

**MANAGEMENT RESPONSE TO
REQUEST FOR INSPECTION PANEL REVIEW OF THE
YEMEN: INSTITUTIONAL REFORM DEVELOPMENT POLICY GRANT
(Grant No. 336-YEM)**

Management has reviewed the Request for Inspection of the Institutional Reform Development Policy Grant (Grant No. H336-YEM), received by the Inspection Panel on April 13, 2009 and registered on April 20, 2009 (RQ 09/05). Management has prepared the following response.

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ABBREVIATIONS AND ACRONYMS

BIC	Bank Information Center
BP	Bank Procedures
CAS	Country Assistance Strategy
CPIA	Country Policy and Institutional Assessment
CSA	Country Social Analysis
DPPR	Development Plan for Poverty Reduction
DPR	Development Policy Review
EITI	Extractive Industries Transparency Initiative
FIAS	Foreign Investment Advisory Service
GDP	Gross Domestic Product
GSD	General Services Department
HATC	High Authority for Tender Control
IBRD	International Bank for Reconstruction and Development
ICA	Investment Climate Assessment
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
IPN	Inspection Panel
IRDPG	Institutional Reform Development Policy Grant
JSAN	Joint Staff Assessment Note
LPTF	Land Policy Task Force
MGGM	Matrix of Good Governance Measures
MNA	Middle East and North Africa Region
NGO	Nongovernmental organization
NRA	National Reform Agenda
OP	Operational Policy
PA	Poverty Assessment
PAD	Project Appraisal Document
PD	Program Document
PID	Program Information Document
PRSP	Poverty Reduction Strategy Paper
SDR	Special Drawing Rights
SNACC	Supreme National Authority for Combating Corruption
US	United States
USAID	United States Agency for International Development
YR	Yemeni Rial

Currency Equivalent (as of May 18, 2009)

US\$1 = YR200.70

EXECUTIVE SUMMARY

Background

1. ***On April 20, 2009, the Inspection Panel registered the Request for Inspection, IPN Request RQ09/05*** concerning the Republic of Yemen Institutional Reform Development Policy Grant (Grant No. H336-YEM) (IRDPG) financed by the International Development Association (the Bank).
2. ***Management understands that the Requesters have stated as follows:*** (i) the Bank Country Office in Sana'a refused to disclose information about the IRDPG and, in particular, to provide the Requesters with an Arabic translation of the IRDPG Program Document; (ii) the Bank violated the principle of partnership with civil society; (iii) implementation of the IRDPG would lead to soaring prices and to increased poverty in Yemen; and (iv) timely disclosure of the IRDPG's contents would have allowed civil society to help mitigate this impact. ***This Request contains claims that the Panel has indicated may constitute violations of certain of the Bank's policies and procedures,*** specifically: (i) OP/BP 8.60 "Development Policy Lending;" and (ii) World Bank Policy on Disclosure of Information dated June 2002.

Context

3. ***The poorest country in the Middle East and North Africa (MNA) region, Yemen faces daunting challenges in the face of rapid depletion of its oil reserves.*** With a GDP per capita of US\$930, living conditions for most of the 22 million Yemenis remain difficult and progress towards the Millennium Development Goals is slow. In 2007, oil represented about one-third of GDP, three-quarters of Government revenues and 90 percent of exports, but reserves are expected to be exhausted in the next 10 to 15 years – and the corresponding revenues are already declining. There is a consensus that the country needs to diversify its economy and improve governance to provide jobs and deliver services for a population that is growing at over 3 percent per year.
4. ***The IRDPG supports the implementation of key elements of the country's overall development agenda.*** As specified in the 2006 Country Assistance Strategy (CAS), the IRDPG focuses on: (i) increasing non-oil growth; and (ii) strengthening governance. Triggers for the release of the two financing tranches cover specific policy actions in five areas:
 - (i) ***Corporate income tax:*** improve the business environment through a revision of the corporate income tax code in line with international best practice (reduced tax rates, reduced discretion in tax administration, risk-based audits, etc.);
 - (ii) ***Land registration:*** improve protection of property rights through the development of a new land registration law and corresponding capacity building;
 - (iii) ***Procurement reform:*** strengthen transparency and competition through the development of a new procurement law and the establishment of a High Authority for Tender Control;
 - (iv) ***Extractive Industries Transparency Initiative (EITI):*** enhance transparency in the oil and gas sectors through accession to EITI, and the publication of independent audits of oil and gas payments and corresponding Government revenues;

- (v) *Civil service reform*: support efforts to rationalize public service through completion of the civil service census (and elimination of ghost workers and double dippers), continued implementation of the 2005 Wage Law (which provides for substantial salary increases linked to reform objectives), and continued implementation of the program of managed retirements and retrenchments launched in 2005.

Partnership with Stakeholders

5. *Management agrees with the Requesters on the importance of partnership with stakeholders* as a substantial factor to achieve sustainable development and to improve transparency and accountability in development.

6. *Management is satisfied that the requirement under OP 8.60 for the Bank to “advise borrowing countries to consult with and engage the participation of key stakeholders” was met.* The Bank highlighted this requirement in a letter to the Government on December 5, 2006. The Bank supported the Government’s consultations on the design of the overall policy agenda supported under the IRDPG.¹ In addition, the Bank engaged in a three-fold set of consultations:

- (i) *Consultations during IRDPG preparation* in December 2006 and March 2007 (a member of the Advisory Committee of the Yemen Observatory for Human Rights was invited);
- (ii) *Sectoral consultations* that provided the analytical underpinnings for each IRDPG component;² and
- (iii) *Consultations on related activities.*³

Disclosure of IRDPG Documentation

7. *Disclosure of the IRDPG Program Document complied with the requirements of applicable Bank policies.* The Program Document was disclosed on the Bank’s external website on December 11, 2007, within three working days of Board approval. Hard copies of the PD were available in the Bank’s Public Information Center in Sana’a.

8. *Management is committed to facilitating access by the public to information disclosed by the Bank.* Management is sensitive to the importance of translations into Arabic, even when such translations are not required under the Disclosure Policy (as is the case with Program Documents). Management has initiated translation of the IRDPG Program Document and will provide the translation to the Requesters and other stakeholders within three weeks.

¹ Consultations on the Third Socio-economic Development Plan for Poverty Reduction (DPPR) in late 2004 through 2006; on the National Reform Agenda (NRA); and on the Matrix of Good Governance Measures (MGGM).

² Consultations on corporate income tax reform in January and May 2007; on land registration reform in February and September 2005; on procurement reform between March and June 2007; and on EITI in August 2007; as well as work accomplished as part of the drafting of the 2002 law on the Civil Service Fund, the 2005 Wage Law, and the 2006 Card Law.

³ Consultations on 2006 CAS in November 2005 and March 2006, Investment Climate Assessment in June 2006, Development Policy Review and Country Social Analysis in June 2007, and Poverty Assessment in December 2007.

9. *Management regrets to report that the Program Information Document (PID) was mistakenly not disclosed in the InfoShop in a timely manner.* This was corrected within three working days after the Bank was alerted to the mistake. An Arabic translation of the PID had been made available during IRDPG appraisal in Sana'a.

Social Impact of Measures Supported under the IRDPG

10. *Based on the information available in the Request, it is difficult for Management to evaluate to what extent or how the rights and interests of the Requesters may have been affected.* The Requesters state that "they have incurred and will probably continue to incur damages" and that the program supported under the IRDPG "will lead to soaring prices and the increased suffering of the poor in the Yemeni society." The Request suggests that the complaint is made on behalf of the public at large. The IRDPG Program Document includes an analysis of the expected poverty and social impact (as required under OP 8.60). Implementation is not expected to have an inflationary impact or to result in increased poverty. The Requesters do not make reference to material adverse effects as a result of the specific policy actions that are first or second tranche release triggers for the IRDPG.⁴

11. *The measures supported under the IRDPG are expected to have a positive social and poverty impact:*

- (i) *Corporate income tax:* by reducing exemptions and loopholes, the measures are expected to increase fiscal revenues (in spite of the effective tax rate reduction), and hence resources for social services delivery; these reforms are not expected to directly affect the poor;
- (ii) *Land registration:* the measures are expected to strengthen land property rights; best-practice safeguards (and continued attention during implementation) are part of the IRDPG to ensure that these measures are not implemented in a way that disadvantages the poor;
- (iii) *Procurement:* the new procurement law is designed to strengthen transparency and competition; experience in other countries indicates that this reduces the incidence of corruption and lowers prices for publicly procured works, goods, and services;
- (iv) *EITI:* independent audits of oil and gas payments are unlikely to result in any social costs, but may instead increase fiscal revenues that could be used to improve living standards;
- (v) *Civil service reform:* (a) completion of the civil service census is expected to have an overall positive social impact; (b) implementation of the 2005 Wage Law has already resulted in substantial salary increases for civil servants (by up to 80 percent of base salary for those at the lowest level); and (c) compensation packages for retrenchments and retirements are generous by international standards (about seven years of salary for retrenched workers; pension equivalent to 90 percent of last income for retirees).

⁴ Paragraph 10 of OP 8.60 refers to the need for consideration of poverty and social impacts for "specific country policies supported by the operation." The poverty and social impacts of the Government's broader development program fall beyond the scope of this policy.

I. INTRODUCTION

1. ***On April 20, 2009, the Inspection Panel registered the Request for Inspection, IPN Request RQ09/05*** (hereafter referred to as the “Request”), concerning the Republic of Yemen Institutional Reform Development Policy Grant (Grant No. H336-YEM) (hereafter referred to as the “IRDPG”) financed by the International Development Association (the Bank). Bank Management has prepared this Response addressing the Request for Inspection.

2. ***Structure of the text.*** Section II presents a summary of Management’s understanding of the subject of the Request for Inspection. Section III provides some background information on the IRDPG and other contextual elements. Section IV contains the detailed Management Response to the Request for Inspection. Finally, Section V lays out a detailed Action Plan of recent and intended measures by the Bank which relate to the concerns raised by the Requesters. Additional information is included in the following annexes:

- *Annex 1* presents the Requesters’ claims, together with Management’s responses to the Request for Inspection, in table format;
- *Annex 2* provides available information on each consultation referred to in the document;
- *Annex 3* provides the results matrix of the Country Assistance Strategy (CAS) for 2006-2009, which includes the measures supported under the IRDPG;
- *Annex 4* provides a bibliography of analytical work underpinning the IRDPG;
- *Annex 5* presents a letter dated December 5, 2006, from the World Bank’s Acting Country Director for Yemen to the Government of Yemen on stakeholder consultations;
- *Annex 6* provides the Government’s Letter of Development Policy for the IRDPG;
- *Annex 7* provides the legal texts organizing civil society participation under the new procurement law and the Extractive Industries Transparency Initiative (EITI); and
- *Annex 8* provides the English and Arabic versions of the IRDPG Program Information Document (PID).

II. THE REQUEST

3. ***The Request for Inspection was submitted by Mr. Abdelkader Ali Abdallah and Mr. Yahya Saleh Mohsen, on their behalf and on behalf of the Yemen Observatory for Human Rights*** (hereafter referred to as the “Requesters”). Attached to the Request was correspondence related to the case, including an exchange of letters between the

Requesters and the Bank (letter from the Requesters to the Bank dated January 16, 2008; letter from the Bank to the Requesters dated January 20, 2008; letter from the Requesters to the Bank dated January 30, 2008). No further materials were received by Management in support of the Request.

4. ***Management understands that the Requesters claim that they have incurred and will probably continue to incur damages as a result of the Bank's failure to comply with its policies on transparency and disclosure of information with respect to the IRDPG.***

5. ***Specifically, Management understands that the Requesters have stated as follows:*** (i) the Bank Country Office in Sana'a (the Country Office) refused to disclose information about the IRDPG and, in particular, to provide the Requesters with an Arabic translation of the IRDPG Program Document (PD); (ii) the Bank violated the principle of partnership with civil society; (iii) the social costs of the reforms supported under the IRDPG would be "very exorbitant," with the Bank's own analysis indicating that implementation of the IRDPG would lead to soaring prices and to an increase in the poverty rate from 45 to 54.2 percent of the population; (iv) timely disclosure of the IRDPG's contents would have allowed civil society to help mitigate this impact (in particular by providing recommendations on the adoption of fair tax policies, the provision of resources through anti-corruption measures, and the adoption of adequate policies on poverty and unemployment); and (v) the Country Office replied in an unsatisfactory manner to a letter dated January 16, 2008, and failed to reply to a letter dated January 30, 2008.

6. This Request contains claims that the Panel has indicated may constitute violations of certain of the Bank's policies and procedures, specifically:

- OP/BP 8.60 "Development Policy Lending"; and
- World Bank Policy on Disclosure of Information dated June 2002.

III. CONTEXT AND BACKGROUND

COUNTRY BACKGROUND

7. ***The poorest country in the MNA region, Yemen faces daunting circumstances in an uncertain global and regional environment.*** With a GDP per capita of US\$930, living conditions for most of Yemen's 22 million citizens remain hard and progress towards the Millennium Development Goals is slow.

8. ***The depletion of Yemen's oil reserves poses difficult challenges.*** In 2007, oil represented about one-third of GDP, three-quarters of Government revenues and 90 percent of exports. However, reserves are being depleted rapidly (the life of the reserves is currently estimated at 10 to 15 years). In this context, fiscal sustainability is the foremost macroeconomic issue because the reduction in oil revenues is not sufficiently

compensated for by increased revenues from other sources (tax revenues remain very low at an estimated 7.3 percent of GDP in 2007). Government spending is driven by a large public sector wage bill (10.9 percent of GDP in 2007) and unsustainably high fuel subsidies (around 9.3 percent of GDP in 2007). The country is facing increasing difficulties in financing a large public deficit (between 5 and 6 percent of GDP in 2007 and 2008), without an adverse effect on the economy and the delivery of social services.

9. ***There is a consensus that the country needs to diversify its economy*** both to ensure fiscal sustainability and to provide jobs for a population that is growing rapidly at over 3 percent per year. A number of studies conducted by the Bank—for example, the Investment Climate Assessment (ICA) completed in 2006, Development Policy Review (DPR) completed in 2007—suggest that successful diversification will require significant improvements in both the business environment and economic governance.

10. ***Yemen's political system is a formal multi-party democratic system.*** There is a relatively free press, and an active political opposition. The 2006 presidential elections were called by the European Union Election Observation Mission “an open and genuine contest,” despite “important shortcomings.” Parliament is active and has shown independence from the executive.

11. ***The underlying social structure is based largely on a tribal system,*** where the power of traditional leaders places limits on State authority. Many public institutions are relatively weak, as reflected in the low Country Policy and Institutional Assessment (CPIA) score,¹ which stands at 3.2. The weaknesses pointed out in the CPIA relate to issues of capacity, corruption, and staffing in the civil service, as well as to the persisting need to clarify institutional mandates and structures.

12. ***Yemeni society is going through a transformation.*** The role of the private sector and civil society is growing. In this mountainous country, the valleys, in which a large part of the population lives, have been severely isolated until recently. Today, the forces of urbanization and modernization are challenging some of the long-entrenched features of the traditional order.

YEMEN'S REFORM PROGRAM

13. ***Over the past ten years, the Government has set out an ambitious vision for the country's development,*** with greater emphasis on diversifying the economy through private sector-led activities, enhancing governance, improving social conditions, and effectively managing natural resources than previously expressed in Yemen. These goals were articulated in the “Strategic Vision 2025” (published in 2000), which was prepared in consultation with stakeholders at central and local levels.

14. ***Since 2006, the Government has engaged in a broad program of reforms,*** which were discussed in the Third Socio-economic Development Plan for Poverty Reduction for 2006 to 2010 (DPPR). The DPPR was prepared by the Government through a

¹ The CPIA score is an indicator developed by the World Bank to assess the quality of economic policy and institutions. Scores range from 1 (low) to 5 (high).

participatory process, and is serving as the country's Second Poverty Reduction Strategy Paper (PRSP). The DPPR was presented at the November 2006 Consultative Group meeting in London, where it was well received by the donor community. The DPPR is built on eight pillars: (i) macroeconomic policies and targets; (ii) good governance; (iii) development of productive and promising sectors; (iv) water, environment, and basic infrastructure; (v) human development; (vi) Government services; (vii) social safety net, social protection, and social security; and (viii) women's empowerment. A Joint Staff Assessment Note (JSAN) on the DPPR was finalized on May 16, 2006.

15. ***The DPPR was operationalized through the National Reform Agenda (NRA), the Matrix of Good Governance Measures (MGGM), and the Public Investment Program.*** The NRA sets a broad agenda of priority reforms for the country to accelerate economic growth, improve economic governance, broaden opportunities and participation, and strengthen cooperation with development partners. It focuses in particular on the following issues: (i) judicial reform; (ii) administrative reforms and civil service modernization; (iii) investment and business climate; (iv) anticorruption, transparency, and accountability; and (v) political reforms. The MGGM provides a more specific action plan for implementing the NRA priorities, including legislative measures and a greater focus on the rule of law and political participation. The Public Investment Program identifies priority investments in support of the DPPR.

BANK'S BROADER ENGAGEMENT WITH YEMEN

16. As one of Yemen's major development partners, the Bank has developed a solid program of financial support, analytical work, and technical assistance. In an environment where a number of other donors and financiers are active, the Bank is also playing an important convening role. For example, the Bank organized and co-chaired the November 2006 meeting of the Consultative Group in London, during which about US\$5 billion was pledged, and continues to co-chair the follow-up stocktaking meetings (June 2007, February 2008, and April 2009).

17. ***In December 2007, at the time of IRDPG approval, Bank assistance was being provided within the context of a CAS covering the period from 2006 to 2009.*** The CAS, prepared through an intensive consultation process, was discussed by the Board in June 2006. The program outlined in the CAS aimed to support key elements of the Government's reform agenda as articulated in the DPPR:

- *Diversifying growth through better governance and better delivery of public services, with a focus on: (i) business regulatory environment; (ii) road and power infrastructure; (iii) skills improvement through technical education and vocational training and higher education; and (iv) support to selected sectors (rainfed and irrigated agriculture, fisheries, manufacturing, and natural gas);*
- *Improving human development through more efficient service delivery and improved safety nets, with a focus on: (i) access to, equity and quality of basic education; (ii) access to and quality of health services; (iii) safety net programs; and (iv) water supply and sanitation;*

- *Increasing fiscal sustainability through improved public expenditure management*, with a focus on: (i) revenue transparency; (ii) expenditure management (including through reducing fuel subsidies); (iii) public sector reform; (iv) public procurement; and (v) public financial management; and
- *Increasing resource sustainability through improved management of water resources and reduced population pressure.*

18. *The CAS identified a series of instruments to support this agenda*, including a program of financial assistance of about US\$105 million a year (with a focus on infrastructure, education, agriculture and fisheries, and institutional reform); and comprehensive analytical work, such as the DPR, ICA, Country Social Analysis (CSA), and Poverty Assessment (PA), which was often reflected in the design of Government programs; and targeted technical assistance. *The IRDPG was part of this program and was explicitly described in the CAS. The CAS Results Matrix references the entire set of measures that are triggers for disbursement of the IRDPG (see Annex 3).*

THE IRDPG

19. *The IRDPG supports the implementation of key elements of the country's development agenda.* As specified in the CAS, the IRDPG focuses on two aspects of the broader country strategy: (i) increasing non-oil growth; and (ii) strengthening governance. The IRDPG also aims to help the Government make progress towards fiscal sustainability. Actions selected for Bank support under the IRDPG were based on three criteria: (i) the likely impact of those reforms; (ii) the likelihood of success; and (iii) the ability to identify and monitor specific actions that could be achieved in the short term in furtherance of the reform agenda.

20. *Specifically, the IRDPG is designed to:*

- *Support non-oil growth through investment climate reforms* by:
 - Rationalizing the incentive framework (by harmonizing treatment of income, expenses, and investment with international standards);
 - Strengthening property rights (by reducing ambiguity of land titling and improving public management of land registration); and
- *Strengthen governance and public financial management* through:
 - Procurement reforms that increase transparency and accountability and separate policy-making from administrative functions;
 - Increased transparency of oil revenues, as would be realized through accession to the EITI; and
 - Support to the civil service reform strategy, especially wage policies, retrenchments, and the establishment of a biometric database of public employees.

21. *The IRDPG is a two-tranche Development Policy Grant of SDR 33.30 million* (US\$50.93 million equivalent). The first tranche (SDR 16.65 million, US\$25.47 million equivalent) was made available upon effectiveness of the Grant Agreement. The second tranche (SDR 16.65 million, US\$25.47 million equivalent) will be made available upon fulfillment of second tranche triggers.

IRDPG COMPONENTS

22. *The IRDPG supports five key components of the Government's reform strategy.* Policy actions in these areas constitute triggers for the release of the financing tranches. These triggers derive from the DPPR and MGGM.

23. *Component 1: Corporate income tax reform.* The IRDPG supports Yemen's corporate income tax reform agenda. The importance of corporate income tax reform as a means to improve the business environment in Yemen was identified in part through the 2006 ICA, which found that private companies in Yemen faced high marginal income tax rates; nonstandard treatment of income, investment and expenses; discretionary implementation of the tax code with a large number of exemptions and tax holidays; and pervasive corruption and irregularities in tax administration—affecting both fiscal revenues and the business environment. The MGGM also called for reform of the corporate income tax code—even prior to IRDPG preparation. On January 1, 2007, with support from the IMF, the Government introduced a value-added tax to replace the general sales tax. Soon thereafter, the Government prepared a draft corporate income tax code (with Bank and IFC advice), which incorporated many global good practices in this regard (reduced tax rates, fewer exemptions, standardized treatment of investment, enforcement through risk-based audits). The IRDPG is supporting the finalization and adoption of Yemen's draft corporate income tax code as well as the issuance of the corresponding executive regulations.

24. *Component 2: Land titling and registration reform.* The IRDPG supports Yemen's efforts to enhance the protection of property rights. At the time of IRDPG preparation, the insecurity of land ownership rights was found to be a key deterrent to private investment in Yemen. Less than 10 percent of all urban land and property was registered; many investors had to pay twice for land; and up to half of all licensed investment projects in cities such as Aden failed to materialize due to land-related problems. The land registration law was rudimentary, and the registration process ineffective, which led to fraud and disputes. The MGGM called for steps to enhance the protection of property rights as a key measure to strengthen the rule of law. Prior to IRDPG preparation, the Bank worked with a Land Policy Task Force (LPTF) and made recommendations to strengthen the regulatory framework for land registration (published in 2006 in the "Urban Land Policy and Administration Policy Note"). The IRDPG has supported Yemen in developing a new land registration law for submission to Parliament and strengthening institutional capacity for its implementation.

25. *Component 3: Procurement reform.* The IRDPG supports Yemen's public procurement reforms. The importance of procurement reform was identified in part through the MGGM, which called for a series of measures to enhance transparency and

fight corruption in procurement as a key aspect of the governance agenda. To that effect, the Government was already working with the Bank on preparation of a new procurement law and executive regulations even prior to IRDPG preparation. The IRDPG has supported the submission of the new procurement law to Parliament and the strengthening of institutional capacity necessary to its implementation (and in particular the establishment of a procurement policy monitoring board, the High Authority for Tender Control, HATC).

26. ***Component 4: Extractive Industries Transparency Initiative.*** The IRDPG supports Yemen's accession to the EITI, as a means to improve transparency in the use of the country's oil revenues. The EITI is a coalition of governments, companies, civil society groups, investors and international organizations, which set a global standard for companies engaged in the extractive sectors to publish what they pay and for governments to disclose what they receive.² Given the centrality of oil revenues to the budget, the MGGM identified accession to EITI as a critical priority to fight corruption. The IRDPG supports Yemen's accession to EITI, as well as the steps to be taken to ensure effective compliance with EITI principles (leading to the publication of independent audits of oil payments and revenues).

27. ***Component 5: Civil service reform.*** The IRDPG supports Yemen's efforts to strengthen the civil service. The importance of civil service reform was identified in part through the MGGM, which found civil service reform to be both a fiscal necessity and a priority for strengthened governance. Yemen's civil service was found to be overstaffed, in large part as a result of the 1990 unification of North and South Yemen, during which the two civil services were merged without restructuring. As a result, the overall wage bill was very high (at about 10.9 percent of GDP 2007), even though wages were low. The existence of a large, underpaid civil service also created incentives for corruption. Prior to IRDPG preparation, the Government had: (i) launched a census of the civil service to eliminate ghost workers and double dippers (the Government had reported the removal of 34,000 such entries in the payroll in 2006); (ii) adopted and implemented the 2005 Wage Law, which calls for substantial salary increases in the public sector tied to institutional reform objectives; and (iii) established a Civil Service Fund to manage a retrenchment and pre-retirement program of redundant civil servants (by early 2007 this Fund had received over 14,000 applications). The IRDPG supports the approval and implementation of a Civil Service Fund program for 2007-2010, continued adherence to the 2005 Wage Law, and the completion of the civil service census (extended to all civil servants, police and judiciary employees).

SUMMARY OF TRIGGERS

28. ***The summary of triggers is derived from the IRDPG Program Document.***³ Each of the first tranche triggers laid out in the PD was met prior to presentation of the program to the World Bank's Board of Executive Directors.

² <http://eitransparency.org/eiti/summary>

³ The IRDPG triggers can be found in Annex 2 of the PD, on page 53.

Component	First Tranche Trigger	Second Tranche Trigger
1. Corporate income tax reform Rationalize incentives facing private investors through standard treatment of income, investment, and expenses, and a sharp reduction of exemptions and other discretionary measures.	Submission to the Council of Ministers of a new corporate income tax law (reflecting international norms of treatment of corporate income, investments, and expenses).	Issuance of the executive regulations for the new corporate income tax law (in line with international norms).
2. Land titling and registration reform Create a system of secure and enforceable property rights, with unambiguous titles.	Submission to Parliament of a new land registration law (reflecting recommendations of the LPTF).	Issuance of a decree defining the mandate and functions of the General Authority for Land, Survey, and Urban Planning.
3. Procurement reform Strengthen transparency, competition, and accountability in public procurement.	Submission to Parliament of a revised procurement law (in line with international best practices).	Establishment of the HATC, utilizing a satisfactory procurement management information system.
4. EITI Access EITI and abide by its standards for the full publication and verification of company payments and Government revenues from extractive industries.	Formal declaration of the Government's commitment to EITI principles (through a letter to the EITI Secretariat).	Publication of independently audited accounts of payments made by oil, gas, and mining companies to the Government and corresponding Government receipts.
5. Civil service reform Reform of the civil service, both as a fiscal necessity (due to the very large burden of the wage bill and related obligations) and as a vital component of public administration reforms to promote good governance and effective service delivery.	Approval by the Council of Ministers of the Civil Service Fund program for 2008-2010 and alignment of the budgetary allocation for 2008 to this program.	<ul style="list-style-type: none"> • Complete implementation of the Civil Service Fund program for the period June 2007-May 2008. • Consistent application of the 2005 Wage Law. • Establishment of a computerized database (including biometric identification) of all employees on the Government's payroll.

IRDPG MILESTONES

29. *The IRDPG was prepared between August 2006 and December 2007.* It built on a significant amount of earlier analytical work (see Annex 4). Substantive preparation work took place between December 2006 and May 2007.

Milestone	Date
Pre-identification Mission	August 12-18, 2006
Identification Mission	December 16-18, 2006
Identification Mission	January 21-23, 2007
Concept Review Meeting	March 7, 2007
Regional Operations Committee Review Meeting	March 19, 2007
Appraisal Mission	March 24-28, 2007
Negotiations ⁴	May 19-20, 2007
Preparation Mission (macroeconomic framework)	June 8-16, 2007
Final Negotiations	October 22, 2007
Board Approval	December 6, 2007
Signing	January 14, 2008
Effectiveness	April 28, 2008
First Tranche Release	July 17, 2008
Supervision Mission	November 23, 29-30, 2008
Supervision Mission	April 11-13, 2009
Closing Date	June 30, 2010

30. *The IRDPG was supervised through a combination* of: (i) regular in-country interactions between the Country Office, the authorities, and stakeholders (so-called “continuous supervision”); (ii) sectoral missions to monitor and support implementation of individual components; and (iii) formal supervision missions to review implementation progress for the operation as a whole (November 23 and 29-30, 2008, and April 11-13, 2009).

STATUS OF IMPLEMENTATION

31. *Component 1: Corporate income tax reform.* The corporate income tax law was prepared and reviewed (preparation was a first tranche trigger). However, the Government was advised to consider this law in tandem with the new investment law so that all incentives could be integrated under the income tax law. This has led to delays in Parliamentary consideration, but will allow for a more coherent policy approach.

32. *Component 2: Land titling and registration reform.* The land registration law was approved by the Cabinet on September 11, 2007, and submitted to Parliament (submission to Parliament was a first tranche trigger). This law is currently under consideration, and there are indications that it is subject to significant discussions among Parliamentarians. The second tranche trigger (issuance of a decree defining the mandate and functions of the General Authority for Land, Survey, and Urban Planning) may be met in the near future.

33. *Component 3: Procurement reform.* The procurement law was ratified by Parliament on July 24, 2007 (the submission of this law to Parliament was a first tranche trigger) and it is aligned with international good practices (as established by the UN

⁴ The negotiations were interrupted to leave sufficient time to complete the assessment of the macroeconomic framework in order to be able to provide the Board with adequate comfort on the overall policy stance. An IMF mission was visiting Yemen during June 8-16, 2007, and the team chose to await the results of their macroeconomic analysis before moving forward.

Commission on International Trade Law). Relevant by-laws and executive regulations have since been prepared and approved by the Cabinet on February 8, 2009, as Decree No. 53 for 2009. The Government is currently working on the establishment of the HATC (which is a second tranche trigger), with representation from Government, the private sector, the judiciary and civil society; discussions are ongoing on its staffing (especially to review the caliber and integrity of proposed candidates). The Procurement Management Information System is being procured and is expected to be piloted by the end of 2009.

34. **Component 4: Extractive Industries Transparency Initiative.** On March 13, 2007, the Cabinet issued Cabinet Decree No. 111 affirming Yemen's decision to adhere to EITI principles (this was a first tranche trigger). A multi-stakeholder EITI Council was established in August of the same year and includes representatives of the Government, private sector, and civil society. The EITI Council is currently debating two issues: the scope of audits to be conducted (beyond those for payments and revenues) and the procedural rules for decision-making within the Committee (by consensus, as advocated by the private sector, or by majority, as preferred by civil society). In addition, the EITI Council has launched discussion on the scope of reports on revenues and payments transactions from oil and gas between the Government and companies (publication of such reports is a second tranche trigger). Progress on this trigger has been slow, albeit in part as a result of the strong involvement of civil society in the process and the vigorous debate that has ensued on the scope of reporting and audits to be conducted.

35. **Component 5: Civil service reform.**

- (i) **Civil Service Fund.** The Civil Service Fund was established in 2005 (its authorization and funding were a first tranche trigger, with continued implementation as a second tranche trigger). According to the Government's tracking system, as of March 2009, 13,437 persons have been referred for transfer to the Fund since its inception. Of these, 10,101 have taken early retirement (about 90 percent of last salary for the rest of their lives) and 676 have opted for a severance package (on average seven years of annual income).⁵ An additional 2,060 individuals were either deceased or shifted to retirement because they were past the official retirement age, and 600 were shifted to vacant positions elsewhere in public service. By the end of 2010, another 17,500 persons are expected to be transferred to the Civil Service Fund.
- (ii) **Wage Law.** The first two increases have taken place and have been considerable (e.g., for lower salaries, the monthly base salary rose from YR11,000 to YR20,000 in the first increase). The Government expects to implement a third increase in the near future (consistent application of the Wage Law is a second tranche trigger).

⁵ The amount of the retrenchment package is intended to compensate the worker for loss of income. It comes to about two-thirds of the amount employees would have earned in basic salary, had they been employed in the government for their entire career. As such, this system tends to privilege those who are younger and have had fewer years in the civil service (and thus a greater potential loss of income).

- (iii) *Civil service registration.* The establishment of a computerized employee database, including biometric identification, which covers all state employees, is a second tranche trigger. Ninety-six percent of employees in the General Civil Service have been registered, together with 98 percent of judiciary and education employees. The system is being extended to security forces, with 30 percent of those in the Ministry of Interior and 11 percent in the Ministry of Defense registered thus far. In the process, a significant number of ghost workers and double dippers have been identified, though exact figures are not yet available.⁶ The design of the employee database has been completed, but has yet to be approved.

IV. MANAGEMENT RESPONSE

36. Management's understanding of the Requesters' claims has been summarized in paragraph 5 above. Management proposes to address these claims under four main headings:

- Partnership with stakeholders;
- Disclosure of IRDPG documentation;
- Social impact of the measures supported under the IRDPG; and
- Communications with the Requesters.

PARTNERSHIP WITH STAKEHOLDERS

37. *Management agrees with the Requesters on the importance of partnership with stakeholders* as a substantial factor to achieve sustainable development and to improve transparency and accountability in development as well as to promote public support for efforts designed to improve people's lives in developing countries. Management notes that the applicable Bank policy (OP 8.60, paragraph 6) requires the Bank to "advise borrowing countries to consult with and engage the participation of key stakeholders." In a letter to the Government dated December 5, 2006, the Bank's Acting Country Director for Yemen highlighted this specific policy requirement (see Annex 5).

38. *Management notes that good practice in Development Policy Operations suggests a broad definition of stakeholders.*⁷ In view of the nature of reforms supported under the IRDPG, a broad range of consultations was carried out with a variety of stakeholders, including: (i) public institutions; (ii) Parliament; (iii) private sector

⁶ The Ministry of Civil Service and Ministry of Finance have recently confirmed that, to date, 51,145 names have been removed from the payroll. This number includes ghost workers and double dippers, as well as retirees. The World Bank has requested the disaggregated data from the Government, but at this stage it is not possible to state definitively the number of ghost workers and double dippers that have been identified.

⁷ See *Good Practice Note 5: Supporting Participation in Development Policy Operations*, October 2004.

representatives; and (iv) civil society organizations, which include, but are not limited to, nongovernmental organizations (NGOs).

39. *Management is satisfied that the requirement under OP 8.60 for the Bank to “advise borrowing countries to consult with and engage the participation of key stakeholders” was met.* The IRDPG consultation process encompassed four sets of activities: (i) Bank support to consultations by the Government on the design of its overall policy agenda supported under the IRDPG, as required under OP 8.60; as well as (ii) consultations held in the context of IRDPG preparation; (iii) earlier sectoral consultations that provided the analytical underpinnings for each component of the IRDPG; and (iv) consultations on related activities.

(i) **Bank support to consultations by the Government in the design of its policy agenda**

40. *Management notes that the Government engaged in a participatory process to define its overall development policy.*⁸

- *DPPR.* The DPPR was prepared with the benefit of extensive consultations throughout preparation from late 2004 to the first half of 2006; a number of thematic groups were established on topics such as economic growth, education, health, water, infrastructure, private sector development, food security, and local governance. The thematic groups were co-chaired by the Government and a lead donor. The Bank engaged closely with groups focusing on economic growth, water and education. Stakeholders (including civil society organizations) were represented in these thematic groups. Consultations also took place in five governorates (including Aden and Lahj) where all stakeholders were invited. The draft document was presented to the Cabinet in August 2006. The Arabic version of the full document was posted on the internet by November 2006 (a shorter version in English was also posted on the internet). The Arabic document discusses the consultation process in paragraph 3 (page iii).⁹

⁸ “Yemen’s Strategic Vision 2025” was also prepared through a consultative process (in 2000) including consultations at both national and local levels.

⁹ This paragraph reads as follows (translated from the Arabic): “Work on the preparations of the Third Five-Year Development Plan has started since the issuance of the Republican Decree No. 185 for 2004, concerning the composition of the Higher Committee for developing the Third Five-Year Plan. The decree emphasized the importance of commitment to follow scientific methodologies and reflect the partnership principles in all preparation stages in order to ensure participation of all development partners in the implementation, following up and evaluation processes. In light of these principles, the Ministry of Planning and International Cooperation was devoted to ensuring continuous coordination and consultation with other ministries and public bodies centrally and locally as well as with stakeholders, private sector, civil society and donors during all different stages of the plan preparations, and for all components of general objectives and policies, sectoral plans and local development plans in order to reflect the public partnership principle. Several events were held to achieve this objective, including a consultation meeting in Sana’a City as well as in other governorates with strong participation of members of the House of Representatives and Shura Council in addition to representatives of the local council, local executive administration, civil society organizations and the private sector.”

- *National Reform Agenda and Matrix of Good Governance Measures* (also published in 2006). A similar consultative process was followed for the NRA and MGGM. The difference between the two is that the latter includes political governance measures. The MGGM was originally prepared in Arabic and consultations with stakeholders were managed by the Government, and stakeholders, including NGOs, attended discussions with the Government.

41. *The Bank has supported Government's efforts to engage in such broad consultation efforts.* This advice was provided directly by Country Office staff through frequent contacts with decision-makers and was reflected in the active participation by the Bank in the elaboration of the DPPR and the MGGM (e.g., in-time feedback and comments on report drafts).

42. *The May 2006 JSAN by the Bank and IMF staffs reported:* "The staffs agree that a wide consultative process, used in the preparation of the PRSP, continues to be followed in the preparation of the PRS Progress Report [...]. The staffs share the view with the government that there has been a perceptible improvement in consulting civil society, which is due to the emphasis that the Government has placed on direct and indirect consultations with the civil society." The JSAN further notes that: "the monitoring structure consists of a ministerial committee at the top, the central PRSP unit in the ministry of planning and international cooperation, and a technical committee of 26 members drawn from other ministries, NGOs, donors, and the private sector."¹⁰

(ii) **Additional consultations during preparation of the IRDPG**

43. *The IRDPG team consulted directly with stakeholders during preparation of the IRDPG, in addition to the OP 8.60 requirement to advise the Government on participation.* This included:

- Consultations during the December 2006 identification mission to discuss and inform the overall design of the IRDPG (see Annex 2A(1) for more details); and
- Consultations during the March 2007 appraisal mission to discuss specific elements of the IRDPG, on the basis of background documentation made available in Arabic. There was significant engagement by Parliamentarians, professional organizations, and private sector stakeholders, but only one NGO representative attended based on the Bank's invitation.¹¹ (See Annex 2A(2) for more details.)

44. A member of the Advisory Committee of the Yemen Observatory for Human Rights was invited to the consultations held during preparation of the IRDPG on March 26, 2007. The Advisory Committee member was invited in her capacity as the

¹⁰ *Republic of Yemen Poverty Reduction Strategy Paper and Joint IDA-IMF Staff Advisory Note on the Annual Progress Report* (Report No. 35070-RY).

¹¹ NGOs have been invited routinely to policy discussions hosted by the Country Office, including to those held during the IRDPG appraisal mission. Attendance at these sessions varies.

Chairperson of the Sisters' Arabic Forum but did not attend the event (see Annex 2A(2)(i)).¹²

45. *Management notes that there is no federative entity that represents the hundreds of NGOs registered in Yemen.* The challenge for any consultation process is to identify those organizations that can be the most effective counterparts for a given operation. The Country Office extends invitations to individuals and groups on the basis of their mandate and interests, with a view to reflecting a diversity of views. The Country Office followed this approach in the case of the IRDPG (see Annex 2A).

46. *The consultations indicated broad support for the proposed areas of engagement.* Stakeholders also emphasized the need to design and monitor carefully the implementation of specific reforms to safeguard the poor. This was reflected in the design of the operation and in the assurances obtained from Government in its Letter of Development Policy (see Annex 6), e.g., for monitoring the impact of land registration reform and civil service reform on poor and vulnerable groups.

47. *Management acknowledges that the consultation process was not described in the PD, but should have been, per OP 8.60.*¹³ Management regrets this oversight.

(iii) **Additional sectoral consultations underpinning the design of each component**

48. *In line with good practice, the Bank team supported the Government in engaging with stakeholders on the identification and design of priority reforms for each component of the IRDPG.* The paragraphs below describe the consultation process followed for each component. (Specific details on dates, locations, participation, nature of supporting documentation, etc., for each event can be found in Annex 2B.)

- *Corporate income tax reform.* The reform of Yemen's corporate income tax law was informed by a review carried out in conjunction with IFC (by the Foreign Investment Advisory Service, FIAS) and with support from the United Kingdom Department for International Development in January 2007. The FIAS diagnostic report on the impact of tax policy and tax administration on Yemen's investment climate was disseminated in May 2007.¹⁴ The Bank Group advised the Government to engage in extensive consultations with stakeholders, especially

¹² Other members of the 16-member Advisory Committee have long-standing relationships with the Bank. Members of the Yemen Observatory for Human Rights are routinely invited to Bank-sponsored events and many attend, though they attend as representatives of their own organizations. In addition, one Advisory Committee member, in his capacity as a member of SNACC, has worked closely with the Bank's Senior Public Sector Management Specialist in the context of the Bank's support to the country's governance and anti-corruption agenda. Another Advisory Committee member worked together with the Bank to coordinate a youth event held during June 24-27, 2006, in Sana'a, as part of a Democracy Conference hosted by the Government of Yemen. Finally, one Advisory Committee member was contracted by the Bank as a consultant to prepare background materials for the Bank's CSA dissemination workshops in June 2007.

¹³ OP 8.60 states that "Bank staff describe in the Program Document the country's arrangements for consultation and participation relevant to the operation, and the outcomes of the participatory process adopted in formulating the country's development strategy."

¹⁴ FIAS, "A Study into the Impact of Tax Policy and Tax Administration on the Investment Climate—Operational Plan: Issues, Recommendations, Action Plan," April 2007.

taxpayers and the business community, and included a survey on the tax compliance burden. As a result, the Government established a steering committee composed of representatives of corporate taxpayers and the tax administration, which meets on a weekly basis to exchange views and information. Consultations were also held in January and May 2007 with participation from key stakeholders (especially the private sector and including business membership organizations and academics). (See Annex 2B(1) for more detailed information.)

- *Land registration.* The Bank advised the Government to establish an LPTF that would include non-Government representatives to review land policy.¹⁵ The LPTF was established on February 21, 2005, and included representation of private sector and professional associations, Parliament, and the judiciary in addition to officials from relevant government agencies (see Annex 2B(2)(iii) for a membership list). It should be underlined that the involvement of non-Government representatives in such a process is an innovative step in the regional context.

The work of the LPTF was informed by two workshops held in Sana'a, one on February 20-21, 2005, and another on September 18, 2005, both of which were the subject of extensive media coverage. (See Annex 2B(2) for more detailed information.) The workshop recommendations were fully reflected in the design of the component.¹⁶ For example, workshop discussions on the weaknesses of the existing system and on the proposed recommendations served as a platform for the reformulation of the land law into a best practice model. In addition, participants provided invaluable inputs on the creation of a Titling Registration Committee, adapted from the Jordanian system to suit the context in Yemen.

- *Procurement reform.* In view of the nature of this component, the Bank supported the Government's discussions with Parliamentarians (from both majority and opposition parties), through direct contacts and with Yemen Parliamentarians Against Corruption. These consultations, which were held from March to June 2007 (see Annex 2B(3)), provided an opportunity to discuss in detail the principles behind best practice procurement laws and the importance of aligning the law in Yemen with global good practice (see Annex 7A for the text of Yemen's procurement law that pertains to civil society consultations). For example, an April 2007 workshop presentation to the Service and Finance Parliamentary Committees was facilitated by external consultants (Booz Allen Hamilton, financed by USAID) in the presence of the media.

¹⁵ According to the aide-memoire for the Workshop on Urban Land Policy and Administration in Yemen, held on February 20-21, 2005 (at which the decision to establish the LPTF was announced), "the mandate and objectives of the LPTF are to: (i) constitute the governmental body of experts in the land sector; (ii) establish consensus...among government agencies and key private and civil society stakeholders on the priority issues and challenges of urban land administration and State land management in Yemen; (iii) provide through a consultative process the official position of the Government of Yemen on recommendations and key areas of improvement of land policy and administration; and (iv) validate and endorse the Urban Land Policy Note."

¹⁶ The recommendations are available in the Urban Land Policy and Administration Policy Note (Report No. 32558-YE).

- *Extractive Industries Transparency Initiative.* The design of the initiative is an international endeavor in which civil society has been very active. Yemen's decision to join EITI was discussed during preparation of the DPPR and MGGM. This component of the IRDPG was explicitly designed to incorporate civil society participation in the process of achieving transparency with regard to revenues from oil and natural gas. One of the five EITI Criteria, to which Government declared adherence as a first tranche trigger, is "civil society is actively engaged as a participant in the design, monitoring and evaluation of this process, and contributes towards public debate." (See Annex 7B.) The design of the component was informed by consultations with the Ministry of Oil and Minerals, the Supreme National Authority for Combating Corruption (SNACC), and civil society on August 19, 2007. (See Annex 2B(4) for more detailed information.)
- *Civil Service.* The key reforms underpinning this component were voted into law by Parliament prior to IRDPG preparation (2002 law establishing the Civil Service Fund, 2005 Wage Law, 2006 Card Law authorizing biometric identification of civil servants). These laws were the subject of energetic public debates in Parliament, with substantive involvement of stakeholders prior to their approval. The Bank encouraged the Government to engage in a participatory process during the drafting of these laws and reviewed the minutes of the corresponding consultations.

49. *Management would also like to note that measures supported under the IRDPG derive from laws debated in Parliament.* They are subject to examination and amendment by elected representatives of the people. Experience has shown that Parliamentary debate in Yemen can be vigorous.

50. *Furthermore, Management notes that, also in line with good practice, substantive consultations have continued subsequent to approval of the IRDPG* to facilitate the effective implementation of each component of this operation. Examples include weekly meetings with taxpayer representatives to monitor the application and impact of corporate income tax reforms, engagement of civil society in the formation of the HATC as per the new procurement law, and collaboration with Publish What You Pay (an NGO associated with the Open Society Institute and Soros Foundations Network) to organize a forum for civil society involvement and training in the context of EITI implementation.

(iv) Other relevant consultations

51. *Other participatory processes related to the substance of the Request in which the Bank has been engaged* include:

- *The preparation of the 2006 CAS, which reflected in its results framework the full list of triggers for the tranches of the IRDPG.* The 2006 CAS was designed through an extensive consultation process, including substantive interactions with civil society organizations in both Aden (November 19, 2005) and Sana'a (November 22, 2005). (See Annex 2C(1)(i) for details.) Follow-up consultations

were held in Sana'a on March 7, 2006, with members of the newly appointed Cabinet to discuss and validate the selection of strategic priorities under the CAS (see Annex 2C(1)(ii) for details). The 2006 CAS has been available in Arabic since May 2007. The 2009 CAS was prepared through a similar consultative process (see paragraph 70).¹⁷

- *The preparation and dissemination of the ICA, the DPR, the CSA, and the PA in 2007.* These documents provided the underpinnings for the IRDPG and were the subject of extensive dissemination and discussion—on June 28, 2006 in Sana'a for the ICA; in Sana'a (June 23, 2007), Aden (June 25, 2007), and Taiz (June 27, 2007) for the DPR/CSA; in Seiyun (December 9, 2007), Al-Beidah (December 11, 2007), Aden (December 12, 2007), Amran (December 13, 2007), Hodeida (December 15, 2007), and Sana'a (December 16, 2007) for the PA. (See Map 1 and Annex 2C(2-4) for more details.)
- *Work on Governance and Anti-Corruption,* which was mentioned by the Requesters as an area in which they would like to see stronger Bank engagement. The Bank held formal consultations with stakeholders, including civil society, on January 14-15, 2007, in Sana'a (with more than 35 representatives from Parliament, civil society, academia, and professional associations participating, including the Yemen Observatory for Human Rights). (See Annex 2C(5) for more details.) Implementation of this agenda is now supported by a group of donors, with substantial involvement of the Bank (through technical assistance and Trust Funds) in close partnership with stakeholders.

52. *Management would like to take this opportunity to reiterate its commitment to pursuing and further strengthening relevant participatory processes in support of the reform effort in Yemen.*

DISCLOSURE OF IRDPG DOCUMENTATION

(i) Disclosure of the Program Information Document

53. *Management regrets to report that the PID was mistakenly not disclosed in the InfoShop in a timely manner.* The PID should have been disclosed by March 7, 2007 (when the first formal review of the proposed operation was held by Bank management) and when there were updates. After the Bank was alerted to the mistake made in this regard, the PID was disclosed in the InfoShop on December 12, 2007 (as described below). In addition, an Arabic translation of the PID had been made available during the IRDPG appraisal mission on March 26-27, 2007, in Sana'a (see Annex 8).

54. *Management has looked into the circumstances surrounding the late disclosure of the PID in the InfoShop.* First, the Concept-level PID was inadvertently not transmitted to the InfoShop because of an oversight during the very short period between the Concept Note Review on March 7, 2007, and the Decision Meeting on March 19,

¹⁷ The CAS will be disclosed following the Board discussion, scheduled for May 28, 2009. It will be translated and made available in Arabic as soon as possible.

2007. Second, following the Decision Meeting, the Decision Meeting-level PID was inadvertently not transmitted to the InfoShop because of a misunderstanding between staff in Washington and Cairo as to who was to post it. The Bank team learned of this mistake on December 7, 2008 (after Board approval) through a communication from the Washington-based NGO, Bank Information Center (BIC). The team responded immediately and the PID was posted within three working days of this notification, on December 12, 2007.

55. *Looking forward, Management will review and enhance its system for monitoring effective compliance with the formal disclosure requirements for PIDs, Project Appraisal Documents (PADs), and PDs to the InfoShop.*

(ii) Disclosure of the PD

56. *Disclosure of the PD complied with the requirements of applicable Bank policies.* The Board approved the IRDPG on December 6, 2007. The PD was disclosed on the Bank's external website on December 11, 2007 (i.e., within three working days, which is a standard turnaround time). Hard copies of the PD were available for examination in Sana'a, including in the Bank's Public Information Center (50 copies of the PD were sent to Sana'a in November 2007).

(iii) Disclosure of a translated PD

57. *Management is committed to facilitating access by the public to information disclosed by the Bank.* In this context, Management is sensitive to the need for Arabic translations of documents relevant to the MNA Region, even when such translations are not required under the Disclosure Policy (as in the case of Program Documents).¹⁸ However, Management notes that Bank capacity to conduct or review (outsourced) translation into Arabic remains limited. Management is making efforts to expand the technical linguistic capacity and expertise needed for sound translation of Bank documents into Arabic.

58. *Management has initiated translation of the PD for the IRDPG and will provide the translated version of the PD to the Requesters and other interested stakeholders within three weeks.* Although the Requesters suggest that a translation of the PD existed at the time of their January 2008 letters to the Bank, Management is not aware that the PD has been translated. The Government may have translated part or all of the PD, but the Bank has no information about such a translation or any other translation of the PD.¹⁹

¹⁸ The Disclosure Policy does not require translation of Program Documents. The 2003 Translation Framework (which is not a Bank policy) recommends prioritizing translation into Arabic and other languages of "core documents" (documents and publications that address the institution's overall business and strategic thinking that are destined for a wide international audience, such as institutional annual reports, operational policies, procedures, guidelines, and issues and strategy papers). It indicates that "for country- and project-specific documents, consideration could be given to translating them into the national language of the country."

¹⁹ Background documentation for the March 2007 consultations (referred to in paragraphs 43 and 53) existed in Arabic.

59. ***Looking forward, Management will conduct a review of its translation practices in the MNA Region for PIDs, PADs, and PDs***, with a view to expanding gradually the number of translated documents, in view of the constraints on translation capacity, and within the broader context of ongoing consultations on proposed revisions to the Bank's revised disclosure policy. Management is committed to conducting this review through a consultative process including civil society.

SOCIAL IMPACT OF MEASURES SUPPORTED UNDER THE IRDPG

60. ***In Management's view, actions supported under the IRDPG should have overall positive impacts*** (see paragraph 63). Paragraph 10 of OP 8.60 states that, "The Bank determines whether specific country policies supported by the operation are likely to have significant poverty and social consequences, especially on poor people and vulnerable groups."²⁰ The poverty and social impacts of the Government's broader development program fall beyond the scope of this policy. The PD for the IRDPG incorporated an analysis of the poverty and social impacts expected from implementation of the program, consistent with the provisions of OP 8.60. This analysis did not indicate that implementation of the IRDPG would result in an increase in the poverty rate, which the Requesters appear to suggest. The analysis also did not suggest that the measures supported under the IRDPG would have a noticeable inflationary impact. In fact, the macroeconomic section of the PD advocates fiscal policies that should moderate inflationary pressures, and international experience suggests that the reduction of inflation has a powerful pro-poor impact.

61. ***Based on the information available in the Request, it is difficult for Management to evaluate to what extent or how the rights and interests of the Requesters may have been affected.*** The Requesters state that: (i) "they have incurred and will probably continue to incur damages" in relation to the IRDPG; and (ii) the program supported under the IRDPG "will lead to soaring prices and the increased suffering of the poor in the Yemeni society." The Requesters do not make reference to material adverse effects as a result of the specific policy actions that are first or second tranche release triggers for the IRDPG. The Request also suggests that the complaint is made on behalf of the public at large.

62. ***The following bullets provide an analysis of the expected social and poverty impact of the measures supported under the IRDPG:***

- ***Corporate income tax reform.*** By reducing exemptions and other loopholes, the proposed corporate income tax reform is expected to broaden the tax base and improve collections. This will help generate the revenues needed to sustain public expenditures, including those that are key to alleviating poverty. Corporate

²⁰ The paragraph goes on to say that for country policies with likely significant effects, the Bank summarizes in the PD relevant analytic knowledge of these effects and the borrower's systems for reducing adverse effects and enhancing positive effects associated with the specific policies being supported. If there are significant gaps in the analysis or shortcomings in the borrower's systems, the Bank describes in the PD how such gaps or shortcomings would be addressed before or during program implementation, as appropriate.

income tax reform is also expected to improve the business environment, thereby leading to greater job creation (including for the poor). The proposed corporate income tax reform is also expected to reduce the effective tax rate.²¹ Management confirms that the team will continue its weekly consultations with taxpayer representatives in an effort to monitor the application and the impact of the reform and encourage the Government to take corrective action if necessary.

- *Land registration.* As discussed in the PD, the Bank is paying particular attention to mitigating the risks associated with land registration reform. Management notes that, with the safeguards included under the IRDPG, the reformed land registration process is expected to have a positive social impact, by reducing land conflict and strengthening property rights. The key safeguards that are built into the IRDPG, as a reflection of concerns raised in consultations during preparation of this operation, include detailed procedures that facilitate inclusiveness in the land registration process, reduced land registration fees, and independent appointment of judges heading the registration committee.²²
- *Procurement reform.* The procurement law supported under the IRDPG aims to strengthen transparency and competition. Experience in other countries indicates that this reduces the incidence of corruption and helps to lower prices for publicly procured works, goods, and services.
- *Extractive Industries Transparency Initiative.* Implementation of EITI will strengthen transparency in the flow of oil revenues to the Government. As in the case of procurement reform, experience in other countries suggests that this is unlikely to result in social costs, and on the contrary may result in increased fiscal revenues that can be used to improve public spending on services that benefit poor people in Yemen.
- *Civil service reform.* The IRDPG supports reform in three areas:
 - *Identification and elimination of ghost workers and double dippers from the public payroll.* This is expected to free up fiscal resources that may be used for poverty alleviation purposes and thus have a positive social impact;
 - *Continued enforcement of the wage law.* This law, which was voted two years before IRDPG preparation, allowed for a significant increase in the base salaries of civil servants, enabling many to escape near-poverty conditions; and

²¹ The Requesters suggest that prior consultation with civil society would have allowed for the consideration of “fair tax policies” whereby those with “higher incomes would bear a bigger portion of the reform costs.” As indicated in the PD, “many of the key beneficiaries of the existing system’s exceptions are influential and/or well-financed investors” and “lowering rates and reducing exceptions could prove beneficial to groups which may include many lower income participants.” Management believes that the IRDPG does indeed support such “fair tax policies.”

²² To ensure continued support for efforts to reform land registration, the IDA-supported Taiz Municipal Development and Flood Protection Project’s first Additional Financing (currently under implementation) provides significant technical assistance to the Government on land sector issues, including a consultancy study (currently expected to be launched by mid-2009) to formulate proposed draft land registration executive regulations and a manual of procedures for operations.

- *Effective functioning of the Civil Service Fund.* Management notes that the Civil Service Fund provides those retrenched workers opting for a pension with 90 percent of their last salary for the rest of their lives and those opting for a severance package with seven years of salary on average.²³ Management also notes that the Civil Service Fund has been actively tracking the situation and circumstances of the 676 former employees who opted for a severance package. This follow-up is conducted through periodic interviews of a sample group of about 60. Most of these individuals have begun a private activity (taxi driving is reported as the leading activity) and many have also invested in land or built a home.

COMMUNICATIONS WITH THE REQUESTERS

63. *Management notes the following communications reported by the Requesters:*

- Letter from the Requesters to the Country Manager, dated January 16, 2008;
- Reply by the Country Manager dated January 20, 2008; and
- Follow-up letter from the Requesters, dated January 30, 2008.

64. *Management wishes to clarify points concerning the content of the Bank's January 20, 2008, letter.* The Arabic version of the Bank's reply is appropriately courteous; Management regrets that the English version contains somewhat less courteous language. The Country Manager indicated correctly that it was not possible to translate the PD at that time. The Yemen Country Office relies on the Bank's General Services Department Arabic translation hub (GSOT1), based in Cairo, for translation of large documents; the Country Manager had learned from past experience that the capacity of this office to provide translations is limited compared to the needs. He believed that it would be unrealistic on his part to promise to the Requesters an Arabic version that could not be delivered in a reasonable time frame.

65. *Management regrets that the concerns raised by the Requesters in their January 30, 2008, letter were not addressed.* To date, the Country Office has not been able to find notice of this letter in its correspondence logs. Management acknowledges that Country Offices are expected to answer all such letters that are received on a timely basis.

66. *Management wishes to make note of additional interactions between the Bank and the Requesters after January 30, 2008,* which are not referred to in the Request:

- *One of the Requesters had a meeting with Bank staff on the IRDPG on April 15, 2008.* The meeting was requested through BIC. Participants included the Task Team Leader, two other Bank staff, one of the Requesters (Dr. Yahya Saleh

²³ The PD notes that "on average, public employees who have been terminated through the Civil Service Fund appear to have lost 13 to 15 percent of their purchasing power," taking into account lost wages as well as allowances. This average reflects the very large proportion (96 percent) of public employees who have opted for the retirement option rather than for the severance package.

Mohsen)²⁴ and two BIC staff plus a translator. During this one-and-a-half-hour meeting, Bank staff listened to Dr. Mohsen’s concerns. Notes taken by Bank staff indicate that: (i) the Requester expressed general concerns about inflation, the poverty rate, a water privatization project, the general sales tax, and potential social costs of project components; (ii) the Requester encouraged the Bank to strengthen its anti-corruption work, expressing the view that influential double dippers and ghost workers were not eliminated from the payroll, and was critical of the independence of the EITI Council, SNACC, HATC, and High Tender Board. The Bank team left the meeting believing that this had been a productive exchange, even if both parties “agreed to disagree” on several specific issues. Neither Dr. Mohsen nor BIC requested subsequent meetings with the team.

- *The Bank Senior Communications Officer in Sana'a visited the Yemen Observatory for Human Rights as part of a routine outreach effort on May 3, 2008. This Bank officer met with key staff of the Yemen Observatory for Human Rights and, to the best of her recollection, characterized the discussion as an exchange of information on Bank activities and on Observatory activities and indicated that neither the IRDPG nor the unanswered letter was raised during this discussion.*
- *Subsequent to May 2008, the Bank has had regular contacts with the Yemen Observatory for Human Rights, in the form of: (i) a visit to the Bank Country Office by executives from the Observatory to seek information on gender issues, which was provided; (ii) participation in the consultations for the new CAS (held on March 11, 2009, in Sana'a and March 15, 2009, in Aden; see Annex 2D for details); and (iii) informal and social interactions in various fora where both the Bank and the Observatory have been represented.*

67. *Looking forward, Management intends to invite the Requesters to meet with Bank representatives to express their concerns and discuss their possible engagement in the ongoing participatory process for the implementation of measures supported under the IRDPG.*

V. ACTION PLAN

68. *Management plans to follow up on the issues raised by the Requesters. The specific steps are outlined in the table below.*

PROPOSED ACTIONS	TIMELINE
Partnership with stakeholders	
1. Pursue and further strengthen relevant participation processes in support of reforms in Yemen.	Underway; continuous

²⁴ Dr. Mohsen was visiting Washington to take part in Bank-organized training.

PROPOSED ACTIONS	TIMELINE
Disclosure of IRDPG documentation	
2. Provide translation of the PD to the Requesters and other interested stakeholders when completed (three weeks needed).	June 2009
3. Review and enhance the system to monitor effective compliance with the disclosure policy of PIDs, PADs, and PDs within the MNA Region.	October-December 2009
4. Review translation practices in MNA Region for PIDs, PADs, and PDs, with a view to gradually expanding the number of translated documents in a realistic manner.	October-December 2009
Social impact of the reforms supported under the IRDPG	
5. Continue to monitor the risks associated with the IRDPG, in consultation with stakeholders.	Underway; continuous
Communications with the Requesters	
6. Invite the Requesters to meet in May or early June at their convenience with Bank representative to inform them about plans for the translation and again, once the translation is ready, to discuss their concerns and possible ways to strengthen partnerships.	May 2009 and after translation available

69. *Management believes that the Bank has made every effort to apply its policies and procedures in the preparation of the IRDPG, including with regard to consultations with stakeholders.* Management regrets two oversights in document preparation that were reported in the Management response, i.e., the absence of a description of the IRDPG consultation process in the PD and the late disclosure of the PD in the InfoShop. Management believes that the Requesters' rights or interests have not been, nor will they be, directly and adversely affected by a failure of the Bank to implement its policies and procedures.

ANNEX 1
CLAIMS AND RESPONSES

No.	Claim/Issue	Response
World Bank Policy on Disclosure		
1.	We, the Yemen Observatory for Human Rights, a key civil society organization in the Republic of Yemen, have incurred and will probably continue to incur damages as a result of the information blackout policy practiced by the World Bank Office in Yemen and its refusal to disclose information related to the "Institutional Reform Project in Yemen" mutually signed by representatives of the World Bank Board of Directors and the Yemeni Government on December 6, 2007.	<p><i>In Management's view, actions supported under the IRDPG should have overall positive impacts.</i></p> <p><i>Based on the information available in the Request, it is difficult for Management to evaluate to what extent or how the rights and interests of the Requesters may have been affected.</i> The Requesters do not make reference to material adverse effects as a result of the specific policy actions that are first or second tranche release triggers for the IRDPG. The Request also suggests that the complaint is made on behalf of the public at large.</p>
2.	[E]ven after its signature by both the Government and the World Bank, the Project remained opaque to the public. Following pressures and several requests by the civil society and help from the Bank Information Center (BIC) in Washington, only the English version of the Project was disclosed.	<p><i>Disclosure of the PD complied with the requirements of applicable Bank policies.</i> The Board approved the IRDPG on December 6, 2007. The PD was disclosed on the Bank's external website on December 11, 2007 (i.e., within three working days, which is a standard turnaround time).</p>
3.	However, the Bank office in Sana'a refused to give us a translated copy into Arabic or to cooperate with civil society to get it translated.	<p><i>Management is committed to facilitating access by the public to information disclosed by the Bank.</i> In this context, Management is sensitive to the need for Arabic translations of documents relevant to the MNA Region, even when such translations are not required under the Disclosure Policy (as in the case of Program Documents). However, Management notes that Bank capacity to carry out or review (outsourced) translation into Arabic remains limited. Management is making efforts to expand the technical linguistic capacity and expertise needed for sound translation of Bank documents into Arabic.</p> <p><i>Management has initiated translation of the PD for the IRDPG and will provide the translated version of the PD to the Requesters and other interested stakeholders within three weeks.</i></p>
4.	We believe that the World Bank and its Sana'a Office have violated the principle of partnership which the World Bank adopts and calls for its promotion with civil society. There is also a violation to the principle of transparency and disclosure of information. In addition, the lack of translations is in contrary to the principle of information sharing emphasized by Mr. James	<p><i>Management agrees with the Requesters on the importance of partnership with stakeholders</i> as a substantial factor to achieve sustainable development and to improve transparency and accountability in development as well as to promote public support for efforts designed to improve people's lives in developing countries. Management notes that the applicable Bank policy (OP 8.60, paragraph 6) requires the Bank to "advise borrowing countries to consult with and engage the participation of key stakeholders."¹</p>

¹ This policy is complemented by a Good Practice Note on Supporting Participation in Development Policy Operations, issued in October 2004. The Note underlines the importance of participation and the centrality of

No.	Claim/Issue	Response
	<p>Wolfensohn, the former President of the World Bank, in his introduction to the policy of disclosure dated June 2002 where he stressed the significance of information sharing as a substantial factor to achieve sustainable development and to improve transparency and accountability in development! He also stressed the significance of information sharing for promoting public support to efforts designed to improve people's lives in developing countries.</p>	<p>Management is satisfied that the requirements under OP 8.60 were met. The IRDPG consultation process encompassed four sets of activities: (i) Bank support to consultations by the Government on the design of the overall policy agenda supported under the IRDPG, as required under OP 8.60; as well as (ii) consultations held in the context of IRDPG preparation; (iii) earlier sectoral consultations that provided the analytical underpinnings for each component of the IRDPG; and (iv) consultations on related activities.</p> <p>Management also wishes to note that at least one member of the Advisory Committee of the Yemen Observatory for Human Rights was invited to the consultations held during preparation of the IRDPG on March 26, 2007.</p>
5.	<p>We submitted several complaints and requests to the management of the World Bank office in Sana'a, initially through telephone communications followed by the attached written correspondence as shown below:</p> <p>On 16 January 2008, 11 Yemeni organizations submitted a request to the Bank office in Sana'a to obtain a complete copy of the institutional Reform Project and its translation,</p> <p>On 20th January 2008, we received a reply from the country manager in Yemen apologizing for not being able to provide the translation on grounds of being very busy with other issues, We considered that reply unsatisfactory because their excuse was not convincing as we knew for a certainty that they had a translated copy, since we are almost positive that few Government officials are familiar with the English language. Further, we believe that the Bank Office's refusal to deal with us falls under one explanation, i.e. it is in line with Government in its policy of information blackout and isolation imposed on civil society in Yemen.</p>	<p>Management wishes to clarify points concerning the content of the Bank's January 20, 2008, letter. The Arabic version of the Bank's reply is appropriately courteous; Management regrets that the English version contains somewhat less courteous language. The Country Manager indicated correctly that it was not possible to translate the PD at that time. The Yemen Country Office relies on the GSD Arabic translation hub (GSDT1), based in Cairo, for translation of large documents; the Country Manager had learned from past experience that the capacity of this office to provide translations is limited compared to the needs. He believed that it would be unrealistic on his part to promise to the Requesters an Arabic version that could not be delivered in a reasonable time frame.</p> <p>Although the Requesters suggest that a translation of the PD existed at the time of their January 2008 letters to the Bank, Management is not aware that the PD has been translated. The Government may have translated part or all of the PD, but the Bank has no information about such a translation or any other translation of the PD.</p>
6.	<p>On 30 January 2008, 25 Yemeni organizations again addressed the Bank country manager in Yemen to confirm their previous request for a complete copy of the Project in Arabic. However, that time, we receive no response to our request and all</p>	<p>Management regrets that the concerns raised by the Requesters in their January 30, 2008, letter were not addressed. To date, the Country Office has not been able to find notice of this letter in its correspondence logs. Management acknowledges that Country Offices are</p>

country ownership of the consultation process. The Note defines stakeholders as the Government, Parliament, business sector representatives, citizens, and civil society organizations (including NGOs, research centers, professional associations, etc.).

No.	Claim/Issue	Response
	our communications and letters were ignored.	<p>expected to answer all such letters.</p> <p>Management wishes to make note of additional interactions between the Bank and the Requesters after January 30, 2008, which are not referred to in the Request:</p> <ul style="list-style-type: none"> • One of the Requesters had a meeting with Bank staff on the IRDPG on April 15, 2008. During this meeting, Bank staff listened to his concerns. The Bank team left the meeting believing that this had been a productive exchange, even if both parties “agreed to disagree” on several specific issues. Neither the Requester nor BIC requested subsequent meetings with the team. • The Bank Senior Communications Officer in Sana’a visited the Yemen Observatory for Human Rights as part of a routine outreach effort on May 3, 2008. Neither the IRDPG nor the unanswered letter was raised during this discussion. • Subsequent to May 2008, the Bank has had regular contacts with the Yemen Observatory for Human Rights.
Development Policy Lending (OP/BP 8.60)		
7.	According to the World Bank, the implementation of the Institutional Reform Project in Yemen will lead to soaring prices and the increased suffering of the poor in the Yemeni society. Poverty rate, currently running around 45% will increase by 9.2% up to a total of 54.2%, and this being the real rate of poverty in Yemen and not the false information generally published by official authorities in Yemen. The Project also includes a reduction in wages by 1.6% of the GOP. We question these reforms, if they result in an increase in poverty and unemployment.	<p>The PD for the IRDPG incorporated an analysis of the poverty and social impacts expected from implementation of the program, consistent with the provisions of OP 8.60. This analysis did not indicate that implementation of the IRDPG would result in an increase in the poverty rate, which the Requesters appear to suggest. The analysis also did not suggest that the measures supported under the IRDPG would have a noticeable inflationary impact. In fact, the macroeconomic section of the PD advocates fiscal policies that should moderate inflationary pressures, and international experience suggests that the reduction of inflation has a powerful pro-poor impact.</p>
8.	The social cost of such reforms will be very exorbitant. Had the Project contents been disclosed before, the civil society would have been able to contribute by providing recommendations in relation to the adoption of fair tax policies whereby the society segments with higher incomes would bear a bigger portion of the reform costs.	<p>Paragraph 10 of OP 8.60 refers to the need for consideration of poverty and social impacts for “specific country policies supported by the operation.” The poverty and social impacts of the Government’s broader development program fall beyond the scope of this policy.</p> <p>Management has reviewed the expected social and poverty impact of the measures supported under the IRDPG:</p> <ul style="list-style-type: none"> • Corporate income tax reform. By reducing exemptions and other loopholes, the proposed corporate income tax reform aims to broaden the tax base and improve collections. This will help generate the revenues needed to sustain public expenditures, including those that are

No.	Claim/Issue	Response
		<p>key to alleviating poverty, and the effective tax rate is expected to be reduced.</p> <ul style="list-style-type: none"> • Land registration. As discussed in the PD, the Bank is paying particular attention to mitigating the risks associated with land registration reform. Management notes that, with the safeguards included under the IRDPG, the reformed land registration process is expected to have a positive social impact by reducing land conflict and strengthening property rights. • Procurement reform. The procurement law supported under the IRDPG aims to strengthen transparency and competition. Experience in other countries indicates that this reduces the incidence of corruption and helps to lower prices for publicly procured works, goods, and services. • Extractive Industries Transparency Initiative. EITI implementation will strengthen transparency in the flow of oil revenues to the Government. Experience in other countries suggests that this is unlikely to result in social costs, and on the contrary may result in increased fiscal revenues that can be used to improve living standards in Yemen. • Civil service reform. The IRDPG supports reform in three areas: (i) identification and elimination of ghost workers and double dippers from the public payroll; (ii) continued enforcement of the wage law; and (iii) effective functioning of the Civil Service Fund. These measures are expected to have an overall positive social impact.
9.	<p>Further, other options could have been proposed to provide resources through anti-corruption measures and the adoption of quality policies to address poverty and unemployment, etc.</p>	<p>Other participatory processes related to the substance of the Request in which the Bank has been engaged include:</p> <ul style="list-style-type: none"> • The preparation of the 2006 CAS, which reflected in its results framework the full list of triggers for the tranches of the IRDPG. • The preparation and dissemination of the ICA, the DPR/CSA, and the PA in 2007. • Work on Governance and Anti-Corruption in 2007 and 2008.