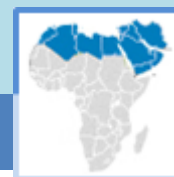


# MNA Knowledge and Learning ...Fast Brief



## Joint Social and Economic Assessment Republic of Yemen

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**Introduction:** The Joint Social and Economic Assessment (JSEA) has been prepared in response to a request from the Ministry of Planning and International Cooperation (MoPIC) in Yemen, and was undertaken jointly by the World Bank, the United Nations, the European Union, and the Islamic Development Bank. The JSEA's main purpose is to assess the social and economic impact of the crisis in Yemen, and to identify challenges and key priorities for early interventions, primarily for the transition period, which is expected to stretch into the first half of 2014.

**The Origins of the 2011 Events:** The origins of the 2011 events are multifaceted and complex. If there is one single reason, the quality of governance was critical as growth was sluggish and service delivery was generally perceived to be poor. The economy was growing 4% a year on average over the past decade but was unable to produce significant positive per capita growth. Poverty had risen from 35% in 2006 to 42% in 2011 and 54.4% in 2012. Education had made progress over the last 40 years, but 2 million children remained out of school with girls at a significant disadvantage (gender parity stood at 0.66), and the quality of education remains quite low. Chronic malnourishment affects 58% of children under 5, with 1 million suffering from acute malnutrition.

*Water use and access* is very uneven, with the densely populated highlands expected to run

dry in a few years. Qat production consumes about 40% of pumped water. The water consumption is cross-subsidized through the petroleum subsidy and underpins unsustainable use of water and energy.

*On employment,* 92% of the employed are informally employed. Furthermore, 97% of employed youth (15 to 24) are informally employed. Unemployment is estimated at up to 40% for youth.

**The impact of the 2011 Events:** The economy contracted by about 11% in 2011 and is unlikely to grow in 2012. According to the U.N. World Food Program (WFP), approximately 45% of the population (10 million people) was food insecure in March 2012, a significant increase from the nearly 32% in 2009. Those considered most vulnerable due to current and previous conflicts number 806,600, including children who have been directly involved in or affected by the infighting and violence, as well as 213,000 vulnerable returnees and war-affected persons in the north, 203,900 refugees and asylum seekers, and approximately 150,000 displaced people in the South<sup>2</sup>. Many children suffered from deepened poverty and widespread violence: child labor, child marriage were part of coping more than ever. Needless to say, much infrastructure was destroyed including buildings, power sector installations and equipment and gas-pipelines.

**Impact on the Private sector:** Estimated losses range between \$8-17 billion but reliable data is not available. Predictably this has resulted in job losses, pay cuts, periods of unpaid leave for employees and small employers as SMEs were

<sup>1</sup> This Quick Note was redacted by Wilfried Engelke, Middle East and North Africa Region and is based on a presentation of the Joint Social and Economic Assessment prepared by Wilfried Engelke. This Fast Brief was cleared by World Bank Yemen Country Manager Wael Zakout.

<sup>2</sup> 2011 UNHCR Country Operations Profile–Yemen”; UNHCR, Global Appeal 2011 Update

hit harder than large companies. Retail and Wholesale were impacted severely in urban areas. For example, in the two major demonstration areas in Sana'a City (Tahrir/Al Dairi), over 500 small retail businesses have closed down. High food prices and the tightening of (informal) credit lines has directly affected retailers and wholesalers while the construction sector has seen massive job losses – largely of un-skilled and semi-skilled laborers. Overall, initial estimates show millions of working days lost due to both public and private investments being suspended.

Qat consumption remains a serious concern in terms of impact on health, productivity and the depletion of groundwater. Still, Qat continued to provide employment and labor to millions of Yemenis during the crisis (1 in 7 employed people in 2005/6 were connected to Qat production and sale).

**The Public sector:** Public sector operations were severely disrupted with significant displacement of employees in more insecure governorates, especially in the field of health and education services. Fiscal challenges linked to the public sector also increased as the government created 50,000 positions in the civil service for university graduates in 2012.

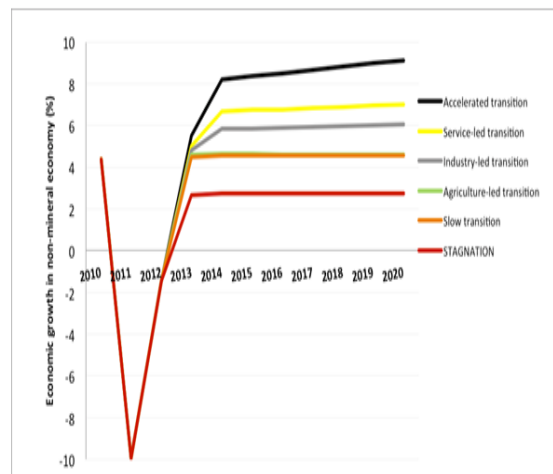
**Reversing Economic and Social Losses:** Reversing these losses and leveraging the political transition for rapid socio-economic development will require:

- Growth to be restored and long term capacity improvements in Government
- Substantial investments but also key reforms to ensure the best use of these investments.
- A departure from business as usual

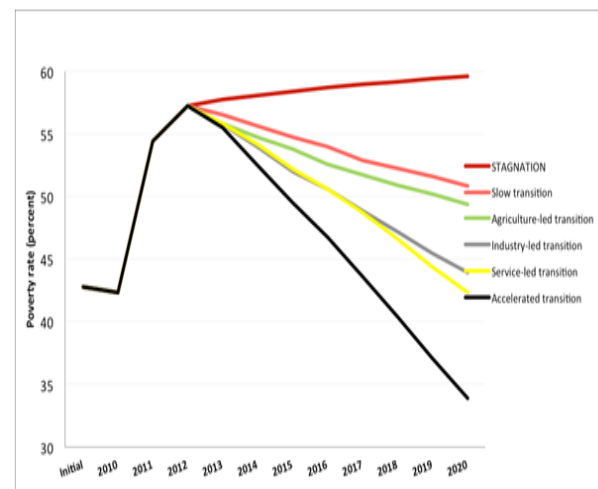
Macroeconomic simulations show that approximately US \$ 2 billion will be needed annually in externally funded public investment over the next four years to accelerate (non-oil) economic growth to 7-8% annually and bring poverty and malnutrition down to pre-crisis levels. Note that the average growth rate over the past decade was at 4%.

Maximizing the growth impact of these investments will require that 8% of the additional investment should be targeted to agriculture. Infrastructure's share needs to be around 55% and go towards investments in roads, electricity, water and other infrastructure. The remaining should target communications, health, education and social transfers to make best use of Yemen's growth potential.

### Economic Growth under Stagnation, Slow and Scenarios for Rapid Transition



### Poverty Changes under Stagnation, Slow and Scenarios for Rapid Transition



**Areas for Priority in Reforms:** A business-as-usual approach will not be sufficient to absorb

the amounts on investment mentioned above. A measured, systemic approach will be needed.

**Short-term Actions:**

*Widespread food insecurity and malnutrition* requires an urgent response. Launch a “Yemen Appeal” to the GCC to alleviate urgent and widespread hunger and child malnutrition.

*On Conflict Abatement* the country needs to develop a program to rehabilitate Internally Displaced Persons (IDPs) through (i) skills development and (ii) the de-mining

*Scaling-up Poverty Alleviation Efforts:* There is a need to Leverage cross-border remittances for poverty reduction through wiring of Yemeni MSMEs with the international payments system, and putting in place remittances-based savings and investment instruments.

*Supporting Macroeconomic Stability* is critical and a strong commitment to a stable macroeconomic framework will be necessary. This should ensure that there are no unexpected surprises and a focus on maintaining a credible exchange rate policy. It will also be important to prepare a path for budgetary re-allocation from current expenditures towards increased investment allocations.

*Securing Social Safety Nets* remains a critical element in ensuring a stable future. Among other activities and to ensure greater efficiency, Yemen will need to develop civil registry system through a smart-card solution for recipients. There is also a need to strengthen the institutional capacity of the Social Fund for Development, the Public Works Program and the Social Welfare Fund as well as improving their targeting mechanisms.

**Medium Term Actions:**

*Education* will be a key component as the country builds its future. A “Visioning” exercise around inclusive growth would be helpful as the country focuses on a human development agenda aligned with private sector needs. More broadly, the formulated “National Vision on Education” should focus on job creation through better alignment between educational output and skills

requirement for employment. There is also a need to repair damaged education infrastructure and develop an emergency plan for increased female teachers at all levels and women skills-building particularly in the health sector. On the education and jobs nexus, it will be useful to reform the governance structure of TVET institutions through private sector dialogue and robust monitoring and certification standards.

*Strengthening Food Security* will entail addressing the oligopolistic cereals import regime and building an adequate number of silos for strategic grain reserve management and participating in the GCC grain import facilitation measures. Focus on implementing wheat productivity measures through a phased program of land (terraces) improvement and scaling-up the National Irrigation Plan.

*On the issue of water* it is imperative to restructure the National Water Resources Authority and develop and implement regulations to govern community-level access to groundwater while the use of drip irrigation systems. Reform of implicit subsidies in the system is critical as is designing a sustainable pricing framework. In the context of reducing the burden on the public sector and greater efficiency it will be important to undertake feasibility studies for PPP-based desalination plants. Yemen also needs to establish a framework for the Water sanitation and Hygiene (WASH) sector which includes empowerment & accountability as well as transparency in governance and financial budgets. In rural areas, support is needed for greater use of demand-responsive approaches and to experiment with decentralized governance frameworks for water service management and delivery. In urban areas, Yemen should establish a water rights framework at the community level.

*Restructuring and Strengthening the Power Sector* is a critical element in getting Yemen to move forward. This will mean establishing security arrangements to restore generation and distribution, address the governance and institutional organization of the line Ministry, and the power company. It will mean

establishing an effective bills collection system and capable maintenance units. There is a need to prepare action plans for (i) an interim electricity rationing plan to ensure revival of economic activity, (ii) to unbundle the power sector, and (iii) investments in renewable energy (wind & solar).

*Improving Effective Delivery of Health Services* will require the preparation of a "Policy & Funding Compact" to improve the quality and number of health workers, address low quality of child and reproductive services, poor information system, and the provision of essential & emergency services. Other needed measures include:

- Launching a preventive healthcare framework and system e.g. national hygiene campaign,
- Training woman health workers at the community level in rural and urban areas
- Preparing an action plan for the institutional development of the Ministry of Health & Population
- Developing funding systems for rural health units
- Launching stakeholders dialogue to improve effectiveness of regulatory environment for private health providers and
- Launching partnership arrangements with regional philanthropic organizations for delivery of basic health services to the poor

*Supporting Agriculture and the Rural Economy* – Engage in a national dialogue on agriculture to address deep-rooted issues of subsidies, distortions, and the allocation & management of scarce water resources. This needs to deal with issues such as Qat production, diesel subsidies, and opportunities to shift farming land to food production. It will be important to prepare a well-funded action plan to focus on increasing productivity in poultry farms, fisheries, coffee and high-value fruits through appropriate investments and a competitiveness framework. The government should also foster twinning arrangements with regional centers to introduce and promote best practices in arid farming and drip irrigation system

*Improving Government Capacity to Expedite Public Investment Projects (PIP)*: It would be useful to prepare an action plan to re-engineer administrative processes to speed-up project effectiveness and implementation. Also helpful will be a secretariat for improved donor coordination, predictable aid flows, and common understanding on funding modalities. Also part of the move forward should be a plan to streamline national systems, national and local, facilitating their use by donors. In the medium term the institutional development of line Ministries will need to be undertaken, including through civil service reforms. It will also be important to continue to implement the PFM reform agenda.

*Empowering local governments* is critical to in enhancing all service delivery sectors: water, education, health, urban services.

*Gender*: Apart of advancing the legal position of women and training female teachers and health workers, it is important to improve girls' education and female and maternal health services.

**Conclusion:** There is no doubt that uncertainties and risks around the transition remain and these will need to be managed and mitigated. To reduce the risk of strategic failure it would be useful to formulate a succession of transition points marked by consultative conferences, etc. while building coalitions and offering a narrative of change and trust. The process will need to deliver rapid and tangible results and focus on prioritization, appropriate sequencing, and creating broad ownership through a transitional compact.

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