIP for the TPSD. Furthermore, and as indicated by the SPF; the role of different sectors does not stop at the planning stage but



## Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

goes to implementation and M&E as most of the line ministries identified below will be part of the different implementation working groups.

The following sectors all participated in the planning process of the 4<sup>th</sup> DPPR and their data provided formed the basis of the modified PIP for the TPSD<sup>6</sup>.

**Production Sector:** concerned with growth and other production issues. Work is implemented through the Ministries of: Agriculture & Irrigation, Fish Wealth, Mining & Oil, Trade & Industry, and Tourism.

**Infrastructure Sector:** concerned with many cross sectoral issues and includes City Improvement Projects; Disaster Management Projects; and Integrated Water Management Projects. It includes the Ministries of: Water, Environment & Sanitation; Power & Electricity; Roads & Public Works; Transportation; and IT & Telecommunications.

**Human Resources Development Sector:** concerned with population, labor force & employment, education (basic, secondary, technical, vocational training, higher education & scientific research); public health; and Yemeni working abroad. It includes the Ministries of: Education; Public Health & Population; Social Affairs; Labor; Youth & Sports.

**Public Administration Sector:** concerned with issues relating to cultural development and heritage preservation; the statistical system; and issues relating to Premiership. It includes the Ministries of: Social and Cultural Services; Media; Religious Affairs; MoPIC; Finance; Local Administration; Foreign Affairs; and Presidency of the Republic's Office;

**Safety Net and Social Insurance and Protection Sector:** concerned with issues relating to the most vulnerable in the form of social safety net; physical & social infrastructure; small enterprises development & micro finance; capacity building & institutional support; economic & investment opportunities; direct cash assistance; and care for those with disabilities. It includes the following agencies: Social Fund for Development (SFD); Public Works Project (PWP); Small and Micro Industries and Establishments Finance Fund; Social Welfare Fund (SWF); the National Program for Community Development and Productive Households; Agricultural and Fish Production Promotion Fund; Economic Opportunities Fund; Care & Rehabilitation of Disabled Fund;

---

<sup>6</sup> The most important sectoral interventions and policies that will be addressed during the transition and beyond are provided in Annex 4.



# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

General Authority for Insurance & Pensions; General Corporation for Social Insurance. No line ministry heads the work in this sector.

**Good Governance Sector:** it concerns with issues of women empowerment, and other issues related to governance. It includes the following Ministries and Agencies: Civil Service; Judiciary; Interior & Security; and the Central Organization for Control & Auditing COCA.

## Part IV: Local Balanced Development

Implementation at the governorate level is strongly thought under the TPSD. It is thought of as addressing one of the root causes of conflict in Yemen during 2011: inequalities. Implementing TPSD at the local level is considered to improve targeting, balance development, focus at the grass root level, and improve the chances of successful implementation.

The major challenge facing the government and the local authority is about improving the living conditions of the people by sustaining economic growth, creating job opportunities, providing services and narrowing the gaps in the economic and social indicators between governorates and between the rural and urban areas. In addition current security and political conditions might make it challenging in continue efforts of implementation, especially in the area of humanitarian support.

The assessment of the actual performance and progress made towards the objectives, policies and procedures drawn in the planning phase of the TPSD will help in measuring the development level by evaluating the discrepancies between governorates and narrowing them. Demonstration of discrepancies in the development levels between the governorates and the level of utilization of the available local authority resources highlights the challenges related to the low development indicators and the limited resources which hamper the development process in governorates as it also highlights the bases and rationale of the tendency towards decentralization. This development approach fulfills a qualitative evolution in the governorates development levels and indicators improvement as it also constitutes a key initiative and mechanism adopted by the government in achieving sustainable development and poverty mitigation. Numerous tools are available to focus on certain governorates and localities. These include GIS mapping. During the implementation of the TPSD collaboration will be a major goal with

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

institutions already advanced in the area of identifying localities most affected including those working on the humanitarian area.

## ***The Role of Targeting<sup>7</sup>:***

Equity of interventions at the local level can be enhanced via effective targeting mechanisms. The TPSD focuses much on scaling up of good practices in the area of targeting. Lessons learned from different institutions such as the Social Fund for Development (SFD) can provide the basis for improving the targeting mechanisms to be utilized during the TPSD. Effective targeting ensures that vulnerable groups and poor communities, particularly those in remote rural areas, are being incorporated. SFD targeting policy relies on poverty related indicators as well as qualitative tools that further identify the most impoverished areas and neediest communities for allocation of resources. The SFD targeting strategy can be summarized into the following:

- 1) **Geographic resource allocation** covers all the districts in the country by distributing the majority of SFD resources based on the estimated incidence of poverty in each governorate and subsequently in each district. This mechanism is premised on the assumption that the higher an area's poverty related index, the worse are its living conditions and thus the more deserving of interventions. Within districts qualitative assessment and participative approaches can be used to target communities within the broad, geographic allocation framework. This approach allows more strategic investments within areas, as there are often diverse circumstances within districts as a result of social and economic factors.
- 2) **Program targeting** allocates additional resources to design and implement programs and projects that address problems affecting specific communities and groups.
- 3) **Social Targeting** allocates resources that address the needs of special need groups, including persons with disabilities, women at risk, children at risk, socially marginalized groups and male and female prisoners.

## **Part V: Monitoring & Evaluation<sup>8</sup>**

The TPSD quality of design, integrity of indicators, balanced and realistic objectives and policies, despite all being substantial factors, are not enough on their own to ensure implementation as desired. The achievement of the overall objectives remains subject to external influences and local changes which may emerge during transition. Adopting a dynamic and iterative M&E process allows for the highlighting, analysis, correction, and incorporation of such changes. The role of periodical reports cannot be underestimated

---

<sup>7</sup> Source: Social Fund for Development SFD.

<sup>8</sup> The full M&E framework is provided in Annex 4.

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

to provide decision-makers with opportunities to re-address some of the issues in order to move forward with achieving the TPSD goals and priorities within time, budget, and best quality. The TPSD will benefit the most from such process due to the fluid nature of the transition.

Working with different development partners should result on a matrix with the main priorities, their associated projects and interventions, funding gaps, and associated financing modalities. Such matrix should also include SMART indicators to facilitate M&E. TPSD will adopt a M&E strategy that calls for:

- Expanding the participation base in all stages of the M&E process to include: Ministry of Planning and International Cooperation MoPIC, line ministries and governmental parties, local authorities (governorates and districts), CSOs, beneficiaries and donors. The roles and responsibilities of each group are specified in the TPSD M&E strategy.
- Reinforcing coordination among these parties through a coordination secretariat and ensuring linkage. Work from each partner is to be integrated and accompanied by follow-up mechanisms.
- Improving the level of collaboration among those parties in disseminating reports, lessons learned, borrowing of talent and knowledge. Examples include exchanging knowledge sharing with some institutions (local and external) such as the Social Fund for development or other development partners that are well advanced in the area of M&E
- Focusing on establishing “institutionalized” and “systemized” M&E processes to increase the efficiency, accuracy, and continuation of M&E efforts. Electronic systems, such as Devinfo, DAD, are to be enhanced and utilized in which all parties can enter data, produce uniformed reports, and exchange information.
- Sharing databases among different organizations in which data is regularly collected
- Increasing awareness regarding the importance of M&E as a process to improve implementation

## **Part VI: Working in Transition**

Transition posts its own challenges, especially if the development objectives are still to be accomplished amid on-going conflict. The need for swift and more focused agenda usually gets disrupted by a fluid environment and all within a very short time period. Annex 6 includes some of the very complex issues that existed for a very long time in Yemen and require long term solutions that have to deal with root causes. It is highly

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

probable that during transition there will be no time, resources, or capacity to eradicate or successfully deal with some of the issues presented in Annex 6 completely. Indicating otherwise will be unrealistic. This is despite the importance of such issues to Yemen's long term development. However, and within each of the above mentioned focus areas and priorities efforts will be exerted to pave the road to handling such issues during transition and beyond. Donors and development partners are encouraged to focus on one or few of these issues with the government and continue doing so beyond transition.

## Part VII: Implementation Capacities

Implementation capacities are of vital importance to the success of the TPSD suggested interventions. Enhancing capacities of both human resources as well as organizations involved in implementing the 2 years program should be focused on. Some immediate steps to take will include:

- Assessing implementation needs in terms of capacities (both institutional and human)
- Assessing existing capacities focusing on implementing agencies and organizations
- Aligning existing capacities to implementation needs
- Filling in the gaps in capacities through training, capacity development, rehabilitation, etc in an effort to ensure improved chance for implementation success

## Part VIII: Complex Issues

### Definition

- Complex issues in the TPSD refer to those which have the following common features:
- Addressing them is vital to Yemen's development as they have adverse socio-economic effects.
- Addressing them requires a multi disciplinary process since it requires dealing with some cultural, educational, habitual, as well as other socio-economic considerations.
- Addressing them also requires gradual institutional transformation which implies that in some cases substantial time is needed for a visible and required change.
- Addressing them requires short and long term interventions.
- Addressing them requires multi-leveled approach that combines macro and structural level interventions with those relating to the household.

## Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

- And finally, due to their complexity addressing them completely will require time, resources, and capacity that might not all be available during transition.

### The Qat Dilemma

Qat, a non-food crop, utilizes many of Yemen's scarce agricultural resources and thus works to the detriment of food security. Qat is addictive. The leaves of the qat (*Catha edulis*) plant contain an amphetamine-like stimulant which produces excitement, loss of appetite and mild euphoria in those who chew it. According to the 3rd Socio Economic Plan for Poverty Reduction 2001-2006, areas cultivated with qat have increased exponentially during the last three decades, growing from 7,000 hectares in 1970 to 127,000 hectares by 2005. This trend did not stop since then.

Qat production taxes the very scarce Yemeni water. In 2006 qat production was estimated to require around 25% of irrigated agricultural land, and accounted for using around 850 million cubic meters of water annually, or roughly 30% of agricultural water use. In 2011 it was estimated that qat production actually uses around 40% of available water resources, and benefits from the energy subsidy, whenever irrigation is involved.

Qat consumption has social and health implications. By diverting resources away from food production, the steady rise of Qat production adversely affects also food security, both at the national and the household level. A significant number of poor and low-income people consume qat at the expense of food and other basic needs. Studies indicate that spending on qat (at YR250 billion a year) accounts for 26% of household incomes, ranking second to food. In addition, it is estimated that 20 million working hours are lost every day due to qat consumption. Qat has also negative impacts on workforce level productivity and efficiency.

In recent decades Qat production and consumption has become an important element of livelihoods and social life, while the negative impact of Qat remains to be addressed. It is a highly profitable crop, and rural areas have become dependent on it. It was also estimated that qat provided about half a million jobs. In 2009, there were over 600,000 small-scale Qat farmers in Yemen, which accounted for more than half of all small-scale farmers. Most of the Qat is produced on large scale farms using irrigation. In total Qat provides employment to 1 in 7 working Yemenis.

Although the production and consumption of Qat is a fact of life in Yemen, the negative social, health, and economic externalities, and especially the indirect subsidization, is going to be addressed at the national level and for the years to come.

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

## Immediate Suggested Interventions

- Elimination of its indirect subsidization through removing the energy subsidy on irrigation.
- Establishing a qat research institute to balance available information, data, and research on the understudied negative qat effects.
- Transferring lessons learned from the international experience in dealing with Tobacco consumption in other countries.
- Developing and approving a comprehensive qat policy that deals with its adverse effects as well as find alternatives to replace its income and job dimensions.
- Starting the implementation of such policy.
- Initiating a public campaign against qat.

Leading line ministry: Ministry of  
Agriculture and Irrigation

## Water Depletion

Water scarcity is a critical issue for Yemen's development. Water is an essential resource for human subsistence. Present availability of 125m<sup>3</sup> per person is far below what is considered necessary and indicates severe water stress. Water use exceeds supply by a substantial margin resulting in an annual water deficit of 0.9 m<sup>3</sup> billion and a consequent drop in the groundwater level. This average figure hides considerable regional variations. The severity of water scarcity is more serious in the interior and highlands than on the coast. Household consumption of water accounts for about 10% of total use, the agriculture sector for the remaining 90%, roughly half of it for irrigation and a third of it for growing qat. The present situation is not sustainable and after thirty years of apparent abundance, water availability is declining rapidly and non-renewable resources are expected to run out within one to two decades in the densely populated highlands. For example, Sana'a water utility has to drill about six new deep wells every year to replace drying wells<sup>9</sup>.

A joint socio-economic analysis conducted in 2011 concluded that water governance is very weak in Yemen and contributed to the rapid decline of water resources which are expected to run dry within one to two decades in the densely populated highlands. Water sector governance is mainly shaped by traditional collective institutions largely overtaken

---

<sup>9</sup> Joint Socio Economic Analysis 2012.

# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

by the individual appropriation of the groundwater resource, and modern laws and regulations proving highly ineffective in the Yemeni context. The latter is characterized by weak enforcement of legislation.

In dealing with the water crisis the government faces a number of challenges:

- Rapid population growth adds to pressure on water resources. By 2025, availability per person may be 35% lower than it is today;
- The implications of running out of water in certain areas;
- Investment needs in the water sector exceed \$2 billion for the next five years;
- The need to reallocate water from agriculture to household use, and within agriculture away from qat;
- Institutional weaknesses and conflicting responsibilities.
- The impact of climate change and how to adapt to it.

## Immediate Suggested Interventions

The government's strategy to deal with the water crisis is laid out in the National Water Sector Strategy and Investment program (NWSSIP). The strategy comprises the following elements:

- Strengthening the capacity of agencies to implement integrated water resource management;
- Improve coordination and cooperation between public agencies and water users to discourage depletion of ground water and protect water resources against pollution;
- Encourage water conservation in agriculture by using modern irrigation methods and water harvesting (rain);
- Register water rights for water users;
- Substantial investment in water conservation and the environmentally expanding of rural and urban water supply (for example through water recycling);
- Strengthening the role of women in managing water resources and protecting the environment.
- Linking efforts for controlling climate change to those related to water resource management.

Leading line ministry: Ministry of  
Agriculture and Irrigation



# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

## Population growth

Within a span of 35 years, between 1975 and 2010, Yemen's population increased from 6 to 23 million. At the present growth rate of 3%, one of the highest in the world, Yemen's population would reach 34 million by 2025. The issue of population growth is one of the most important challenges facing the country today.

Rapid population growth slows down Yemen's development in many ways. It increases the pressure on the limited area of arable land and scarce water resources to produce

*Working with the local communities is most promising, linking investment with improved governance. In rural areas, the 'Demand-Responsive Approach' (DRA), driven by working with communities, has been successfully introduced over the last decade and expansion of coverage is being achieved. Attention is needed to ensure efficiency, quality and sustainability. Concerning water management in rural areas in agriculture, the challenge is to do better in supporting farmers in (i) more efficient use of groundwater for irrigation; including through investment in modern infrastructure; (ii) adapting cropping patterns; (iii) integrating the water resource management from the local to the central level; and (iv) developing flexible support mechanisms for poorer rain fed and livestock areas. Concerning the urban areas, the problem of sourcing and managing of water reserves requires an engaged and integrated approach, including (i) working with communities to establish water rights; (ii) strengthening the possibility to transfer water from agriculture to municipal and industrial use; (iii) work on supply management, (iv) prioritizing solutions for the greatest problem areas: Sana'a and Ta'iz; and (v) working on demand management to contain demand. The Government should implement regulations governing access to groundwater, and aim to close the wide gap in water and sanitation services between urban and rural population, including with the above. Investment in the water sector can only be effective, if the institutional capacity of the sector is continuously enhanced. Low-cost investments in behavior change initiatives related to improved sanitation and hygiene will offer rapid and high-impact returns. **Joint Socio Economic Analysis. 2012.***

food, making it harder to improve food security and combat malnutrition. The population is young, with 45% under the age of 15, resulting in a rapid rise in the school-age population and demand for education. Demand for other public services – health care, social protection services – is creating similar pressure. The growth in the number of school graduates is swelling the ranks of the unemployed. Living conditions in urban areas are deteriorating as a result of population pressure.

Bringing down the high fertility rate of 6.0 faces many challenges. Cultural factors are responsible for the young age at which girls marry, leading them to give birth at a young age. Access to health care services, currently covering 68% of the population, and in particular to reproductive health care, is limited, in part by the remoteness of many villages and the rugged terrain. Only 27% of women use family planning methods. The illiteracy rate among women, 61%, is extremely high.



# Transitional Program for Stabilization and Development (TPSD) 2012-2014

---

## Immediate Suggested Interventions

While the effect of measures to lower the population growth rate will take time to show result, the importance of such actions for Yemen's longer term prospects are hard to underestimate. Actions to curb the population growth rate will have high priority during the next five years and starting with the transitional period. The strategy towards achieving the national population goals has five main components:

- Continuous political support from a high level for implementation of population policies and programs;
- Expansion of coverage and quality of family planning and reproductive health services;
- Efforts to change people's attitude towards use of family planning methods; in particular among young people
- Providing high standard obstetric care;
- Strengthening the institutional structure of line ministries and agencies involved in population issues.
- Adopt the draft law on the legal marriage age of girls;
- Raise the enrollment rate in primary education, in particular for girls, and reduce the illiteracy rate among women

Leading line ministries: Public health and population, education, Islamic affairs, information.

## List of Annexes

**Annex 1:** Public Investment Program (Medium Term Economic Recovery)

**Annex 2:** Main sectoral strategies and priorities

**Annex 3:** Strategic Partnership Forum concept note

**Annex 4:** Monitoring and Evaluation Strategy

**Annex 5:** Transitional Program Priorities and Resources Summary Matrix 2012-2014