

# Republic of Yemen

## Country Programme Evaluation

### Executive Summary

1. **Background.** This is the second IFAD country programme evaluation (CPE) for Yemen since the Fund started its operations in the country in 1979 (the first CPE was conducted in 1992). The evaluation has assessed the results and impact of IFAD-supported activities in the country, and has generated findings and recommendations that will inform the forthcoming results-based country strategic opportunities programme (COSOP), which will be prepared jointly by IFAD and the Government of Yemen in 2013.
2. The results of the IFAD/Government of Yemen partnership over the last 17 years have been overall positive. IFAD has made a significant contribution to agriculture and rural development in Yemen and, as the only agency working exclusively in the country's poor, marginalized areas, it has gained a solid reputation for specialized expertise and country experience. The Fund's investments and its capacity to leverage significant amounts of cofinancing (mainly for the more recent interventions) are of particular importance in such an income-poor, under-assisted country. The operations financed to date have covered some of the most remote areas, where infrastructure and services are limited, access to inputs and markets is uncertain, and institutional capacity is often inadequate.
3. Future IFAD/Government of Yemen cooperation will need to take account of a changing context, with three major challenges now facing the country. First, the country shows many signs of fragility and of lacking effective authority in the face of a wide range of social, security and economic difficulties. Second, severe water scarcity – a traditional challenge in a semi-arid country such as Yemen – is worsening owing to heavy extraction of groundwater resources for agriculture<sup>1</sup> and poor irrigation practices, and vulnerability to climate variability/change is increasing. Third, Yemen needs to diversify its economy beyond the declining oil sector. Yet another challenge relates to the rapidly growing population (expected to double to around 40 million within the next 20 years). All these factors may increase the pressure on already limited government capacity. On the other hand, the Government's key economic and governance reforms (private-sector development, anticorruption, rule of law) have generated a number of important opportunities.
4. The evaluation found that the Fund has been instrumental in promoting participatory development and in supporting social mobilization in rural areas, as evidenced by the increased role of communities as lobbying platforms to secure services from the Government and non-governmental organizations. IFAD has also contributed to expanding beneficiaries' access to social services by supporting the construction of community infrastructure for water and sanitation. It has helped increase agricultural productivity through improved irrigation systems, soil conservation, crop improvements, the diversification of production and the development of small-scale fisheries. Moreover, despite the challenges of a conservative society, IFAD has helped to empower women by providing them with economic opportunities and increasing their participation in community decision-making.
5. On the other hand, the CPE points to a number of shortcomings. IFAD has had only limited success in enhancing poor rural households' access to financial services in a cost-effective and sustainable manner, even though some progress has been made

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<sup>1</sup> Especially for qat cultivation, which has expanded dramatically in the last decade, consuming an estimated of 25 per cent of total water use for agriculture.

in establishing community-based savings and credit groups. Second, despite severe water shortages, relatively few investments have been made in improving surface water management and in strengthening structures to support agricultural development (e.g. cisterns, wadi protection, terrace rehabilitation and traditional spate irrigation). Third, notwithstanding recent improvements, the country portfolio has been affected by weak government performance mainly owing to its limited capacity, which has resulted in management and institutional constraints. Finally, despite the country's large proportion of children and youth (67 per cent of the total population) and high youth unemployment (estimated at 53 per cent), few projects/programmes have focused on youth.

6. Earlier interventions (approved up to 2005) supported integrated area-based rural development on marginal and peripheral areas of the country as the main vehicle for improving rural livelihoods. While, in the main, this approach has been relevant and has produced positive results in the past, it points up a number of shortcomings. First, already limited resources have been spread too thinly across too many subprojects and across a large population. While its geographic targeting has been mostly adequate for targeting the poor, the Fund's interventions have covered wide areas within the governorates, resulting in low per capita allocations and in some cases piecemeal and fragmented subprojects that had only a marginal impact on households. Second, IFAD assistance has been specifically targeted at areas with the highest poverty levels rather than at those with the greatest development and economic potential. Third, earlier IFAD-supported projects/programmes have focused somewhat disproportionately on social welfare rather than on economic development. While empowerment of rural communities is recognized as essential to rural development, by and large it has not been accompanied by the level of support to economic activities that would improve incomes and alleviate rural poverty.
7. In earlier projects/programmes, too often IFAD has not been adequately supported by other donors in the remote rural areas of Yemen, not only because the level of aid invested in the country is low but also because of the limited links between IFAD-funded interventions and those of other donors. As the only visible source of external funding in the remote areas, IFAD interventions raised expectations, created demand and, where communities were encouraged to select according to their own priorities, led to projects/programmes that were too complex in terms of subsector coverage and over-ambitious vis-à-vis the country context, e.g. weak institutional capacity and limited support to the poorest and peripheral areas.
8. The more recent projects/programmes (approved after 2005) move away from the multisector rural development interventions that dominated the earlier IFAD portfolio in Yemen, towards national programme approaches focusing on a single sector and emphasizing the economic orientation of the project/programme. In particular, the design of the two recently approved interventions: the Economic Opportunities Programme (EOP) and the Fisheries Investment Project (FIP) contains important innovations in the way that the Fund will operate in Yemen – thereby introducing a significant shift in emphasis towards partnering with the private sector.
9. In the EOP and FIP, the institutional arrangement for project management through a public-private partnership – the Economic Opportunities Fund (EOF)– is expected to bring private-sector principles and speed to the management of public development funds, and appears to be an adequate alternative for responding to the Government's present weak capacity. The new projects/programmes also take a private-sector approach to implementation inasmuch as they focus on strengthening selected value chains, including inter alia promoting contractual linkages between producer associations and markets. In terms of subsector focus, the selection of high-value agricultural commodities (coffee, honey and horticulture products) and fisheries would also appear to be appropriate owing to their

significant growth and poverty-reduction potential for small-scale farmers, fishers and apiculture processors. Well-functioning, profitable coffee, honey and horticulture value chains might well provide a valid alternative to the small farmers who are currently engaged in cultivating qat.

10. The associated potential risks of this innovative approach – in terms of the relatively complex institutional arrangements of the EOF, for example – must be borne in mind. This is all the more crucial as Yemen heads towards a period of uncertainty and instability that may well have a negative effect on government capacity, slow down economic reform and discourage investor confidence.
11. The performance of the IFAD-supported programme in Yemen has demonstrated incremental gains over the period evaluated, including improvements in the performance of both IFAD and the Government of Yemen. The slow pace of project approval and implementation was a matter of concern for the earlier projects covered by this CPE. Poor fiduciary management combined with weak government capacity, limited interagency coordination and delays in counterpart funding have been recognized as key constraints in Yemen. In the period 2004-2006, three out of four ongoing IFAD interventions were classified as problem projects. However, over the last five years, both the Government and IFAD have responded well to implementation challenges, including improved selection of project managers, more rapid loan disbursements, and, in 2009, the establishment of a comprehensive six-monthly IFAD/Government portfolio review. None of the ongoing projects/programmes is at risk. As projects/programmes came to maturity, and because of the application of the Programme Management Department's new business model, aggregate IFAD loan disbursements increased by 50 per cent between 2008 and 2009.
12. While IFAD's performance was less than optimal in the earlier interventions covered by the CPE, the Fund has improved its country programme management in Yemen over the last five years. The entire portfolio (except one project supervised by the World Bank) is now under direct supervision and receives direct implementation support. The establishment of a country office in Sana'a in 2007, led by a national country programme officer (CPO), has contributed to IFAD's development effectiveness in Yemen both by providing adequate and timely support to supervision and by building up a strong relationship with the Government. Partnership arrangements were also improved in the projects/programmes approved during the second half of the last decade. On the other hand, despite a clearly challenging country context, IFAD has not sufficiently recognized Yemen's level of fragility or adopted a differentiated design approach to respond to conflict circumstances in some parts of the country.
13. IFAD's role as the Government's leading rural development partner (and the confidence it inspires as a result of its expertise and accumulated country experience) makes it well placed to advocate more strongly for rural poverty alleviation issues in the country, including closer cooperation with other donors beyond the various partnerships already established. However, as the CPO's time has been mainly taken up by portfolio supervision issues, the opportunity for IFAD to engage more actively and effectively in policy dialogue has not been fully exploited.

### **Recommendations**

14. The findings and conclusions of the CPE form the basis of the following recommendations that will inform the preparation of the next COSOP on Yemen.
15. **Development approach.** IFAD should continue to support social mobilization in the country's rural areas and strengthen the social and economic institutions of the poor to plan and manage their own development. This successful feature of IFAD's strategy in Yemen is highly appreciated both by the Government and by other partners in the country. However, while this aspect of IFAD's work is essential for

the country's agricultural and rural development, it is not sufficient to sustainably alleviate rural poverty. Therefore the next COSOP will need to emphasize the expected economic orientations of interventions and support the creation of economic opportunities for the rural poor. This is already reflected in the strategic orientation and priorities of the EOP and FIP.

16. The CPE also recommends that more attention be paid to gender and youth as cross-cutting themes of the next country strategy. As women's seriously disadvantaged position remains a key challenge to the country's human development, IFAD should accord priority to promoting gender equity and women's empowerment across its entire Yemen portfolio, particularly with regard to addressing constraints on women's access to capital, land, knowledge and technologies, and strengthening their role in decision making. The Fund should continue to deploy women staff; strengthen project management's commitment to gender issues; ensure adequate levels of funding for gender-specific activities; and place greater emphasis on youth programmes (e.g. vocational training, access to microcredit, and support to microenterprises) as a way of tackling high youth unemployment.
17. **Subsector focus.** The next COSOP for Yemen should concentrate on a more manageable range of subsectors.<sup>2</sup> The CPE recommends that IFAD should continue to back rural finance by exploring two strategies: providing support for newly-created microfinance institutions (MFIs); and promoting the development of savings and credit associations. It also stresses the importance (in view of the erosion of scarce fertile soil and rapid depletion of water resources, aggravated by the effects of climate change) of greater investments in anti-erosion activities and water harvesting in rainfed areas, including terrace rehabilitation, upstream wadi protection and rehabilitation/construction of water reservoirs for livestock consumption, domestic use and complementary irrigation. IFAD should also dedicate further effort to improving the efficiency of irrigation systems in order to boost agricultural productivity and minimize water losses. It should continue to support water users' associations with regard to operation and maintenance. In terms of productive activities, IFAD should maintain its support to developing the value chain for: (i) high-value commodities (e.g. coffee, honey, horticultural products) with the engagement of the private sector; and (ii) fisheries. Both sectors offer significant potential for poverty reduction and economic growth and, in the case of high-value crops, present alternatives to small farmers presently engaged in growing qat. Investments in fisheries should be also supported by sustainable fishery resources management.
18. **Geographic focus.** IFAD should continue to concentrate its activities in places where the incidence of poverty is highest (western and coastal areas), while also taking advantage of potential economic opportunities.<sup>3</sup> This would include rainfed areas, irrigated land devoted to high-value commodities, and the coastal regions. While national-scale programmes would be a move in the right direction, a realistic indication should be given of the number of settlements to be covered by future projects/programmes.
19. **More prominent consideration of country context challenges in future strategy.** The CPE recommends that, in the context of its discussions with the Government on the next COSOP for Yemen, IFAD should run an ongoing assessment of its strategic direction in light of the current unstable political

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<sup>2</sup> The new Rural Employment Programme (REP) (currently being designed, not covered by the CPE) has pre-identified two sectors (textiles and natural stone) but will also maintain a substantial amount of support under an "open window" to allow flexibility in implementation and avoid potential problems of demand constraints and scaling-up restrictions caused by focusing on too narrow a range of subsectors.

<sup>3</sup> The targeting strategy of the new REP is as follows: "...governorates are selected based on the availability of economic sectors with comparative advantages and growth potential, the high incidence of poverty and unemployment, and their relatively high population densities". The EOP concentrates on coffee-producing zones in the western highlands (focusing on 133 settlements) and the FIP on coastal areas (focusing on 12 landing sites).

situation and the wide range of social, economic and security challenges facing the country. This would cover various scenario settings and risk analysis. Consideration should be given inter alia to the adequacy of IFAD's operating model to respond to these challenges. For example, it is essential to mobilize experts in design, supervision and implementation who are experienced in peace-building and tribal affairs and accustomed to working in conflict-stricken areas.

20. Moreover, IFAD should devote greater attention to supervision and implementation support for all ongoing projects/programmes in Yemen, which may require additional budgetary allocations. This recommendation is particularly relevant to the new interventions, which are introducing highly innovative approaches as yet untested in Yemen. The enhanced attention to supervision should involve inter alia the careful monitoring of work programmes, phasing of activities and periodic assessments of progress against key milestones. IFAD should also consider developing a contingency plan in the event of any severe disruption in the country's social, security or economic conditions.<sup>4</sup>
21. **Strengthened partnerships and coordination.** With the aim of achieving greater cohesion of programmes and competencies on the ground, IFAD will need to step up efforts with regard to mobilizing rural development partners and ensuring closer collaboration with other donors in Yemen. The Fund could achieve more by cooperating more closely with other donors active in the country, such as the United Nations Development Programme (UNDP) and bilateral agencies. IFAD should also seek to ensure the presence of complementary programmes in the same locations, including through cofinancing, thereby allowing IFAD to share responsibilities and prevent it from straying too far from its core mandate. This could be achieved by improving IFAD advocacy and ensuring that, at the early stages of project/programme design, it engages in discussion to identify areas of complementarity and possible cofinancing. The last three interventions approved have already led to significant improvements in this regard: close to US\$60 million in cofinancing has been secured from the International Development Association (IDA)/World Bank, Islamic Development Fund, European Union and local financing institutions.
22. **IFAD's role in strengthening government performance.** Despite some recent improvements, the poor overall level of performance of the government as well of underdeveloped rural institutions (needed to leverage policy making and resource allocation in favour of the rural poor) means that IFAD will need to pay particular attention to institutional development. This should include action at the central and governorate levels to strengthen capacity to plan and implement rural development, and training to improve technical capacity. Greater support to, and involvement of, groups of private-sector farmers will be needed in order to obtain better results.
23. **Policy dialogue.** IFAD should take advantage of its privileged position as the Government of Yemen's main development partner in rural poverty alleviation, and play a more prominent role in policy dialogue on key rural development issues. Such dialogue could cover the questions of subsidized diesel fuel for agriculture (often the biggest driver of water depletion, as it effectively lowers extraction costs, thereby removing the incentive for farmers to save water); equity improvement in spate irrigation; and rural finance. Policy dialogue on rural finance might, for example, involve the Government's policy, financial and supervisory framework in supporting the growth and sustainability of fledgling savings and credit associations. IFAD should also continue – by participating in the appropriate United Nations group – to assist the Government in developing a comprehensive long-term vision on qat that would address both supply and demand. The greater

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<sup>4</sup> A business continuity framework is already being developed based on a number of potential future scenarios.

weight carried by IFAD as a result of working more closely with other donors would also contribute to more effective policy dialogue (on qat and other issues).

24. **Country programme management.** The CPE acknowledges IFAD's efforts to strengthen country management, including the active role played by the new country team and the country presence in Sana' headed by a CPO. Notwithstanding the foregoing, the CPE recommends that IFAD consider strengthening its country presence to enable it both to participate more actively in policy dialogue with the Government and to strengthen its partnerships with other donors – two important areas for IFAD activities in Yemen. In addition to the contribution that the CPO makes to strengthening the partnership with the Government, the country programme manager's essential role in policy dialogue will need to be acknowledged and reflected as part of IFAD's specific objectives in the country.