

**Yemen**  
**Inspection Panel Case**  
**Responses to Questions from the Requesters and the Inspection Panel**  
**September 2010**

- **The Requesters would like to know whether or not the Bank acted on remarks submitted by civil society organizations (the Requesters indicate that they “cannot be sure or absolutely certain that observations and views expressed by civil society during consultations are translated into reality and actually adopted by the Bank or are merely a formality”):**

Stakeholder consultations, when properly organized, have improved the quality of policy-making and project design, positively influenced the direction of country programs, strengthened national ownership of key reforms, and contributed to the promotion of public-sector transparency and accountability. The Bank therefore encourages borrowers to consult with wider civil society and to involve them, as appropriate, in Bank-sponsored activities, including economic and sector work and all stages of project processing, implementation, and monitoring and evaluation. In this regard, the Country Director for Djibouti, Egypt and Yemen sent a letter on December 15, 2009, advising Government to consult with stakeholders on several key thematic areas and Bank-supported activities (these include Climate Change, Anti-Corruption and Strengthening of the Social Welfare Fund) and offering help to do so. In this regard, two missions visited Yemen (November 3-5, 2009, and December 12-15, 2009) to reiterate these messages and to concretely support the Bank's advice for Government-led consultations on operations that the Bank supports. In May 2010, the Region took stock of the impact of this advice in an assessment note that was shared with Government in June 2010.

Consultations with civil society and beneficiaries in Yemen informed the design of projects such as the Integrated Urban Development Project and the Second Port Cities Development Project. The World Bank office in Sana'a organized a consultation meeting on January 18, 2009, with Civil Society Organization representatives to discuss and share comments on the Higher Education and Quality Improving Project (HEQIP), a new World Bank project.

With respect to IRDPG, the Bank has reminded the Government on each supervision mission of its obligation to consult civil society on the IRDPG. It has done this both through direct discussions and through its aide memoires. The aide memoires briefly characterized the subject of discussions with civil society from each supervision mission.

Specific issues raised in the Bank's consultations with civil society have been raised with Government counterparts and the outcome of some of these conversations was brought back to subsequent consultations. One example is an early claim that hundreds of thousands of Yemenis would be displaced by the land registration law. This was discussed with GALSUP and the Deputy Chairman assured the Bank that the Government's policy was to not displace any of these citizens from their land. Another example related to the EITI process where civil society was frustrated with the lack of

progress and perceived backtracking on agreements reached in the EITI Council. The Bank raised these concerns and frustrations repeatedly with counterparts. However, many of the concerns were related to actions not yet taken by Government, including the potential impact of legislation that was still pending. Some of the concerns related to the slow implementation of certain measures and these concerns coincided with Bank concerns. The Bank has communicated clearly to Government the urgency of reform progress, including through special visits by its Vice President, Country Director, Sector Director and other senior managers.

- **With respect to Para. 14 of the Management’s Progress Report, which indicates that *“other training sessions aimed at strengthening the capacity of CSOs in Yemen to effectively participate in consultations on economic reforms and Bank activities were also developed by task teams in the context of their respective projects,”* the Requesters assert that such courses have not been offered yet.**

Although not systematically called *“training sessions,”* a number of events, aimed at strengthening the capacity of CSOs to effectively participate in consultations on economic reforms and Bank activities, were developed and offered to relevant CSOs in the context of the Yemen IRDPG (e.g., December 16, 2009, and January 31, 2010, training sessions on M&E), in which the Requesters participated. World Bank experts were mobilized to participate in these sessions and detailed materials were distributed in Arabic translation. The IRDPG team hopes to organize a further training event later this year on two participatory monitoring techniques discussed in these sessions -- Citizen Report Cards and Community Scorecards.

Within the context of the IRDPG, as was mentioned in the Management’s Progress Report, three training sessions were organized. The first was on raising the level of transparency in the management of extractive industries revenues (oil, gas and minerals) (Oct. 19-29, 2009); the second was to give an overview of the EITI process in Yemen, global implementation status and key next steps for the EITI (February 15, 2010, - half-day); and the third was on EITI best practices from around the world (i.e. Mauritania and Kazakhstan) (on April 5-6, 2010).

In addition, a meeting with CSOs on June 29, 2010, at the Bank’s premises in Sana’a, explained the status of IRDPG supported reforms, led to a discussion of the reform program likely to be supported by the new DPG, and CSO policy preferences as well as information on and an exchange of general policy issues, including the Friends of Yemen process, which was highly appreciated by the CSO representatives present.

- **The Requesters look forward to continue to work with the Bank on the next DPL or any other opportunity:**

In line with the World Bank’s Operational Policy OP 8.60 for Development Policy Operations, Para. 6, the Bank does not conduct direct consultations on specific Government programs, but instead: (i) advises borrowing countries to consult with and engage the participation of key stakeholders in the country in the process of formulating

the country's development strategies, as part of its country dialogue, (ii) staff describe in the Program Document the country's arrangements for consultations and participation relevant to the operation, and the outcomes of the participatory process adopted in formulating the country's development strategy, and (iii) the Bank makes available to the public relevant analytic work it has conducted, particularly on poverty and social impacts and on environmental aspects, in line with the Bank's disclosure policy. In following this Bank policy, the Bank met with MoPIC on May 12, 2010, as part of the DPG identification mission and advised Government to consult on its reform program. This advice was reiterated in a letter that the Bank sent to MoPIC on July 1, 2010. During a DPG preparation mission (August 1-8, 2010), the Bank collected and documented information on Government-led consultations relevant to the DPG, which the Bank is in the process of summarizing in the Program Document currently being prepared.

- **The Requesters would like to get more information about the upcoming donor meeting(s) and Friends of Yemen event(s), and hope that the Bank will help - to the extent possible - in disclosing the contents of agreements of such meetings:**

The next Friends of Yemen meeting is expected to be co-hosted by the Government of Yemen and the Government of the United Kingdom, and to take place in New York on the sidelines of the United Nations General Assembly on September 24, 2010. The Requesters may wish to contact their authorities for further information on the event, as this is not an event organized by the World Bank.

- **In addition to the above questions which were raised by the Requesters, in response to the Management's Progress Report, the Inspection Panel raised the following question during its meeting with the Bank management and staff on August 2, 2010. The Panel asked about the impact of reforms in the context of IRDPG and the mitigating responses, with reference to Para. 10 of the Management's Progress Report:**

The IRDPG Program Document (PD) refers to a "*potential negative impact of land registration for the poor and powerless,*" particularly regarding "*large-scale, systematic land-titling initiatives that have sometimes dispossessed the poor of land to which they held traditional tenure or on which they were squatting. The IRDPG does not envision or support such a program and the team is not aware of any Government plans to implement one.*" In the Letter of Development Policy (LDP), the Government stated that it intends to take measures to mitigate the impact of the new land titling system on poor people, and women in particular, who might not possess the adequate means and resources to access formal registration (IRDPG PD, p. 33 and p. 35). Since the land registration law had not been approved by Parliament as anticipated, there has been no action on this regard (the approval of the law is not a trigger, but the issuance of executive regulations on the new law is in the policy matrix. The land registration law in theory creates the basis for systematic land registration, and it was (and remains) the intention of the World Bank to mobilize appropriate international expertise to assist Government in the drafting of good practice executive regulations to assure that customary rights and the rights of the poor are safeguarded.

A second social concern raised by the operation concerns the reform of the corporate income tax. In this regard, it must be noted that the reach of the corporate income tax system is not broad, leaving most poor people outside its ambit. On the other hand, many of the key beneficiaries of the existing system's exceptions are influential and/or well-financed investors. In the LDP, Government commits to monitoring the impact of reforms on vulnerable groups, so that any negative impact can be addressed by appropriate safeguards (IRDPG PD, p. 35). The Income Tax law was approved with a threshold for individual taxation that should exclude low income wage earners. However, the provisions of the law are under review now by a World Bank Group team. Once the executive regulations are issued, the Bank intends to remind the Government of its commitment to monitor the impact of reforms on vulnerable groups, and to discuss its plan for doing so.

Finally, the IRDPG identifies the potential risk for distributional impact regarding the public administration reform component, which includes the retrenchment of civil servants. The government intends to mitigate this impact by giving employees two options: a retrenchment package (estimated on average at roughly seven years of salary (i.e. US\$ 11,000 per person) or a pre-retirement package, which provides them their last year's salary in perpetuity (without allowances). 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 as a result of retrenchment/pre-retirement. Those individuals who have opted for the packages seem to be able to maintain an adequate level of income just from the interest that banks will provide on the package. It appears therefore that the overall retrenchment scheme, through generous benefits, substantially mitigates its potential risk to create poverty.

The project requires full budgetary commitment to fund these benefits. In the LDP, Government commits to "*maintain the severance payments at levels that will ensure adequate compensation to retrenched employees and establish a monitoring system to follow up on their economic and social status afterwards*" (IRDPG PD, p. 36). It should be noted that a negligible number of retrenched employees have opted for the retrenchment package, with nearly all opting for the early retirement/pension package. Since this benefit is set at their final level of salary, it should assure comparable compensation. Monitoring did take place during the 2007-8 period covered by the first tranche actions. The Bank continues to remind Government of its commitment to monitoring and follow-up.