Draft Report

Government of Yemen's Implementation Strategy for Absorbing Incremental Overseas Developmental Assistance (ODA)

Sana'a, October 2006

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I. Executive summary

1. This paper analyzes the different implementation modalities in which Yemen could effectively manage a substantive increase in the present levels of overseas development assistance (ODA). Current levels of ODA per capita in Yemen are substantially below the average of the rest of the low-income countries in the Region, and far below the average of the Sub-Saharan countries, both in per capita terms and as percentage of GDP. Yemen stands in the 151st place among the 177 countries listed in the U.N.'s Human Development Index

2. Yemen's fiscal revenues depend heavily on the oil sector (for nearly 75% of income) and production forecasts indicate that the existing reserves will be depleted in a period of 8 to 10 years. In addition, oil prices are unstable, producing substantive changes in expected fiscal income, voiding the reliability of medium to long term planning. As a result, Yemen shows an oil-dependent economy with falling revenues and a lack of short to medium term alternative sources of income. The need to curve a fiscal crisis that would impede the Government deliver basic services and develop much needed infrastructure, associated with the need to achieve economic diversification and sustainable levels of growth to attain the Millennium Development Goal targets, call for a substantive increase in the levels of investment, as identified in the Third Five Year Plan (TFYP, for 2006-2010) and the Public Investment Program (PIP, for 2007-2010). These investments aim at: (i) satisfying human development needs vis-à-vis the attainment of the Millennium Development Goals (MDGs); (ii) developing the needed infrastructure for economic growth and diversification; (iii) creating an enabling environment to receive increased levels of foreign direct investment (FDI) for development of non-oil sectors fostering private sector expansion; and (iv) reforming government structures and improving overall public sector management.

3. At present, most of the ODA to Yemen is conveyed in the form of individual projects or direct interventions by donors / financiers. While it is feasible that significant increases of ODA can still be managed under the current implementation modalities by prioritizing sectors of intervention and implementing entities, it is clear that for the medium to long term more efficient and more government-led mechanisms will need to be put in place. Yemen is at present involved in the reform of its procurement, financial and civil service systems. These initiatives –once implemented- will provide a better enabling environment for channeling of funds directly to the Government's budget doing away with stand-alone, donor-driven interventions, and allowing the Government to allocate, manage and report on funds use and impact across all sectors of the economy. In the meantime, as reality calls for action, alternative mechanisms should be either improved or put in place to enable Yemen make the most effective use of external aid and be capable to account for results.

4. This document analyzes the issue of absorptive capacity limitations –both perceived and real - in Yemen, and proposes short, medium and long term strategies to effectively implement projects and programmes benefiting from external financing. Several studies of current public sector financing have concluded that Yemen can absorb a substantive increase in the levels of ODA without macroeconomic disruptions (e.g. "dutch disease") given the extremely low present levels of ODA; hence the remaining significant factor to be analyzed is the implementation capacity, and subsequently, the modalities that will ensure the most effective use of resources.

II. Background and rationale

II.1 Yemen's developmental strategy and financial needs

5. The Government of Yemen has set ambitious targets in its efforts to achieve the Millennium Development Goals (MDGs) and the goals of the Yemen's Strategic Vision 2025 and to qualify Yemen for integration with the countries of the Gulf Cooperation Council (GCC). The Vision 2025 aims to improve the level of human development and to upgrade Yemen to join countries with middle human development, reflecting higher standards of living and decent lives for individuals and society at large. The overriding objectives of the vision coincides clearly with the MDGs targets. To accomplish this goal, the Strategic Vision foresees:

- Improving the demographic and health conditions, including mainstreaming gender.
- Eliminating illiteracy by increasing school enrolment.
- Raising per capita income by diversifying the economic base.
- Enhancing democratization, decentralization, participation and rule of law.

6. In order to attain these objectives, a National Development Plan (Third Five-Year Plan or TFYP for the period 2006-2010) and a Public Investment Program (for 2007-2010) have been developed, identifying the required macroeconomic performance, which targets an average 7.1% growth of GDP over the period 2006-10. With the oil sector accounting for around 28% of GDP, approximately 75% of government revenue and over 90% of export earnings, an average growth of 10.1% a year in non-oil GDP is required to compensate for the average annual decline of 1.8% in oil output. Eliminating –or at least diminishing- the oil dependency entails necessarily the development of the other viable sectors of the economy, such as agriculture, fisheries, trade and infrastructure.

7. Table #1 shows the target values for selected indicators arising from the Public Investment Program (working version), which reveals the expectations in terms of GNP growth, the participation of the oil and non-oil sectors and the fiscal expenditures and investments. An average growth of nearly 7,2% in average during the 5-year period is expected to reach the development targets. The management of the oil sector will focus in containing the decreasing trend; while the non-oil sector is expected to achieve substantial growth (over 50% in 5 years). Government expenditures as a percentage of GDP are expected to decrease whereas the public

investment component is expected to remain relatively stable as a percentage of GDP but nominally larger due to the growth of the domestic product.

Table #1: Selected macroeconomic indicators

INDICATOR	**2006**	**2007**	**2008**	**2009**	**2010**	**2006-10 average**
GDP % growth	4.9	5.5	6.7	9.9	8.8	7,16
- oil sector	-2.8	-3.7	-2,7	-5.5	-5.6	-4,06
- non-oil sector	7.9	8.8	9.7	11.2	12.6	10,04
Government expenditure - % of GDP	38.0	36.7	34.7	31.9	28.7	34,0
Public investment – as % of Govt.exp.	25.0	27.2	30.4	32.4	33.6	29,72
– as % of GDP	9.5	10.0	10.5	10.3	9.7	10,0

Source: Third Five-Year Plan (TFYP) 2006-2010

8. Other medium term frameworks drafted by the GoY aim at aligning the national planning processes with the Millennium Development Goals (MDGs) and targets, while at the same time generating a stronger sense of ownership among the national stakeholders of the development agenda. With the cooperation of the UN specialized agencies and the World Bank, the GoY has prepared a Needs Assessment Report with the objectives to identify a set of integrated interventions that will enable Yemen to meet the MDGs over the medium to long-term through to 2015.

9. The Public Investment Program for 2007-2010 (at the time of preparing this paper the PIP was being finalized) is being developed in two different versions: (i) the original one includes some 180 new projects (i.e. projects showing a financing gap) in addition to ongoing or planned projects that are fully funded and receive foreign financing, and projects financed entirely by the Government. Total financing requirements of this PIP amounted to US$22 billion, with a financing gap of US$11 billion for the five-year period; and (ii) a prioritized version including the most critical interventions in terms of developmental priorities, project readiness, economic viability and intended sources of financing. The latter is substantially smaller than the original version, both in number of projects (85) and in total cost (US$13,7 billion, with a financing gap of US$5,6 billion). The overall size of this program is roughly in line with the public investment projections in the Program except for the outer years – 2009 and 2010, when they are lower.

Table #2: PIP expenditures for the TFYP, with source of funds (US$ million)

Source of funds	2006	2007	2008	2009	2010	2006-10	2007-10
Government	688	1,190	1,313	1,318	1,247	5,756	5,056
Foreign	420	550	387	180	116	1,653	1,444
Own resources	149	138	134	129	87	637	489
Local loans	13	23	13	12	12	73	61
Financing gap	0	866	1,446	1,648	1,652	5,612	5,508
Total	1,270	2,767	3,293	3,287	3,114	13,731	12,558

Source: Public Investment Program (draft version)

10. The PIP is divided into two main groups of projects, depending on their financing: (i) projects that are fully funded, i.e. that have no financing gap (34%). This group includes projects entirely funded by the Government itself (7%), as well as so-called 'ongoing projects' (27%), which are in part foreign financed and rely in part on committed, or firmly programmed, external assistance. And (ii) so-called new projects which are not yet fully financed and require additional financing, i.e. that have a 'gap' (66%). Some of the projects in the latter category may have received foreign aid commitments, but require additional funds for their completion.

Table #3: PIP project with financing gap, by subsector and source of financing (US$ million)

Sector/subsector	Source of finance, 2007-10					
	Govt	Foreign	Other	Gap	Total	%
Productive sectors	**214**	**14**	**0**	**1,044**	**1,271**	**15**
Agriculture/irrigation	123	14	0	677	814	
Fisheries	8	0	0	36	44	
Petroleum/minerals	83	0	0	330	413	
Infrastructure	**930**	**437**	**0**	**2,858**	**4,225**	**51**
Water supply/sanitation	79	51	0	215	345	
Energy	220	240	0	795	1,255	
Public works (roads)	515	72	0	1,494	2,081	
Capita Secretariat	25	39	0	52	116	
Transport (air and ports)	91	35	0	302	428	
Human resources development	**663**	**172**	**0**	**1,300**	**2,135**	**26**
Illiteracy/adult education	1	0	0	4	5	
Basic/secondary education	361	128	0	554	1,044	
Technical/vocational education	148	35	0	326	509	
Higher education	12	0	0	36	48	
Public health	141	9	0	380	530	
Good governance	**22**	**13**	**0**	**6**	**41**	**0.5**

Interior and security	22	13	0	6	41	
Government services					**0**	**0**
Social safety net	**157**	**81**	**22**	**301**	**560**	**7**
TOTAL	**1,986**	**716**	**22**	**5,509**	**8,233**	**100**

Source: Public Investment Program (draft version)

11. In terms of the PIP's sector classification, projects are spread among six major sectors and a large number of subsectors. The relative importance of the main sectors changed somewhat as a result of the process of prioritization.

Table #4: Allocation of investment by main sectors for the full PIP and for projects with financing gap, 2007-2010, (US$ million)

Sector	Priority PIP	%	Projects w/gap	%
Productive sectors	1,594	13	1,271	15
Infrastructure	6,386	51	4,225	51
Human resources development	2,574	20	2,135	26
Good governance	284	2	41	0.5
Government services	593	5	0	0
Social protection	1,128	9	560	7
Total	**12,558**	**100**	**8,233**	**100**

Source: Public Investment Program (draft version)

12. The bulk of the financing to fill the gap is sought for infrastructure (51%) and human resources development (19%). Virtually none is needed for the good governance and government services sectors as projects in these two main sectors are largely funded by the Government from its own resources. The strong emphasis in 'gap' projects on human resources development is in line with the findings of the MDG Needs Assessment in 2005.

II.2 ODA allocations for Yemen

13. Yemen per capita ODA currently stands at US$12,7 or only 2.2% of GDP and is the lowest of the Arab Region. It also compares unfavorably to average values for the indicator of US$33.4/per capita and 18.7% of GDP for the least developed countries in the UN listings.

14. The World Bank Country Policy and Institutional Assessment rates implemented policies in developing countries based on 16 factors and it is used as determining criteria to allocate IDA funding. Yemen lists in the 44th place of the IDA resource allocation index with an average score of 3.3. Other countries with similar scores (in the 3.1 to 3.4 range) receive anywhere between 5 to 15 times more financial assistance.

Table #5: ODA amounts in other countries in the Region (US$millions)

Countries	2000	2001	2002	2003	2004
Egypt, Arab Rep.	1,328	1,257	1,239	988	1,458
Iraq	101	122	116	2,265	4,658
Jordan	552	433	520	1,228	581
Morocco	419	519	487	538	706
Sudan	225	185	351	617	882
West Bank and Gaza	637	870	1,616	972	1,136
Yemen, Rep.	265	461	584	234	252

Table #6: Percentage change in ODA amounts in other countries in the Region

Countries	2000	2001	2002	2003	2004
Egypt, Arab Rep.		-5.40	-1.43	-20.21	47.49
Iraq	47.49	21.49	-5.48	1,856.56	105.60
Jordan	105.60	-21.70	20.18	136.14	-52.64
Morocco	-52.64	23.67	-6.09	10.40	31.30
Sudan	31.30	-17.75	89.27	75.71	43.10
West Bank and Gaza	43.10	36.44	85.90	-39.90	16.97
Yemen, Rep.	16.97	74.05	26.63	-59.91	7.63

Source: World Development Indicators, World Bank

15. While the only two countries with lower ODA allocations in 2000 (Iraq and Sudan) also faced political and security problems, the financial assistance by 2004 had grown exponentially, whereas in the case of Yemen it remained below the 2000 level. During most if this period the national budget benefited from higher than expected oil prices, which partially compensated the lack of increased external financial assistance. However, oil revenues are dropping at an average rate of nearly 6%/year (and this is under the assumption that high oil prices are sustained, with margin for larger deterioration in fiscal income should prices experience a significant drop) while the non-oil sector is stagnated and needs to be developed.

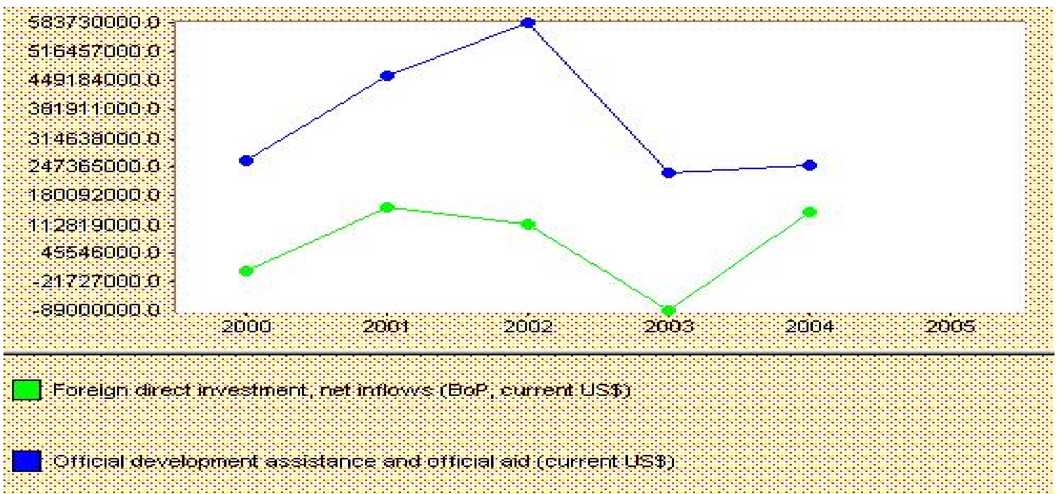
16. While new literature[1] alerts of negative macroeconomic consequences of significant increases of ODA to developing countries (e.g. "Dutch Disease" or the appreciation of local currency due to the flooding of foreign currency thereby hampering export competitiveness; or the "Aid Saturation Point" in the levels of financial flows, making marginal increases beyond certain parameters to have neutral or negative impact in the country's economy) Yemen is by all parameters far from being at risk. For instance, the Aid Saturation Point is reached when ODA becomes anywhere from 15 to 45% of GDP (depending on the particular

[1] See Burnside and Dollar (2004) "Aid, Policies and Growth: Revisiting the Evidence", Policy research Working Paper 3251, World Bank; and Clemens and Radelet (2004) "Counting Chicken When They Hatch: The Short Term Effect of Aid on Growth", Working Paper No.44, Centre for Global Development.

economy); in the case of Yemen ODA represents only 2,2% of GDP. Some of these findings also point out to the fact that particular types of aid ("Short Term Aid" such as Direct Budget Support, investments in infrastructure, and financial assistance to productive sectors) have a larger impact in the overall economic development than the traditional long term, piece meal financial aid.

17. If, in addition to ODA, the amounts corresponding to Foreign Direct Investment (FDI) are taken into account, the situation replicates the scarcity of funding, and further, the year-by-year comparison shows a common pattern with ODA, with a substantive drop in funding from both sources after the terrorist incidents of 2002 (reflected in the next year's funding) and an incipient recuperation in the successive years which does not yet bring these allocations to pre-crisis levels. The comparison becomes even more critical on a per capita basis, given that Yemen's population is growing at an average of 3,2%/year, and is expected to duplicate over the next 20 years, reaching about 40 million people.

<u>Graph #1: Yemen, Official Development Assistance and Foreign Direct Investment, 2000 - 2004 (Current US$)</u>



Source: World Development Indicators, World Bank

<u>II.3 Service delivery</u>

18. Having analyzed the macroeconomic feasibility of receiving substantial ODA increases, the other key factor to consider is the absorptive capacity in terms of service delivery by the Yemeni government related to the aid funds.

19. As indicated earlier, most of the ODA in Yemen is "projectized aid" meaning that funds are channeled mainly through individual projects which encompass defined interventions within a specific subsector. Other types of assistance have come also in the form of direct donor interventions, mostly in cases of infrastructure development, as in-kind, stand-alone contributions. No funds are channeled through national or ministerial direct budget support interventions. Most of the foreign financial assistance is implemented following donor's / financier's own procedures in terms of procurement, financial management and reporting. This

responds to two contemporary realities: (i) the lack of trust of donors and financiers in the local systems; and (ii) the efforts still to be made in terms of harmonization of rules and procedures, both among donors and between donors and the Yemeni government.

20. Table #7 below portrays the usual implementation modalities in the main sectors subject to foreign financial assistance. The ratings are based on the findings of the World Bank's Country Portfolio Performance Review of August 2005. Development Objectives (DO) and Implementation Progress (IP) are listed in the last two rows.

Table #7: Implementation modalities by sector

	EDUCATION	AGRIC.& FISHERIES	WATER & SANIT.	HEALTH	ROADS	CIVIL SERV.	SOCIAL FUND	PUBLIC WORKS
	Programmatic approach (near-SWAP)	Individual projects	Subsector SWAP / Individual projects	Individual Projects	Direct donor / Individual projects	Individual Projects	Individual Projects	Direct Donor / Individual Projects
OD	S	MS	S	U	S	S	HS	S
IP	HS	MS	MS	U	MS	MS	HS	S

HS: Highly Satisfactory; S: Satisfactory; MS: Moderately Satisfactory; U: Unsatisfactory; MU: Moderately Unsatisfactory

21. From the above it is clear not only that individual projects are the usual implementation modality but also that projectized aid works in certain sectors and not in others, making it impossible to determine that a particular implementation modality may be appropriate or inappropriate for all projects across sectors, but rather concluding that -at least in the short term- a sector analysis is required and sector-specific implementation strategies and modalities should be devised. In the following section of this document, a detailed sector analysis is presented together with considerations about the viable implementation modalities and their pros and cons. Later, a comprehensive approach is taken considering the country as a whole and determining three consecutive stages within the following 10-year period (2007-2016) identifying the short, medium and long term modalities ODA in Yemen should follow.

II.4 The project implementation units (PIUs)

22. Furthering the analysis into the project modality, a common feature in the management arrangements is the establishment of a dedicated project implementation unit (PIU) separate from the permanent structures in many of the line Ministries. This responds to the reality of line Ministries not having the capacity to second from their own ranks qualified project managers or technical specialists in the disciplines and with qualifications commensurate to those required by the projects. In addition, it is unlikely that existing qualified staff in the Ministries may be able to undertake the additional administrative burden of managing a project or delivering technical assistance with part-time dedication as an incremental responsibility to the current ones for which they had been appointed.

23. Many of the donors interviewed prior to the preparation of this document voiced their concerns that PIUs ultimately become a parallel government structure, that they empty existing capacities in line Ministries or present an unfair competition in for hiring qualified professionals or even that project sustainability is not granted beyond the PIU life.

24. While most of these concerns express valid arguments, many do not stand the test of reality as they are formulated as expressions of an ideal situation (e.g. the government being able to recruit and retain qualified staff and with capacity to manage additional workloads as new operations are approved and become effective), but fail to recognize the current public sector environment in Yemen, as well as the priority objective of ensuring that projects are efficiently and timely implemented.

25. PIUs are a consequence and not a cause of public inability to develop managerial and technical capacities. These limitations are better explained by public sector wages and employment conditions (e.g. instability due to political factors, lack of adequate infrastructure, unclear or inappropriate organizational structures, etc.) and only through a comprehensive and sensible public sector reform will the conditions for qualified public officials be established. Experience in both developing and developed countries shows that the reforms needed are not easily attainable for a combination of technical, political and administrative reasons; in the meantime projects still have to be implemented as the intended beneficiaries are unlikely to be able to wait until the public sector becomes functional, and the cost of delaying development greatly outweighs any quantification of the value of the marginal public sector development that could occur when undertaking project implementation responsibilities.

26. The concern about the development of a parallel implementation mechanism needs also to be clarified. These PIUs –as large or as small as they may be-, can be promptly integrated into the line Ministries provided that adequate employment conditions, clear and proper organizational structures and defined mandates within the Ministries are put in place. Hence it is not the case of growing rigidity as time passes by or as PIUs become larger, be it in terms of staffing or volume of funds managed. Integration between PIUs and line Ministries is feasible and desirable; however, the premise should be to equalize upwards -bring Ministries to the proficiency levels of PIUs-, and not the other way around.

27. In the context of the on-going and planned administrative reforms (procurement, financial management, decentralization, civil service), a clear definition of the core functions of a Ministry should be stated. PIUs for the most part deal with administration and transactions related to the projects they are responsible for, since most of the technical definitions of these projects are determined during project preparation –usually before PIUs are established- by representatives of the corresponding Ministries and the financing partners. Due consideration should be given to analyze whether the capacity to manage transactions (e.g. planning, procurement, financial management, reporting) is a key function of a Ministry or a service that could be even outsourced to specialized entities. Many Yemeni Ministries at present encounter difficulties in designing sector policies, strategies and monitoring impact; hence the strengthening of line Ministries should focus primarily in the development of these

capacities, which are the real core functions that a Ministry cannot delegate without becoming irrelevant and not necessarily the transaction management. Clearly, the public sector will be more trustworthy of donor's support by having a mature policy dialogue, a stronger ownership on the definition of interventions and sector priorities, the ability to channel or deliver technical assistance with its own cadres and to timely and effectively monitor and report on developmental impacts even when the procurement, financial and contract management may be carried out by a different government agency outside the line Ministry.

28. Finally, the issue of sustainability is another important concern. Concerns were voiced about the lack of project sustainability once the PIU is dismantled at the closing of the project. Usually, PIU staff undertakes administrative functions; even the technical cadres who supervise the TA aspects delivered by consultants act as managers. While administrative and managerial staff are usually needed throughout the life of the project, technical consultants are recruited for shorter periods of time, commensurate with the delivery of the respective products. The project is defined as a clear set of interventions in a limited sector or subsector with explicit objectives and with a finite resource allocation. Managerial staff in PIUs is recruited with the intention of ensuring the implementation of all the necessary activities that will enable the project attain the intended objectives with the allocated resources within a specific timeframe. Once the activities are implemented, the objectives met and the resources utilized, the project closes. Therefore, by definition, any follow up activities arising from the project's products are not meant to be managed or monitored by the PIU; any well-designed project will identify the suitable agencies (public or private) that would take over the operation /implementation / management / monitoring of project's outcomes. Hence, sustainability of PIU is an oxymoron, since PIUs are by definition created with a defined temporary mandate and a closing date. In exceptional cases, PIUs may be maintained to manage follow-up operations avoiding the need to set up a new unit, but the survival of the PIU is determined by a managerial decision of the Ministry for a new intervention and not by the requirements of any particular project.

29. In the current context PIUs are essential to provide assurances to financiers of proper project implementation. Dismantling PIUs without a suitable alternative will have serious adverse consequences for the country, as projects will be halted, the expected impact of on-going operations will be jeopardized, there will be little or no accountability for funds used, and most interventions will likely be closed after 6 to 12 months time. The expected development of Ministerial capacities will take much longer than the "tolerance period" donors and financiers would be willing to grant non-performing projects before they decide to discontinue their support. In the short term, it may even be advisable to expand the number of PIUs to manage projects in Ministries with limited implementation capacity, since the trade off between developing local capacity in an environment which does not support the initiative as at present, and the effective implementation of projects clearly sets the balance towards the latter.

30. In the medium to long term, a gradual phase out of the PIU modality is envisaged. This initiative will take full thrust when an enabling public framework is put into place. An intermediate step which will be initiated under the current framework is to develop central

PIUs in the Ministries that need them, as opposed to a single PIU per project in the same Ministry. A first approach will be to set up centralized Procurement, Financial Management and IT / Monitoring and Evaluation Units; the difference between these and any existing resembling units is that staff will be contracted under the donor's / financier's parameters, both in terms of selection process and pay scales. Efforts in this direction are on-going in the Ministries of Roads, Energy and Education.

31. The reduction of PIUs will also come as a result of the modification of implementation modalities: as ODA shifts to SWAPs or Direct Budget Support, the boundaries for assistance will widen and go beyond the stray jacket of a particular project, not requiring ad hoc staff but relying on capable Ministerial structures. Again, for donors to resort to Direct Budget Support (DBS) Ministries should be able to formulate comprehensive, coherent and sound policies and sector strategies in the first place; monitor project performance and impact; and effectively carry out transactions (either in-house or outsourced). This is the target scenario for the medium to long term that the Ministry of Planning and International Cooperation (MOPIC) has defined.

32. A particular subset of implementation units are the specialized agencies of the Executive, such as the ones managing the Social Fund for Development (SFD) and the Public Works Project (PWP). These are financially and administratively autonomous entities with ministerial status, both created with the support of the World Bank, and with clear and defined mandates. Salary scales in both entities are comparable to those in the private sector; staff are hired and dismissed with larger flexibility than in the rest of the public sector, and professional performance is monitored by managers and constitutes a key factor in promotions and pay raises.

33. The SFD -currently in its third phase-, has successfully implemented about US$372 million in phases I (1997-2000), II (2001-2003) and III (2004-2008) in about 5,850 small and medium sized projects involving communities and local authorities. The third phase (2004-2008) presented a substantial budget increase to US$400 million (up from US$92m for phase I and US$198m for phase II), and was recently reprogrammed along the lines of the Third Five-Year Plan (TFYP) for the period of 2006-2010 and with a revised budget of approximately US$500 million.

34. PWP has fully implemented phases I (1996-2000, US$30 million) and II (2000-2004, US$120 million) and has an approved budget of US$160 million for the current phase III (2004-2010).

35. Both SFD and PWP have strong procurement, financial management, and information and M&E systems, capable of managing substantially larger amounts of investments with the existing structure and doubling or tripling the scope of their operations with the only addition of incremental human resources. The operational systems have been tested and proved highly efficient, as the World Bank's supervision and project closing reports (ICRs for phases I and II) indicate, and similarly the independent institutional evaluation carried out by DFID in 2006. It must be noted that procedures related to procurement and financial management, both PWP and SFD apply Bank-approved policies and guidelines. Under the

on-going reform of the Yemeni procurement system (a new Procurement Manual has been prepared, a revised Procurement Law has been drafted and is to be presented to Parliament this year, and there is on-going cooperation from the World Bank to reform the High Tender Board, all of which will bring the Yemeni system closer to international standards and practices), the units managing SFD and PWP are more knowledgeable in the processes and principles guiding the upcoming national procurement framework than the Ministerial procurement units. This wealth of proficiency and knowledge as well as the strength of the systems developed over years of implementation and sound management are a critical asset in any developing country and must be utilized to the full extent of their capacity.

36. SFD has, under the current phase III, a budget of US$500 million; additionally, a large number of proposals for new projects are under analysis. The SFD contribution to the TFYP for Poverty Reduction is estimated at US$927 million for some 7,710 projects; this expansion is planned to be implemented without significant increase in its operational costs. Likewise, PWP has a list of projects amounting to US$500 million for which financing has not yet been granted; the corresponding increased workload can also be carried out with existing managerial resources.

37. On the concerns of creating parallel government structures it is important to note that neither SFD nor PWP participate in the definition of sector policies, regulations or technical evaluations; hence there is no overlap with or crowding out of the essential functions of the Ministries. Furthermore, the scope of intervention of both agencies is defined ex ante by the National Development Plan (Third Five-Year Plan) and the Public Investment Program, in addition with programmatic agreements with line Ministries. SFD and PWP managing units should be considered as qualified and efficient implementation services providers to the Yemeni public sector. Recently, the Ministry of Health has resorted to PWP to carry out the procurement of medical equipment for 22 health centers (this comes in addition to the delivery of the civil works component), in a decision that was supported by the World Bank.

III. Sector analysis

38. The TFYP and the PIP determine the priority sectors and the investment objectives of public interventions during the coming 4 years. Having analyzed in the previous section the existing implementation modalities in each sector, it is necessary to link the sector priorities and subsequent operations with the most adequate implementation modalities, taking into account the nature of the intervention, the current capabilities in the existing management units and the possibility of each sector to develop capacity and adopt more effective and comprehensive operational mechanisms.

III.1 Education

39. Achieving universal primary education by 2015 is one of the Government’s priorities. A Basic Education Development Strategy (BEDS) has been prepared with the assistance of development partners in 2002 and presented in the Paris Meetings of 2003. Although significant progress was achieved over the past 9 years in terms of enrollment, access to

secondary and tertiary education and gender parity, renewed efforts are planned in terms of reaching out to those who are likely to stay out of school (mostly in remote areas) or dropouts. Likewise, the number of students completing secondary and tertiary studies is expected to increase significantly assuming the conditions in terms of infrastructure and quality of curricula are met.

40. The priority areas for incremental investment in the education sector are:

- Classroom construction
- Teacher training and deployment;
- Capacity building
- Improvement of Quality of Education (e.g. introducing IT and English courses)
- Expanding investments in Secondary and Tertiary Education (civil works to expand number of classrooms)

41. Implementing agencies: Ministry of Education (MoE), Public Works Project (PWP), Social Fund for Development (SFD).

42. Implementation modalities:
1st. Stage: Sector Wide Approach (SWAP): all donors / financiers in the sector to coordinate areas / interventions to be financed out of the individual budgets. There is an on-going programmatic approach (semi-SWAP) in the sector financed by the World Bank, GTZ, KFW, Dutch, and DFID with good performance.
2nd. Stage: Sector Budget Support: funds to be made available to the Ministry of Education directly on the basis of programmatic agreements.
3rd. Stage: Direct Budget Support to central government.

III.2 Agriculture and Fisheries:

43. Agriculture has a substantive potential for growth and development. This sector, together with Fisheries, accounts for only 15% of GDP but employs 55% of the active population. The low productivity of the sector stems mainly from: low yielding seed varieties, water shortages, lack of rural roads and access to markets, and lack of credit to producers.

44. In regards to fisheries, there is growing concern about the lack of control of foreign fleets which may deplete the vast fish stock in the ample coastline of the country (2,230km.). Fisheries are at present the most important source of non-oil revenues, with an income of US$210 million in 2004, and still have a significant growing potential. Given an adequate allocation of fresh resources, the sector is expected to grow at an average of 12% to 2010 and 11% thereafter. Production is expected to reach 240,000 tons with an export value of US$1,4 billion by 2015.

45. In this light, incremental financial resources should be applied to the following priority areas:

- Rural Credit Schemes (through the Agricultural Credit Bank, with FAO technical assistance): setting up a trust fund to finance credit for approved investment projects. A technical assistance component to producers in the definition of projects and investment plans may be required to complement the financial part of the project;

- Agriculture and Fish Quality (improvement of handling, packing and transporting agricultural and fish products), to enable the access of fish exports to demanding markets such as the European;

- Fisheries Development (Stock Assessment, Surveillance System, Determination of Sustainable Capture levels).

46. Implementing agencies: Ministry of Water, Ministry of Fisheries, Ministry of Agriculture, Social Fund for Development.

47. Implementation modality:
1st. Stage: Individual projects, Direct Budget Transfers to Specialized Agencies (SFD managing unit) or Trust Funds, UNDP Direct Execution, FAO – implemented technical assistance.
2nd. Stage: SWAP, direct Budget Transfers to Specialized Agencies or Trust Funds
3rd. Stage: Sector Budget Support / Direct Budget Support.

III.3 Water and sanitation

48. Water sustainable management is one of the highest concerns for the medium to long term development perspectives of the country. Urban and rural water supply capacity in Yemen is not keeping pace with population growth. Groundwater extraction has reached 130% of recharge capacity with agriculture accounting for about 85% of demand. The GoY has issued a National Water Sector Strategic Investment Plan (NWSSIP) in 2004 with the support of the World Bank and donors. About 70% of the financial requirements for interventions in the water sector are still unfunded.

49. The MDG target is to half by 2015 the proportion of rural population without access to water supply and sanitation. Water supply coverage in 2004 was available to only 32% of the rural and 54% of the urban populations, whereas the percentages for sanitation indicated only 23% and 26%, respectively. Significant investments are required to meet the strategic goals.

50. Priority areas:
- Ground Water Saving Techniques for Agriculture (with FAO technical assistance);
- Watershed areas and Irrigation (prevention of land desertification) FAO Technical assistance
- Expanding urban water supply and sanitation:

50. Implementing agencies: Ministry of Water, Local Water Authorities, Public Works Project, FAO, UNICEF, UNDP

51. Implementation modality:
1st. Stage: Individual projects, Direct Budget Transfers to Specialized Agencies (SFD / PWP managing units) or Trust Funds, UNDP National Execution, FAO – implemented technical assistance.
2nd. Stage: SWAP, direct Budget Transfers to Specialized Agencies or Trust Funds
3rd. Stage: Sector Budget Support / Direct Budget Support.

III.4 Roads and ports

52. About 75% of Yemenis live in the rural areas in relatively isolated conditions due to the poor condition of the rural roads network. Even when length of paved roads has doubled between 1990 and 2004, still the ongoing construction of both main roads and gravel roads, and subsequent routine and periodic maintenance works need to be secured. Financial commitments to the sector are below needs, even when there is in place adequate capacity t identify, implement and monitor new road projects. With regards to ports, given Yemen's natural advantages, the objective is to raise the level of international competitiveness by increasing capacity and improving services. The private sector is to be encouraged to provide port services. The Government will focus on institutional strengthening and creating a better legislative and regulatory framework.

53. Priority areas:
- Rural roads networks
- Feeder roads
- Ports development

54. Implementing agencies: Ministry of Roads, Public Works Project (PWP)

55. Implementing modalities:
1st. stage: Direct Donor Intervention; Direct Budget Transfers for Individual Turnkey Contracts tendered by PWP; Direct Budget Transfers to Specialized Agencies (PWP managing unit) or Trust Funds
2nd Stage: Sector Budget Support
3rd. Stage: Direct Budget Support

III.5 Power

56. Yemen is the least electrified country in the region with only about 42% of the total population having access to electricity. In the rural areas, the electrification rate is even lower at about only 20%. The state-owned Public Electricity Corporation is operating obsolete power generating plants, and the transmission and distribution networks present important losses. The main objective in the power sector is to raise the share of the population that has access to electricity from the present low level. To achieve this goal, the strategy focuses on transforming the role of the state from an operator to a regulator and policy maker. The emphasis will be on involving the private sector in the various phases of

power generation, transmission and distribution through the use of management and operating contracts or partnership contracts. Changes in the legal and regulatory framework are intended to create a competitive environment. The government has established a dedicated Project Implementation Unit to manage related activities in an effective manner.

57. Priority areas:
- Increase power-generation capacity
- Overhaul existing power plants
- Improve transmission and distribution networks
- Develop gas-fired generation.

58. Implementing agencies: Ministry of Energy, Power Project Implementation Unit.

59. Implementation modalities:
1st. stage: Direct Donor Intervention; Direct Budget Transfers for Individual Turnkey Contracts tendered by PWP; Direct Budget Transfers to Specialized Agencies (PWP managing unit) or Trust Funds
2nd Stage: Sector Budget Support
3rd. Stage: Direct Budget Support

III.6 Health:

60. The health sector should benefit from a number of targeted interventions to redress the current low health indicators, and get the country back on track in terms of achieving the health-related MDGs. Life expectancy is only 63 years, and maternal mortality, infant mortality, and under-five mortality are among the highest in the region. Access to health services is low (58% and 20% in rural areas); problems in improving access include the high rate of population growth and the distribution of health facilities, a lack of medical supplies and drugs, and lack of qualified staff. The private / public ratio of health financing is 64 / 36, determining one of the lowest financial risk protection rates. The PIP foresees a substantive increase in public expenditures for the health sector.

61. Priority areas:
- Maternal Mortality reduction
- Malaria Eradication
- Decentralization of Health services and increased access
- Reproductive Health / Population
- Construction of new hospitals / health facilities
- Equipment and refurbishment of public hospital and health posts

62. Implementing agencies: Ministry of Health and Population, Social Fund for Development, WHO (Technical assistance / Capacity development), UNICEF (essential drugs and vaccines), GFATM.

63. Implementation modalities:
1st. Stage: Individual projects, Direct Budget Transfers to Specialized Agencies (SFD managing unit) or Trust Funds, UNDP Direct Execution (project implementation), WHO –

implemented technical assistance, UNICEF to support drug and vaccines procurement and specialized programs.
2nd. Stage: SWAP, direct Budget Transfers to Specialized Agencies or Trust Funds
3rd. Stage: Sector Budget Support / Direct Budget Support.

III.7 Community Development

64. The Social Safety Net aims at protecting those who cannot make a living. It provides direct cash assistance, provides physical and social infrastructure for the poor, and creates job opportunities. It also helps putting in place mechanisms for financing small enterprises, supports agricultural and fisheries production, and builds capacity through training. It does this through various agencies, including the Social Fund for Development (SFD), the Public Works Project (PWP), the Agricultural and Fisheries Promotion Fund, the Social Welfare Fund, the Small Enterprise Financing Fund, and the National Program for Development of Society and Productive Households. The largest of these, the SFD and PWP are considered to have been particularly successful.

65. Priority areas:
- Cross-cutting, community level implementation.
- Job creation
- Access to credit for micro enterprises

66. Implementing agencies: Public Works Project (PWP), Social Fund for Development (SFD), applying World Bank and national procedures, according to approved Operational Manuals.

67. Implementation modalities:
1st. Stage: Direct Budget Transfers to Specialized Agencies (SFD / PWP managing units) or Trust Funds.
2nd. Stage: Sector Budget Support / Direct Budget Support.
3rd. Stage: Sector Budget Support / Direct Budget Support.

IV. Description of proposed financial assistance and implementation modalities

A. Financing outputs (products)

68. Outputs are individual products that contribute to the attainment of sector and national results (outcomes). Often, sector policies cannot be fully implemented due to the lack of critical resources (inputs) and products (outputs). In a context such as that of Yemen where local financial resources are unpredictable due to the high dependency on fluctuating oil revenues and donor commitments (with the possible exception of SWAP-like interventions in Education and Water) do not necessarily translate into actual financial availability in a foreseeable and timely manner, securing incremental output financing will cover critical gaps and substantially increase the government's ability to achieve the intended developmental impact. These outputs should be aligned with the priority interventions identified in the Public Investment Program (PIP) and the Third Five-Year Plan.

1. Direct Donor Intervention (DDI)

69. This is an in-kind contribution, not financial support. The central government and line Ministries identify and prioritize needs as established in the Third Five-Year Plan (TFYP) and the Pubic Investment Program (PIP), and specify requirements and cost estimations. Donor carries out the procurement / contracting under own procedures and with own staff. Follow up and contract management responsibilities are agreed between the donor and the recipient. Funds remain in the donor's accounts, out of which payments are made upon receipt of delivery certificates / progress reports.

70. This methodology is advisable for spot interventions, without the long term commitment that a project requires. It is particularly suitable for large civil works and the supply of specialized equipment (IT, medical, other). A great advantage is the expediency in which the contribution can be delivered since being a stand-alone intervention it entails a simple, straight-forward feasibility analysis.

2. Direct Budget Transfers to Specialized Agencies of the Executive or Trust Funds (DBTSA)

71. Under this modality, financiers will transfer funds directly into the dedicated accounts of the managing units for the Social Fund for Development (SFD) and / or the Public Works Project (PWP). Both units have well-developed implementation mechanisms, efficient procurement and financial management systems, strong supervision and monitoring capacity and are able to report timely and thoroughly on the applications of funds and project impact. Both are cross-sector and have effective presence in all 21 Governorates and the central district. At the time of drafting this document both entities were lacking financing for their respective workplans under the Third Five-Year Plan Funds for US$500 million each. Fund transfer to these units will likely be a strengthening of on-going financial support, since most of the donors are already working in partnerships with either SFD or PWP, or both.

72. There is also the possibility of expanding even further the amounts to be channeled by these institutions by: (i) increasing their operational structure, which will entail marginal investments in human resources and office space and equipment, given that the current IT and processing capacity can accommodate almost unlimited workloads; and / or (ii) working at the grassroots of project preparation by aggregating initiatives and establishing minimum project value thresholds to optimize the ratio between transaction cost / funds mobilized. The outputs to be financed under this modality have already been analyzed during the sector discussions taking place in the development of the TFYP and the sector strategies; hence there is no risk of isolated, incoherent or even counterproductive interventions.

73. Another similar option for direct transfers by donors besides SFD and PWP is the setting up of a Trust Fund account, which can be managed by a private or public entity, according to Donor requirements. The funds are to be applied exclusively for the purposes stated in the Trust Fund agreement, without the recipient being able to reallocate them without modifying the TF statute. The TF manager is responsible for reporting both to

MOPIC and the financier and the sector Ministry will ensure timely audits. Taking into account the current financial framework in Yemen and until the financial management reform is fully implemented, TF management should rest with a private organization or a U.N. agency, such as UNDP. This is an effective and time-saving instrument to set up financing schemes for well-identified activities, for instance agricultural credit, SME development, etc.

3. Direct Budget Transfers for Turnkey Contracts (DBTTC)

74. Line Ministries identify needs, requirements, estimate costs and carry out the procurement and make payments once the works are completed in an acceptable manner. Funds are transferred directly to an ad-hoc, separate, individual account in the line Ministry. Contracts are issued on turnkey basis: contractors are responsible for the construction of the works according to the stated requirements and the contracting entity does not participate in any way in the actual performance of the works and is solely responsible for issuing payment for the whole of the works once inspected to its satisfaction, prior to taking over. Inspection of the works, take over, and payment approval rest with the line Ministry.

75. Suitable instrument for large civil works (power, roads, water) in areas where there may be weak or lack of available contract supervision capacity. This requires, however, strong procurement capacity by the contracting authority in terms of tender documents preparation and bid evaluation. Donors may decide to assess ex ante this capacity and might consider financing experts to support the procurement unit during the process.

4. Direct Budget Transfers to Civil Society Organizations (DBTCSO)

76. Civil society organizations are well developed in Yemen and are increasingly playing an important role in voicing the views and concerns of the population, in addition to implementing activities (usually in the social sector) at the individual level, complementing the efforts from the districts and governorates. However, these entities lack outreach to remote or rural areas, where 70% of Yemenis live, hence the impact of NGO activities has so far been limited. Still, considering that the current strategy paper covers implementation modalities in an extensive period of 10 years, it may be worthwhile to consider the financial support of these organizations.

77. Under this modality, the donor will select viable CSOs on the basis its mandate, action plan, reputation and managerial capacity (management effectiveness, transparency and accountability). Both UNDP and SFD have experience in microfinancing using this modality.

B. Financing Outcomes (Results)

78. Outcomes are observable, measurable results arising from an identifiable cause-effect relationship. Outcome financing entails the allocation of resources to a number of activities, which combined are expected to produce a change in a given sector or sectors. This allocation of resources is directed towards an identified set of activities for the attainment of

specific products in a given area or sector (i.e. individual projects), or a contribution to a combined effort with other financiers to partake in the allocation of funds for an entire sector (SWAPs), to financing portions of sector or national budgets in line with agreed policies and objectives (Sector Budget Support, Direct Budget Support).

5. Individual projects (IP)

79. Projects comprise a number of complementary activities under a common goal or objective. This objective impacts on specific areas within a given sector to produce the expected result. As projects are by definition individual interventions with clear boundaries, there is the possibility of duplication of efforts among different projects, overlaps or lack of coordination among different interventions in the same sector. As each project entails the coordination and management of a number of activities incremental to the day-to-day, recurrent responsibilities of a line Ministry, a dedicated project implementation unit is often required. In cases, project implementation units (PIUs) have been set up outside the Ministries in response to the lack of available capacity or availability within the line structures to undertake the additional project-related tasks.

80. The individual project modality is appropriate for well-identified interventions with clear objectives requiring a long term engagement and the implementation of several correlated activities. ODA in Yemen is conveyed vastly through this implementation modality.

6. UNDP- assisted projects under Direct Execution (UNDP-DEX)

81. Under this modality, UNDP carries out the project on behalf of the Government. The local UNDP office acts as the implementation agency, applying UNDP rules and regulations (UNDP DEX Implementation Manual), mainly in procurement, financial management and information systems. Usually, UNDP builds up -either as its own contribution or costed to the project-, a capacity-building mechanism to ensure the transfer of know how to local government counterparts.

82. Under this modality funds are transferred from donors are received in a UNDP account; all transactions are carried out following UNDP's norms and procedures, and audits and reporting functions to accommodate both UNDP's and donor requirements. This is an exceptional modality that should be considered on an ad hoc basis for sectors or subsectors where there are at present no qualified agencies but an intervention is necessary in the short term.

7. UN agencies technical assistance (UN-TA)

83. Capital investments are likely to require associated technical assistance. Specialized agencies of the U.N. system should be in a position to reinforce their on-going sector cooperation with increased financial resources. FAO, WHO, UNICEF, UNFPA and UNDP can complement current efforts by making available to the line Ministries / agencies the technical support they may require, be it for policy development, sector studies and

assessments, feasibility analysis, or to identify, recruit and second experts to local posts. The case of the local WHO in Yemen can be cited as a best practice: WHO identifies and recruits –under WHO contracts- local experts who sit in the Ministry of Health and report to both the Minister and the WHO Representative. To date 54 professionals are listed in the MoH under this type of arrangements, improving not only the MoHs technical capacity by a significant margin but also transferring knowledge to Ministerial co-workers. This staff would otherwise not be available for the MoH under regular appointments (due to a variety of reasons, the first one being the employment conditions, job instability, lack of resources, etc.).

84. Under this modality, funds are transferred from donor to UN agencies accounts, which are responsible for contracting, payment, and reporting on expenditures and results.

8. Sector Wide Approach (SWAP)

85. Donors and development agencies collaborate to support a government-led, sector-comprehensive development program. Based on a clear sector policy and the subsequent identification of interventions required, the line Ministry and the donors agree on undertaking the financing of portions of the overall program or the pooling of funds under a predefined common set of procedures. There is ample coordination and dialogue among donors and between donors and government. Procurement and financial management are carried out with the Ministry's own resources and regulations, with the exception of contracts above certain thresholds which must be procured under donor / financier's own requirements.

9. Sector Budget Support (SBS)

86. Is a deepening of SWAP principles, applying in full the government's institutions and procedures for fund management, procurement and reporting. Donors transfer funds directly into the sector Ministry's budget, based on agreed work programs and targets. Funds are co-mingled, without any particular source of finance to be identified with specific activities or products. The amounts to be allocated under sector budget support are arrived at by estimating financing gaps between needs and existing resources. This modality allows the sector Ministries to better allocate resources based on its own perceptions of priorities and needs, and eliminates the burden of donor-imposed requirements in terms of managing and accounting for funds. Recipient-donor related interaction is focused on sector issues and policies instead of fiduciary safeguards or transactions.

10. Direct Budget Support (DBS)

87. Direct budget support is the most government-responsive mechanism for channeling ODA. Funds are transferred from donor's accounts into the Central Bank and included in the National Budget and the Medium Term Expenditure Framework. Allocation of funds into Ministries and Specialized Agencies' budgets is made following national priorities, which are identified in agreement with the donor community. In applying the funds, all government entities and specialized agencies follow the national procedures, according to the applicable laws and regulations, and account for and report in line with the requirements of the National, Governorate or District control entities. This modality requires, however:

- clear sector and national policies
- adequate planning, budgeting and monitoring capacity
- qualified human resources in the public sector, on permanent basis and in an appropriate number
- sound public procurement systems
- sound financial management systems
- impact measurement (evaluation) and reporting capacity.

88. While the Yemeni public sector does not meet all of these standards at the time of drafting this paper, the implementation strategy below has been developed on the basis of consecutive stages of public sector development, with readiness for DBS as the guiding principle and intended scenario. To ensure that donor-funded investment projects can start with minimum delay, many feasibility studies for PIP projects have already been prepared.

Table #8. Project feasibility studies per sector

Sector	Number of Studies	Investment cost (US$ M.)
Roads	24	3,642
Education	8	1,269
Water and Sanitation	11	543
Agriculture	4	294
Fisheries	2	22
Energy	22	1,470
Roads	4	330
Minerals & Petroleum	2	340
Social Security Network	2	1,427
Municipality Improvement	2	90
Total	**81**	**9,427**

V. Implementation strategy

89. Having identified the sector priorities and the viable implementation modalities, it is important to determine which of these modalities will be applicable during the different stages of development of the Yemen public administration, as a National Agenda for Reform (NAR) has been approved by Cabinet and is underway. The NAR entails contemporary reform initiatives in the macro-economic framework, the public financial management and the public sector. Clearly, over the 10-year period of time that this implementation strategy paper covers, the public sector will evolve and therefore not all modalities will be suitable.

90. The most relevant reforms in the NAR include:

(a) Procurement: Cabinet approved last April a new National Procurement Manual (NPM) and Standard Bidding Documents have been developed and distributed among all public procuring entities. A capacity building program is on-going. In addition, a revised procurement law has been drafted and is to be presented to Parliament this year. The High Tender Board and later the procurement units will benefit from a

Tracking System for Transactions which will enable them to monitor procurement actions closer and in real time. The High Tender Board itself is being targeted for improvement, as it is envisaged that is will evolve into the Procurement Policy and Monitoring Board, with separate departments for policy development and transaction monitoring. The World Bank is actively supporting activities in this area.

(b) Audits: an initiative to amend the law governing the Central Office of Control and Auditing (COCA) is underway; under the revised legislation COCA will no longer report to the Office of the President but to Parliament. All of COCA's reports will be made public.

(c) Finance: the ten-year Public Finance Management (PFM) reform has been launched last year and activities are currently under implementation following the established action plan. Strengthening of internal controls, internal and external audits, accounting and reporting mechanisms are the pillars of the reform. Also a comprehensive information system will be developed and implemented in the Ministries. Yemeni accounting and financial practices will be aligned with international standards.

(d) Anti-corruption: passing laws on anti-corruption and financial disclosure to reduce conflict of interest situations; put into force the commitments of the UN Convention Against Corruption; development of a National Corruption Record; ad establishment of a confidential channel for the public to denounce corrupt actions.

(e) Public sector / Civil Service Reform: another key element of the National Agenda for Reform is the improvement of government effectiveness. A comprehensive reform was approved in 2005 and is being carried out timely. Key features of the reform entail improving the public pay scales, the setting up of a civil servant identification mechanism to determine actual workers and separate "ghost servants" from the payrolls; reviewing public sector structures and organization, and allocating human resources in a more efficient manner.

91. As the implementation of NAR progresses, the effectiveness of Yemen's public sector will improve and so will its capacity to manage public investments. The planned reforms will require time to achieve full implementation and further periods for capacity building, operational adjustments and related assessments before the full advantages can materialize and impact in the quality of governance. Subsequently, this implementation modalities strategy paper devises three different stages of public sector evolution as regards to its ability to effectively manage investments:

1st. Stage (first 2 to 4 years) Channeling incremental funds through existing institutions (substantive increase in the resource allocations). Meanwhile, the Government shall continue its efforts in terms of completing civil service reform, financial management, procurement and decentralization. The existing project implementation units (PIUs) will continue to manage operations; however, a training scheme will be set up in the line Ministries for public officials. Upon satisfactory completion of training courses, these public officers will be certified and the qualifications acquired will be reflected in improved employment categories. It is also likely that some new PIUs will be created to manage projects in problem sectors. The principal implementation modalities will be:

(a) Direct Donor Interventions: donors / financiers do the contracting and payment for individual products (goods or civil works) selected from the priority list in the PIP, in agreement and coordination with MOPIC and the line Ministry;

(b) Direct Transfers to Specialized Agencies or Trust Funds: both SFD and PWP have already identified and evaluated new projects for about US$500 million each, in addition to current budgeted investments. The setting up of trust funds for specific interventions in areas where SFD or PWP may not be the best suitable alternative should also be envisaged, for instance to set up financial support schemes for staff redeployment after the civil service reform takes place, or for setting up a rural credit scheme, etc.;

(c) Turnkey contracts for large civil works: contracted through International Competitive Bidding (ICB) following Yemeni procurement law and applying the newly-developed Procurement Manual, where procedures and underlying procurement policies reflect common international practices. The High Tender Board will monitor the process with the support of international procurement experts financed by WB or donors;

(d) Direct Budget Transfers to Civil Society Organizations: donors may wish to channel funds directly to non-governmental institutions according to the specific mandates and the areas of coverage of each organization. While it is unlikely that any of these will be able to manage significant amounts of funds, they have a social and political relevance;

(e) Individual Projects: specific sub-sector operations will still be required. On-going projects should benefit from improved managerial skills as a result of the training of public officials. PIU staff should also benefit from training since it likely that most will later be coming onto public positions in line Ministries. Many existing projects will require follow-up operations; however, better coordination among donors / financiers in the sector and the government will be sought, in order to replicate current programmatic agreements as in the Education and Power sectors;

(f) UNDP-implemented projects under Direct Execution (DEX) modality: this can be an exceptional tool to be utilized in sectors where there is a present need to carry out an intervention but there’s no or very limited implementation capacity. UNDP has a proven record of assisting governments in developing countries to implement their policies and projects. A capacity building mechanism will be built into the project to ensure transfer of know how and a gradual phase out of UNDP-led activities as the government agencies acquire the necessary tools and expertise to manage projects;

(g) U.N. agencies technical assistance: large investment programs require feasibility studies, implementation support, technical monitoring, sector analysis, etc. U.N. agencies present in Yemen have the mandate to support government's development actions and are already doing so with their existing budgets. Incremental resources will allow U.N. agencies to do more on a demand basis from the Yemeni government;

(h) Sector-Wide Approaches (SWAPs): the Education and Power sectors are ready for this modality and are currently implementing coordinated interventions financed by a variety of donors in a programmatic manner. SWAPs are unlikely to be the most common implementation modality during Stage 1, but are certainly the intended mechanism towards which all sectors will be aiming during this period;

2nd. Stage (years 3 to 5): As the civil service, financial management and procurement reforms will have already been completed and implemented, the public sector framework in Yemen will be more conducive to sound investment identification, assessment, management and evaluation. Little or no implementation support will be required from foreign agencies, and dialogue with them will focus on policies and programs. Each Ministry is now capable of designing sector strategies and implements the corresponding activities with their own staff; PIUs are discontinued and redundant staff is likely to move to the public sector under competitive salary scales. Very few or no new individual projects will be included in the investment pipeline, as interventions will have shifted to SWAPS. Qualified Ministries may receive funds channeled directly to their general budgets under Sector Budget Support (SBS) modalities. The main implementation modalities are:

(i) Direct Donor Interventions
(j) SWAPs; and
(k) Sector Budget Support.

3rd Stage years (years 5 to 10): The public sector reforms have sunk in and the related processes and have permeated all levels of public administration. The civil service reform has been completed and revised structures are in place throughout the public sector. The High Tender Board and the procurement units have developed experience in large volume procurement under the new legal framework. Information systems are well-developed and tested and disseminated in public office. Qualified professionals are appointed to managerial positions in the Ministries and specialized agencies of the Executive with expectations to stay and pursue a career. Independent control agencies are adequately staffed and budgeted. Under this scenario, donors are keen to transfer funds directly to the national budget, since Yemen is able to effectively manage, implement and account for ODA funds. The main implementation modalities are:

(l) SWAPs,
(m) Sector Budget Support and;
(n) Direct Budget Support.