



Mid-Term Review of the EC-Yemen Development Strategy 2007-2013 Preparation of the Multiannual Indicative Programme 2011-2013

CONCEPT NOTE

European Commission (EC) development cooperation with Yemen is based on a strategy paper covering the period 2007-2013.¹ This country strategy has two broad focal sectors:

- (i) Governance including democratisation, human rights and public sector reforms;
- (ii) Poverty reduction and the MDG with a particular focus on private sector support and human capital development.

The Commission is preparing the next Multiannual Indicative Programme, covering 2011-2013. Before doing so, however, the underlying strategy is subject to a mid-term review to assess its continuous relevance and/or the need for readjustment.²

This concept note is designed to stimulate the discussions on EC-Yemen development cooperation priorities with EU Member States, the Government of Yemen (GoY), and relevant stakeholders such as International Financial Institutions, other donors and Civil Society Organisations. It does not prejudge the operations which will be finally retained in the 2011-2013 MIP.

1. MAIN CHALLENGES

Yemen has made advances in civil liberties and democracy that are unique in the region, with a series of elections since 1990, a relatively free press and a steady growth of civil society organisations. Improvements have also been made in a series of social indicators between 1990 and 2005. Nevertheless, Yemen remains among the Least Developed Countries with one of the largest gender gaps in the world. To date, it is unlikely that Yemen will reach the MDGs by 2015.

The **challenges facing Yemen have intensified on all fronts:** political, social, environmental, security and economic. Internal crises – such as the prolonged and still unresolved conflict in the North, re-emerging incidents of political violence in the South, the postponement of the Parliamentary and local council elections, and increased insecurity

¹ A detailed description of the strategy paper and the 2007-2010 Multiannual Indicative Programme (MIP) can be found at: http://ec.europa.eu/external_relations/yemen/index_en.htm.

² This mid-term review exercise concerns only the bilateral Yemen-specific allocation under the Development Cooperation Instrument. It does not cover the allocations under other EU programmes such as the thematic programmes on food security, migration, non-state actors, the Instrument for Stability, or the European Instrument for Democracy and Human Rights.

– represent a high political and financial burden. The country's economic crisis translates into increasingly precarious security conditions, as evidenced by the recent public grievances in the southern governorates. This in turn could lead to delays in the implementation of key reforms. Despite these challenges it is of importance to remain the reform momentum.

A number of new challenges have risen over the past years which should be taken into account: the **2008 food crisis** had a huge impact on the poorer parts of the Yemeni population. The **global financial crisis**, particularly the decrease in oil revenue and remittances, has contributed to unsustainable pressure on public finances, further aggravated by the limited implementation of overdue economic and fiscal reforms. Yemen is, as well, one of the countries most exposed to the **consequences of climate change** which alters rain patterns and risks further aggravating the existing water crisis. Finally, the increase in **piracy activity** in the Gulf of Aden and continuous **migratory pressure** from the Horn of Africa are further factors impacting on the stability of the country.

Despite the GoY's stated intention to take forward reforms, its response to these challenges is hampered by insufficient capacities. Continued political commitment remains essential to take the reform process forward. In addition, a better focus, sequencing and prioritisation on core reforms and appropriate implementing methods would increase the possibilities for the donor community to contribute more effectively to the reform agenda and the development the country. The efficiency and effectiveness of a well functioning state remains, therefore, the overarching challenge that donors should focus on as it has a bearing on all reform-related activities (notion of state-building).

2. LESSONS LEARNT AND AID EFFECTIVENESS

Past experience shows that there are insufficient capacities to drive a reform agenda and steer programmes. The need to move forward with a comprehensive civil service reform and the budgetary constraints remain a considerable challenge to Yemen's absorption capacity and to ensuring the long term sustainability of EC aid.

Most donors still follow a traditional "project approach" implemented through project implementation units. There is, hence, considerable scope for donors and the GoY to improve aid effectiveness: on the basis of clear governmental overall sector strategies, the number of parallel implementing structures could be reduced, technical cooperation quality and modalities for enhancing local capacities could be improved, programming efforts could be enhanced, and donors could move towards joint projects and joint programming. In addition, donor coordination through policy dialogue at global and sector level should be rendered more effective.

The establishment of a full-fledged EC Delegation to Yemen in charge of aid management and with additional human resources based locally should also contribute to enhance aid effectiveness.

In complement to its cooperation with the GoY, the EC's work with non-state actors (approximately 10% of the total country allocations, including thematic programmes)³ has

³ The EC works with non-state actors notably through the Sharaka partnership programme with the Ministry of Human Rights, as well as calls for proposals under the thematic programmes for non-state

proven highly beneficial for strengthening the social dialogue, for increasing capacities of local actors and for ensuring inclusion of marginalised groups. The EC is currently taking the lead in developing dialogue mechanisms with non-state actors.

3. POTENTIAL EC SUPPORT AND PRIORITIES FOR INTERVENTIONS DURING 2011-2013

Since the beginning of the current country strategy, the development challenges for Yemen have not changed, but have rather intensified on all fronts. So has the need to implement the long standing reforms identified by the GoY in its 3rd Socio-Economic Development for Poverty Reduction 2006-2010 (DPPR) and the accompanying National Reform Agenda. The current focal sectors of EC intervention – governance, private sector development, social development – remain therefore valid.

The limited results raise, however, the question of how EC assistance can be better leveraged to support and encourage the GoY in the implementation of the reforms. The EC will aim at responding to this challenge, first, by increasing the annual allocations of EC development cooperation (the 2011-2013 envelope is expected to increase in comparison to the current de-facto €70 mn envelope, cf. annex); and second, by concentrating efforts on working towards a greater focus on sectors/areas which are crucial in the reform process set out by the GoY itself, and by pooling resources with other donors and the GoY..

The GoY has set out its development priorities in the mid-term review of 3rd Socio-Economic Development for Poverty Reduction 2006-2010 (DPPR) and its National Reform Agenda: (i) Reducing dependency on oil; (ii) reducing the population growth rate; (iii) managing scarce water resources; (iv) establishing an effective and efficient Government administration.

Following a first programming mission to Yemen (2-6 May), the **areas of EC intervention for 2011-2013** could be selected within three sectors:

- governance;
- economic development/livelihoods;
- social sectors.

These sectors would directly align respectively to points (iv) (governance), (i) (economic development) and (ii) (social sectors) of the GoY's mid-term review priorities. It should be underlined that two other key areas for Yemen – education and water – are well covered by other EU donors with significant resources and experience.

3.1. Support for governance (30%)

Governance reforms have been recognised as a priority by the Yemeni Government in the National Reform Agenda and the DPPR mid-term review. Embarking on a comprehensive

actors, on migration, and the European Instrument for Democracy and Human Rights. Furthermore, there are sub-contracts from UN organisations (particularly UNDP and UNHCR).

governance reform programme, however, requires first and foremost political will and determination to make reform efforts successful in order to tangibly improve governance and the situation of human rights.

The EC considers engaging in two main areas:

- **Strengthening the roles and capacities of democratically elected institutions in the Republic of Yemen, including at local level.** EC interventions should focus on crucial areas where results can be achieved: continued support to the electoral institutions and reforms, and promoting and developing the role of the Parliament by increasing openness and transparency of the political parties and ensuring inclusiveness and Government accountability. Furthermore, the capacities of civil society organisations to monitor and demand accountability of government authorities remain limited and require additional support.

This area has been characterized by a piece-meal approach from most donors without coordinated and strategic support. The recently established governance donors group should ensure greater consistency of donors' activities.

- **Strengthening state institutions** to boost government capacities and legitimacy in crucial areas, in order to strengthen the state-society relationship and social peace. Rather than addressing isolated sub-areas as has been the case in the past, the EC will focus on the basic functions of the state and its capacities to deliver (notion of state-building) in order to contribute to implementing national reform priorities. This will forge a more inclusive and engaged society and empower Yemen to attract more international support and investment to address its social and economic challenges. Support could focus on GoY efforts on:
 - **State-building:** The EC is supporting a study on state-building in Yemen whose results are expected end of June. It will identify the key areas where a coordinated EU response could have an added-value in responding to state-building challenges, such as fostering state-civil society engagement or supporting core functions of the state. Depending on the outcome of the study, the proposed programme is expected to take the form of institution-building to ensure enhanced governance in service delivery and improved public administration, as well as to support the Government's public sector reform efforts which may include civil service reform.
 - **Decentralisation:** Support to the implementation of the GoY's decentralisation strategy, promoting and strengthening governorates and district responsibilities for local development through the decentralisation of finance and recruitment of staff. This is directly linked to above state-building component. Appropriate measures should be taken to ensure national and central ownership of Yemen's development programmes.

3.2. Economic development and livelihoods (30%)

The governance agenda is closely linked with economic growth. Without addressing governance issues, rapid economic growth is unlikely. *Vice versa*, without rapid improvement in the economy, state institutions and overall governance are likely to remain weak. Sustainable economic growth and job creation require an expansion of private investments and increased export diversification. Establishing more efficient incentives and, generally speaking, a more favourable environment for private sector investment, growth,

and innovation is essential for sustainable growth and poverty reduction.

The GoY acknowledges the need for economic diversification and promotion of development of its private sector in order to provide jobs for an ever growing population. The main issue to be addressed is **Yemen's oil dependency** which can not be resolved through development assistance alone. Promising sectors for investment are identified in government plans for non-oil growth, including agriculture, fisheries, tourism, and trade and industry.

The EC will concentrate on **the most appropriate ways to address poverty reduction**. Support will focus on two components:

- **Support to the business environment in Yemen** in response to the need to reduce poverty by increasing employment: The International Financial Institutions (World Bank and the International Finance Corporation) already provide support to enable the business environment and focus on business regulatory reform and investment climate improvement, financial markets and public private partnerships. . The EC intends focusing
 - on the intermediate level by enhancing the capacity and effectiveness of chambers of commerce, women associations and export promotion agencies;
 - on the micro-level through support to microfinance institutions that provide small and medium enterprises with adequate financing.

Bearing in mind the major GCC investment plans in Yemen, a particular effort will be given to identify a basis of improved coordination between traditional donors and the GCC.

- **Fostering Yemen's integration into the global and regional economy:** Yemen's bid to accede to the WTO, and the implementation of commitments once the accession is done, is likely to need continued support, building on the EC's previous WTO accession programme. At the same time, consideration will be given to the strengthening of Yemen's capacities to further benefit from its regional economic environment and attract regional investments as well as helping Yemen to better integrate economically into the GCC. The EC will support a study on Trade, Regional Integration, and Private Sector Development during the course of 2010. The study will identify the key areas where the EC could provide added-value in responding to economic challenges, such as trade promotion, regional integration and private sector development.

From 2010 onwards, **food security** will be fully integrated in the EC country strategy and form the central part of EC assistance to livelihoods. Building on previous programmes, a comprehensive food security strategy will be developed in cooperation with the GoY, covering all relevant areas: *availability* will be addressed through continuing support to irrigation and agriculture, *access* will be supported through social safety nets and enhancement of income-generating opportunities, and *nutrition programmes* will be developed to improve utilisation of food. In all these areas, EC support will concentrate on community mobilisation efforts, particularly through women's institutions, to assure increased sustainability and better impact on poverty reduction. Close coordination and harmonisation between all actors involved in this sector is essential to obtain positive results.

3.3. Social sectors (40%)

Improved service provision is part of the nexus of forging a social contract between government and people, and hence of enhancing government legitimacy. At the same time, broad based and sustainable economic growth is interconnected with efforts to reduce demographic growth. Yemen's health and gender indicators are amongst the worst in the world. The capacity of the state to deliver basic services has a direct impact on poverty as well as on violent conflict. In addition, reproductive health and women and youth issues remain essential for social and political empowerment and to solve the demographic crisis.

EC together with Netherlands are the main donors for health. The EC's significant efforts to support the Ministry of Health's strategic and donor coordination mechanism would justify a potential move towards a sector programme. While a recent health sector review revealed that much work is left to do before moving towards a fully-fledged sector-wide approach, the EC would initially consider backing a **policy support programme in the reproductive health subsector**: this programme will initially focus on supporting the Reproductive Health Commodity Security Framework and the access to reproductive health services at governorate level, building on the experience of the Health Development Councils which were set-up under previous EC-funded programmes.

At the same time, the EC would increase its support to the Health Sector Review (HSR) process with a view to engaging, at a second stage, in a **comprehensive sector support in public health**. The HSR, once completed at the end of 2009, will provide the overall strategic framework for all donors involved in health. The EC intervention will be jointly defined after extensive consultations with the Ministry and the Development Partners through a pre-feasibility study forecast for the second semester of 2009. EC efforts to support the Ministry's institutional capacities (both at central level and at governorate level) would be fully aligned with Government priorities and harmonised with EU Member States.

For the planned support in the reproductive health sector as well as for health sector reforms lessons learned from the past will feed into a roadmap guiding cooperation in these areas. Particular attention will also be paid to rally donors and the Government come to joint financing modalities and effective implementing modalities such as SWAPS.

In addition, the EC has been supporting the management and design of the **Social Welfare Fund** since 2002. Possible further support will be considered on the basis of the results obtained.

4. INVITATION TO COMMENT

Interested parties are invited to comment on this concept note. We would be most interested in hearing stakeholders' views on the challenges Yemen is facing, on experiences with EC assistance, and on the relevance of the proposed focal sectors.

Please send your observations in English or in Arabic to the following e-mail:

Delegation-Yemen@ec.europa.eu

Annex: EC assistance priorities and figures – YEMEN

DCI 2007-2010 Multiannual Indicative Programme (€ mn)

	2007 % annual DE FACTO	2008 % annual DE FACTO	2009 % annual DE FACTO	2010 % annual INDICA TIVE	Total % total
Focal sector 1: To assist the Yemeni Government to promote good governance					
• <i>1.1: Support for the electoral framework and institutions, Parliament, groups of parliamentarians and political parties</i>	4.8 30%				21.5 31.6%
• <i>1.2: Support for justice, the rule of law and human rights</i>		9.5 50%		7.2 40%	
Focal sector 2: Fostering private sector development through sustainable development					
• <i>2.1: Food Security Support programme</i>			17 100%		27.8 37.9%
<i>2.2: Fisheries sector</i>				10.8 60%	
Focal sector 3: Contributing to human capital development					
<i>3.1: Local community development (SFD)</i>	11.2 70%				20.7 30.5%
<i>3.2: Population and reproductive health measures.</i>		9.5 50%			
Total	16	19	17	18	70

Further assistance under thematic programmes etc (€ mn):

	2007	2008	2009	2010*	Total
Humanitarian assistance	0.9	2.1	1		4
Food Security Thematic Programme	4.5	5	10		19.5
<i>Food prices response facility (in legislation process, indicative amounts only)</i>		21.3			21.3
Non-State Actors Thematic Programme	1.5	1.5	1.5	1.5	6
AENEAS / Migration Thematic Programme	6.5	2.1			8.6
EIDHR		0.9			0.9
Erasmus mundus external cooperation window (Iran/Iraq/Yemen)	3	3	3	3	12
Grand Total	16.4	35.9	14.5	4.5	72.3

* The amounts for 2010 of most thematic lines are not known yet, at this time.