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Report No: PADHI00396

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF US\$20 MILLION

TO THE

UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP)

FOR A

YEMEN FINANCIAL MARKET INFRASTRUCTURE AND INCLUSION PROJECT

MAY 22, 2025

Finance, Competitiveness and Innovation  
Middle East and North Africa

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective {Dec 31, 2024})

Currency Unit = YER

249.3 YER = US\$1

1 US\$ = 0.77 SDR

## FISCAL YEAR

July 1 – June 30

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## ABBREVIATIONS AND ACRONYMS

AML/CFT	Anti-Money Laundering and Countering Financing of Terrorism
APA	Alternative Procurement Arrangements
API	Application Programming Interface
ASA	Advisory Services and Analytics
ATM	Automated Teller Machine
B2B	Business to Business
CBS	Core Banking Solution
CBY	Central Bank of Yemen
CEN	Country Engagement Note
DFS	Digital Financial Services
E&S	Environmental and Social
FCI	Finance, Competitiveness and Innovation
FCV	Fragility, Conflict & Violence
FIs	Financial Institutions
FM	Financial Management
FMFA	Financial Management Framework Agreement
FPS	Fast Payment System
FSP	Financial Service Provider
G2P	Government to Person
GCRF	Global Crisis Response Framework
GDP	Gross Domestic Product
GIS	Geographic Information System
GM	Grievance Mechanism
ICT	Information and Communication Technology
IDA	International Development Association
IFR	Interim Financial Report
INDC	Intended Nationally Determined Contribution
IPs	Implementing Partners
IPF	Investment Project Financing
IRG	Internationally Recognized Government
IT	Information Technology
KYC	Know Your Customer
M&E	Monitoring and Evaluation
MENA	Middle East & North Africa
MEPS	Middle East Payment Services
MFIs	Microfinance Institutions
MSME	Micro, Small and Medium Enterprises
NAPA	National Adaptation Program of Action
OPCS	Operations policy and country services
P2M	Person to Merchant
P2P	Person to Person
PDO	Project Development Objective
PMU	Project Management Unit
POM	Project Operations Manual
POS	Point of Sales

PSPs	Payment Services Providers
RTGS	Real-Time Gross Settlement System
SEA	Sexual Exploitation and Abuse
SFD	Social Fund for Development
SPJ	Social Protection & Jobs
TA	Technical Assistance
TPM	Third-party Monitoring
TPMA	Third-party Monitoring Agent
T-BILLS	Treasury Bills
UN	United Nations
UNDP	United Nations Development Program
USD	United States Dollar
WB	World Bank
WBG	World Bank Group
WFP	World Food Program
YER	Yemeni Riyal



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**DATASHEET****BASIC INFORMATION**

Project Beneficiary(ies)	Operation Name		
Yemen, Republic of	Yemen Financial Market Infrastructure and Inclusion Project		
Operation ID	Financing Instrument	Environmental and Social Risk Classification	
P180708	Investment Project Financing (IPF)	Moderate	

**Financing & Implementation Modalities**

<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input checked="" type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Performance-Based Conditions (PBCs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input checked="" type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made Disaster
<input checked="" type="checkbox"/> Alternative Procurement Arrangements (APA)	<input type="checkbox"/> Hands-on Expanded Implementation Support (HEIS)

Expected Approval Date	Expected Closing Date
17-Jun-2025	30-Jun-2030
Bank/IFC Collaboration	Joint Level
Yes	Complementary or Interdependent project requiring active coordination

**Proposed Development Objective(s)**

The Project's Development Objective is to develop a payment infrastructure that supports the efficiency of payment transactions in Yemen and increases financial inclusion.

**Components**

Component Name	Cost (US\$)
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Development of Fast Payment Systems (FPS)	7,500,000.00
Development of a Real Time Gross Settlement System and upgrading Core Banking for CBY Aden	5,400,000.00
Supporting access and usage of the payment's infrastructure	2,360,000.00
Project management	4,740,000.00

## Organizations

Borrower:	United Nations Development Programme (UNDP)		
Contact	Title	Telephone No.	Email
Zena Ali Ahmad	Country Representative	+967 712 222 201	zena.ali-ahmad@undp.org
Implementing Agency:	United Nations Development Programme (UNDP)		
Contact	Title	Telephone No.	Email
Nadia Alawamleh	Deputy Resident Representative	+967 712222211	nadia.alawamleh@undp.org

## PROJECT FINANCING DATA (US\$, Millions)

### Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? No

Is this project Private Capital Enabling (PCE)? No

## SUMMARY

Total Operation Cost	20.00
Total Financing	20.00
of which IBRD/IDA	20.00
Financing Gap	0.00

## DETAILS

### World Bank Group Financing

International Development Association (IDA)	20.00
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IDA Grant	20.00
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**IDA Resources (US\$, Millions)**

Country/Region Window	Regional Institution	Credit	Grant	SML	Guarantee	Total
National Performance-Based Allocations (PBA)		0.00	20.00	0.00	0.00	20.00
<b>Total</b>		<b>0.00</b>	<b>20.00</b>	<b>0.00</b>	<b>0.00</b>	<b>20.00</b>

**Expected Disbursements (US\$, Millions)**

WB Fiscal Year	2025	2026	2027	2028	2029	2030
Annual	0.06	4.75	5.00	6.00	2.00	2.00
Cumulative	0.06	4.81	9.81	15.81	17.81	19.81

**PRACTICE AREA(S)****Practice Area (Lead)**

Finance, Competitiveness and Innovation

**Contributing Practice Areas**

Social Protection &amp; Jobs

**CLIMATE****Climate Change and Disaster Screening**

Yes, it has been screened and the results are discussed in the Operation Document

**SYSTEMATIC OPERATIONS RISK- RATING TOOL (SORT)**

Risk Category	Rating
1. Political and Governance	● High





2. Macroeconomic	● Substantial
3. Sector Strategies and Policies	● Substantial
4. Technical Design of Project or Program	● Substantial
5. Institutional Capacity for Implementation and Sustainability	● High
6. Fiduciary	● High
7. Environment and Social	● Moderate
8. Stakeholders	● Substantial
9. Overall	● High

## POLICY COMPLIANCE

### Policy

Does the project depart from the CPF in content or in other significant respects?

☐ Yes ☒ No

Does the project require any waivers of Bank policies?

☒ Yes ☐ No

Have these been approved by Bank management?

☒ Yes ☐ No

Is approval for any policy waiver sought from the Board?

☒ Yes ☐ No

## ENVIRONMENTAL AND SOCIAL

### Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
ESS 1: Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10: Stakeholder Engagement and Information Disclosure	Relevant
ESS 2: Labor and Working Conditions	Relevant
ESS 3: Resource Efficiency and Pollution Prevention and Management	Relevant
ESS 4: Community Health and Safety	Relevant



ESS 5: Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
ESS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
ESS 7: Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
ESS 8: Cultural Heritage	Not Currently Relevant
ESS 9: Financial Intermediaries	Not Currently Relevant

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

## LEGAL

### Legal Covenants

#### Sections and Description

Effectiveness: Article V, Section 5.01: This Agreement shall not become effective until evidence satisfactory to the Association has been furnished to the Association that the Recipient has adopted the POM under terms and conditions satisfactory to the Association.

Dated covenants: Schedule 2, Section I.A.2: The Recipient shall establish by not later than one (1) month after the Effective Date, or such later date to be agreed with the Association, and thereafter maintain, throughout Project implementation, the Project Management Unit ("PMU") based in the Recipient's office in the Republic of Yemen which shall be responsible for day-to-day management and implementation of the Project, including the staffing of core functions, including the technical, fiduciary (i.e., procurement and financial management) aspects of the Project, and coordination of all field activities, as detailed in the Project Operations Manual.

Dated covenants: Schedule 2, Section I.G.1: The Recipient shall prepare and furnish to the Association, by not later than one (1) month after the Effective Date a semi-annual Work Plan and Budget for the first six months of the implementation of the Project in 2025 and thereafter not later than January 31 of each year, starting with calendar year 2026, an Annual Work Plan and Budget containing all activities proposed to be included in the Project and a proposed financing plan for expenditures required for such activities, setting forth the proposed amounts, sources of financing and eligible costs.

### Conditions

Type	Citation	Description	Financing Source
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## I. STRATEGIC CONTEXT

### A. Project Strategic Context

- 1. The ongoing conflict in Yemen, now in its tenth year, has led to a severe economic crisis in the country.** Civil war broke out in 2015 between the Internationally Recognized Government (IRG), with support from the Arab Coalition, and the Houthi movement which gained control over major territories in the north. Yemen's humanitarian crisis is deeply rooted in this ongoing conflict and the highly fragmented political and economic landscape that has developed over the years. The conflict has intensified the country's fragmentation into two distinct economic zones, each governed by its unique set of institutions. These include competing monetary authorities with their respective exchange rates and policies, resulting in increasing disparities.
- 2. Economic growth has been severely hampered by the conflict, creating deep structural challenges.** Between 2015 and 2024, the country experienced a staggering 58 percent contraction in real gross domestic product (GDP) per capita. The decline in economic activity is attributed to conflict, the significant decrease in hydrocarbon production, reduced agricultural output, deteriorating institutional quality, increased vulnerability of the banking sector, and interference in the private sector by competing factions. Yemen has remained in debt distress and halted most payments to local and international debt holders because of the decline in public revenue and liquidity shortages.
- 3. Yemen's economy has been severely impacted by the ongoing Houthi blockade on IRG oil exports and a deteriorating economic environment.** In 2024, the economy is estimated to have contracted by 1.5 percent in real terms, following a 2.0 percent decline in 2023. Oil production stagnated after a sharp 60 percent drop in 2023, while the non-oil sector continues to struggle with economic fragmentation, exchange rate depreciation in IRG-controlled areas, liquidity shortages in Houthi-controlled areas, and heavy reliance on imports. The oil blockade has intensified economic difficulties for the IRG, with revenues (excluding grants) falling to 2.5 percent of GDP from 4.6 percent of GDP in 2023. The ongoing blockade by the Houthi movement, coupled with persistent dependence on imported goods and services, pushed the current account deficit to 18 percent of GDP, putting additional pressure on the Yemeni Riyal (YER). The YER depreciated from 1,540 per US dollar at the end of 2023 to 2,560 by May 15, 2025, driving consumer prices up and further straining household purchasing power.
- 4. The economic outlook for 2025 remains grim, with persistent domestic challenges compounded by escalating external shocks.** In IRG-controlled areas, the ongoing blockade on oil exports by Houthi movement, coupled with the absence of a clear path to lasting peace, is expected to continue to be a strain on public finances and external accounts. Inflation is projected to remain elevated, driven by further currency depreciation in Aden, which will erode purchasing power and dampen consumption. In Houthi-controlled areas, acute liquidity shortages are expected to continue, with restrictions on cash withdrawals and limited access to funds stifling consumption and activity. Externally, the international sanctions have introduced new compliance requirements that are already affecting Yemen's banking sector. Ongoing tensions linked to the Conflict in the Middle East and reductions in donors and United Nations aid are expected to further compound pressures on the country's already fragile social and economic conditions. As a result, real GDP is projected to contract by 1.5 percent in 2025.
- 5. Within this deteriorating economic environment, living conditions for most Yemenis have become increasingly dire.** In July 2024, 62 percent of households reported inadequate food consumption, representing a dramatic increase of 24 percent in IRG areas and 30 percent in Houthi areas since last year. In some governorates, severe food deprivation more than doubled. This is in part due to further depreciation of the YER and reduced humanitarian food assistance. Phone surveys reveal that many households have resorted to extreme measures, with 19 percent turning to engaging in high-risk work. Those with poor food consumption are grappling with compounding vulnerabilities, including higher levels of acute and chronic health conditions, and symptoms of mental health disorders. These factors reinforce a vicious cycle of



poverty and eroding human capital, deepening the humanitarian crisis. Analyses indicate that if conflict persists until 2030, Yemen's human development will regress by 40 years, effectively erasing progress made over one and a half generations.

**6. Within this context, cash transfers are particularly important.** The World Bank-funded Emergency Cash Transfer Program<sup>1</sup> is one of the largest aid programs in Yemen (along with the in-kind support from the World Food Program). It serves as a significant source of income for poor households. Beneficiaries report using cash transfers to meet basic needs, particularly food (82 percent), repaying debts related to food, healthcare, and utilities (65 percent), and covering healthcare expenses (28 percent). Digitizing these cash transfers is a priority for the World Bank and other donors, as has been shown to increase the effectiveness, transparency, and efficiency of these programs.

## **B. Sectoral and Institutional Context**

**7. Among the weakest in the Middle East and North Africa (MENA) region, the financial sector in Yemen is dominated by the banking sector, which, since 2015, has faced a liquidity crisis and declining trust by the Yemeni population.** Currently, there are 19 operating banks registered in Yemen, four of which are microfinance banks. Before the conflict, banks were characterized by a concentration of credit to the public sector, with around 45 percent of assets invested in government treasury bills (T-bills). Following the outbreak of the conflict, the government ceased public debt payments and servicing. The Central Bank of Yemen (CBY) froze the banking sector's assets invested in T-bills, thus triggering a liquidity crisis that led to a decline in trust in the banking sector among Yemenis. The lack of confidence in the banking sector and the inability to meet the needs of the private sector have led to the expansion of money exchangers branches from 876 in 2017 to 3,244 in 2019. Money Exchange companies currently provide many financial services that Yemeni banks previously provided, including trade financing.

**8. In 2016, a decision was made by President Abdrabbuh Mansur Hadi to relocate the Central Bank of Yemen from Sana'a to Aden.** As a result, there are two central banks in Yemen, the CBY-Sana'a, controlled by the Houthi movement, and the CBY-Aden, controlled by the IRG. The cascade of negative effects from this fragmentation has caused severe economic deterioration due to the implementation of divergent monetary policies and retaliatory policies on liquidity management and supervision of financial institutions (FIs). Yemen's financial sector structure reflects the division caused by the ongoing conflict, with banks and other financial services providers operating in two distinct regions under the regulation and supervision of the two Central Banks. The largest banks in the country have until recently been headquartered outside the IRG-controlled areas while operating throughout the entire country. The expansion of bilateral external sanctions imposed on key banks based in Sana'a have resulted in many moving their headquarters to Aden. This has increased the level of responsibility of the CBY-Aden and increased the urgency of strengthening their capacity and financial infrastructure needed to effectively regulate and supervise financial institutions operating from IRG-controlled areas.

**9. Yemen's cash-based economy has minimal levels of financial inclusion, with the adoption of accounts and digital payments driven by E-money issuers.** Most transactions, including government payments, are in cash. The latest Index data shows an increase in account ownership from six percent in 2014 to 12 percent in 2022, which is much lower than the regional average for the MENA countries (48 percent) and low-income countries (62 percent), as of 2021. Women make up a disproportionately large share of unbanked adults, with just two percent holding a bank account. An estimated 50 percent of the population does not have national identification documents. Holding cash outside the banking system left Yemen banks financially crippled and unable to meet customer demands or increase lending as they had historically been significant investors in government debt. In this context, E-money issuers have been able to capture new customers, with the total number of E-money accounts reaching about 800,000.<sup>2</sup>

<sup>1</sup> Emergency Social Protection Enhancement and COVID-19 Response Project (ESPECRP) (P173582)

<sup>2</sup> Electronic Payment Services in Yemen, Challenges and Opportunities: Institute of Banking Studies.



**10. Regarding business payments, cash also remains the dominant mode for transactions.** A staggering 97.2 percent of companies remunerate their employees in cash, with a mere 2.1 percent relying on the formal banking system. Similarly, most suppliers receive payments in cash (68.1 percent) or through cash transfers facilitated by money exchange companies (20.6 percent). Only 7.6 percent of suppliers receive payments through the established banking channels. In fact, the overall accessibility of banking services for businesses has considerably deteriorated. According to a 2018 World Bank Group survey involving 141 firms, less than 50 percent of large enterprises, 18.5 percent of medium-sized businesses, and 6.1 percent of small firms reported having access to a functioning bank branch. Alarming, 38.8 percent indicated having no access to any bank branch whatsoever.

**11. Increasing the use of digital financial services offers significant opportunities to increase financial inclusion and access to finance, including through digitizing government payments, but is constrained by the limited payments infrastructure in the country.** Due to the absence of a Fast Payments System (FPS) <sup>3</sup>, banks and other financial services providers in Yemen operate in silos, with no interoperability among providers. There is no FPS in the IRG-controlled areas, and there is one FPS operating solely outside the IRG-controlled areas that has attracted limited participation and facilitates a very low volume of transactions. The absence of an effective FPS in Yemen creates a system where individuals and enterprises have no avenue to exchange funds in an efficient way, as the options would be limited to cash, checks, or exchanging electronic payments among clients of the same financial institution. The lack of an FPS also inhibits government-to-person transfers (G2P), person-to-person transfers (P2P), person-to-merchant payments (P2M), e-commerce and bill payments. The absence of a Real-Time Gross Settlement System (RTGS) for large-value payments in Yemen also significantly hampers the efficiency and security of retail payment systems. An RTGS is crucial for facilitating the timely settlement of transactions, mitigating financial risks, and ensuring secure inter-institutional obligations. In the IRG-controlled areas, there is no RTGS system in place, which undermines the ability to monitor and manage financial risks effectively. However, outside the IRG-controlled areas, a mechanism resembling an RTGS exists.

**12. The lack of a core payments infrastructure also limits the ability to digitize government payments in Yemen that could enhance the transparency and efficiency of government payments, including those for public sector salaries and social transfers.** In August and September 2023, the IRG issued several decrees and instructions to launch its efforts towards digital payments of salaries. Government institutions are instructed to close their accounts with commercial banks and open new ones with CBY-Aden. Government civil servants are instructed to open bank accounts with 17 CBY-approved financial institutions. However, Yemen is missing the core elements of a modern G2P framework to enable this digitization, including shared infrastructure that is interoperable (FPS) and seamlessly supports various programs and financial services providers.

**13. Moreover, there is a large and growing level of demand for a digital payment infrastructure to accelerate and effectively digitize the Unconditional Cash Transfers (UCT) <sup>4</sup> in Yemen, which is also limited by the lack of core payments infrastructure.** The World Bank-funded UCT program is the single largest social protection program in Yemen, covering 1.42 million households, rendering cash transfers up to three times per year to beneficiaries to provide support and protection to Yemeni households. Amongst this population (29 percent of the Yemen population), there is a growing interest in receiving UCT payments digitally. This is evidenced by the results of the third-party monitoring (TPM) survey

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<sup>3</sup> FPS is at the core of the payment's digitization agenda, and in major economies has proved to be the most effective payments infrastructure to achieve such digitization. FPS caters to retail payments users, which would be a powerful tool to displace low value banknotes. The Bank for International Settlements has observed that across major economies and nearly all jurisdictions, there has been a noticeable increase in the volume of fast payments. Concurrently, there has been a decline in the demand for small denomination banknotes. There are numerous global examples of successful FPS implementations that have increased financial inclusion and supported the broader digital economy, such as the IPU system in India, the PIX system in Brazil, and the Raast in Pakistan.

<sup>4</sup> An unconditional cash transfer is a type of social protection benefit through which beneficiaries receive a transfer of monetary resources, either in cash, check or digitally, without needing to comply with certain behaviors and actions. In contrast, conditional cash transfers may require the beneficiary to fulfill certain behaviors as determined by the social protection agency in charge of managing the program.



results of December 2023 under the ongoing Emergency Social Protection Enhancement and COVID-19 Response Project (ESPECRP) (P173582) which showed that 92 percent of those who did not already have an e-wallet indicated interest in receiving their payments digitally. The main difference between digital transfers versus the existing process of cash transfer distribution would be that the end users would receive the UCT payments in their bank or e-money accounts opened at participating financial institutions, which would include a debit card or mobile wallet.

**14. There is a clear need to develop a payments infrastructure in Yemen to advance financial inclusion and support the digitization of government payments, including cash transfers, and to enhance transparency, efficiency, and reliability of the payment process.** Digitalization of cash transfers will: (i) improve the efficiency of making payments by lowering the cost of disbursing and receiving them, and by increasing the speed of payments; (ii) increase the transparency of payments, and thus reduce the likelihood of leakage between the sender and receiver; (iii) enhance the security of payments and thus lower the incidence of fraud or other financial crime; (iv) increase financial inclusion by providing an important first entry point into the formal financial system; and (v) contribute to women's economic empowerment by increasing the privacy of payments and increasing control over the funds received. A pilot enabling digital payment options for beneficiaries in eight districts was conducted in 2024 under ESPECRP. The beneficiaries in the pilot districts were offered a limited choice of financial institutions via which to receive their benefits via e-wallets. Across pilot districts, take-up rates ranged from 40 to 70 percent. By the end of the payment cycle 18, which was conducted from September 16 to October 17, 2024, 10,761 wallets had been opened with cash transfers rendered into them.<sup>5</sup> The large coverage of the UCT program in Yemen holds the promise of facilitating a significant and swift digital transformation of the financial sector and economy, such as the one experienced in multiple African economies. Payment infrastructure can bring down the costs of accessing cash and become a convenient option that can bring unbanked and underbanked populations into the formal financial system. Modern payment systems can be designed with advanced security features to combat anti-money laundering and counter the financing of terrorism (AML/CFT) and other financial crimes. They can include real-time monitoring, data analytics, and compliance checks that help to ensure the integrity of financial transactions. Moreover, they provide traceability for financial operations and reduce the need to hold and transact in cash. Access to centralized payments infrastructure reduces the need of deploying costly physical access points, increasing the productivity of financial services providers and lowering barriers to entry for new players, fostering competition among financial service providers. This can lead to better services and lower costs for consumers.

### C. Relevance to Higher Level Objectives

**15. The proposed Project contributes to the FY22-23 World Bank Group (WBG) Country Engagement Note (CEN) for Yemen, which was endorsed by the Board of Executive Directors on April 14, 2022.** The proposed Project supports the achievement of its strategic objectives and main pillars, including: (i) support for basic service delivery; and (ii) promotion of resilience and livelihood opportunities. This will be accomplished through improvements in the payments infrastructure to facilitate the digitization of payments, including the delivery and reconciliation of aid transfers funded by the Bank and other donors. This will ultimately lead to an increase in financial inclusion through greater usage of accounts and e-wallets.

**16. The proposed Project is also aligned with the WBG global, regional, and country strategic objectives and the WBG Strategy for Fragility, Conflict and Violence 2020-2025, with its focus on strengthening institutions and building accountable and transparent systems.** The proposed Project is aligned with the WBG goals of eliminating extreme poverty by 2030 and boosting shared prosperity on a livable planet. The proposed Project also contributes to the WBG's MENA Strategy Regional Update ("Looking Forward"), including Pillar 2 - Protecting the poor and vulnerable and Pillar 4 - Strengthening institutions, building better. Furthermore, the proposed Project is aligned with the WBG Gender Strategy (FY16-23). It contributes to its pillar of removing barriers to women's ownership and control of assets through the digitization of government payments and supporting women financial inclusion.

<sup>5</sup> This activity is co-implemented by SPJ and FCI global practices, who have consulted with key stakeholders in assessing the G2P ecosystem and are advising UNICEF and SFD in operationalizing this pilot.





17. **The proposed Project is consistent with the country's Intended Nationally Determined Contribution (INDC).** In the latest INDC submitted to the United Nations Framework Convention on Climate Change (UNFCCC), the country proposes 14 percent greenhouse gas (GHG) emission reduction target by 2030 below Business As Usual (BAU) which represents an estimated total cumulative GHG reduction of about 35 MtCO<sub>2</sub>-eq from 2020 through 2030; this includes one percent unconditional target and 13 percent conditional target on mitigation, and multi-sectoral and stakeholder consultations to build up resilience of the major priority sectors being affected by climate change. Digitization of payments reduces the number of in-person visits to access the service or carry out a transaction, which in turn reduces travel-related GHG emissions. The proposed Project is consistent and does not hinder climate commitments and strategies as relevant to the project.

## II. PROJECT DESCRIPTION

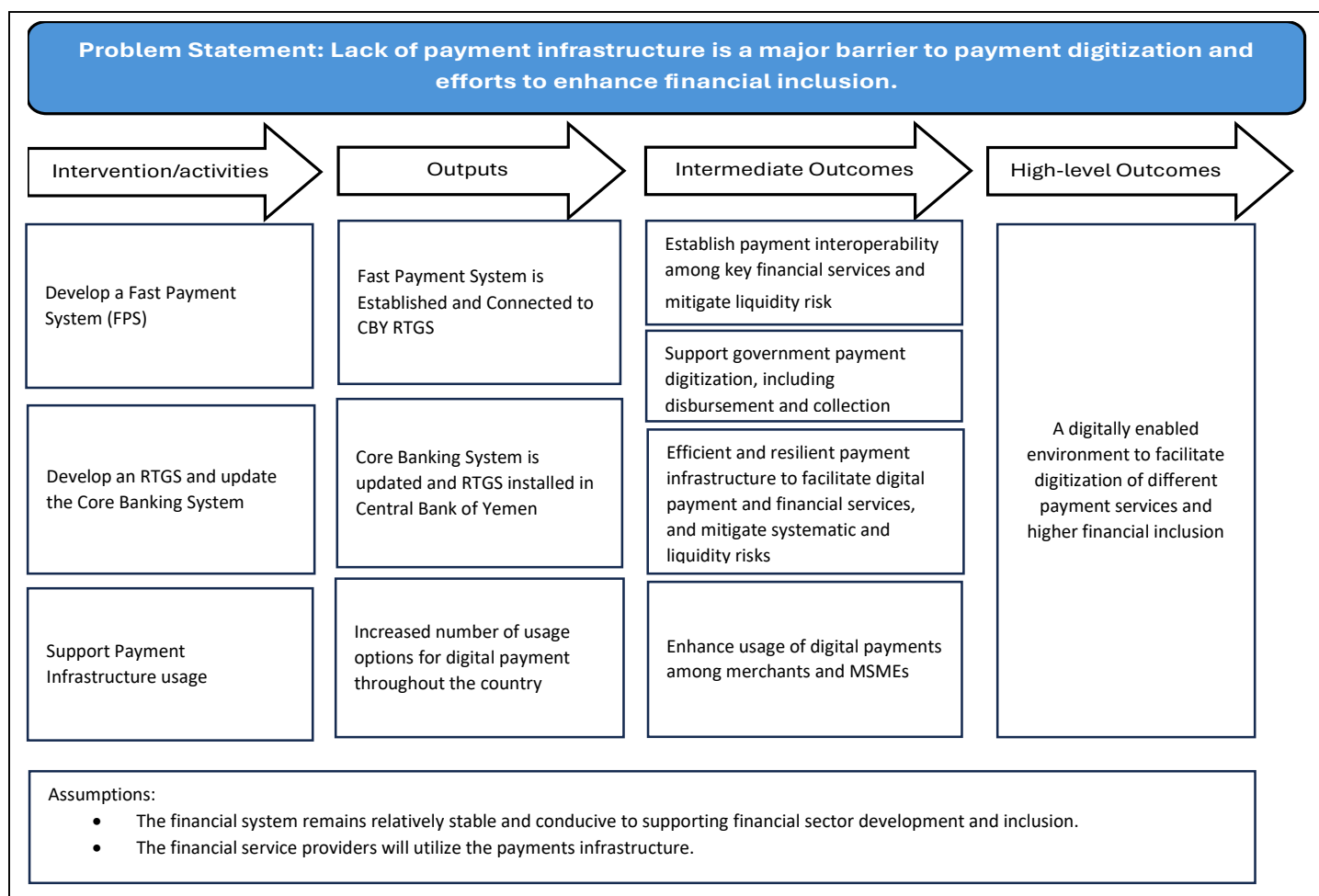
### A. Project Development Objective

18. The proposed Project's Development Objective is to develop a payment infrastructure that supports the efficiency of payment transactions in Yemen and increases financial inclusion.

### B. Theory of Change and PDO Indicators

#### The Theory of Change

19. **The proposed Project will develop core elements of the payments infrastructure in Yemen and support the usage of the infrastructure.** This will result in an increased volume of digital transactions in the country, increased competition in the financial sector through interoperability, increased volume of digital government payments, and enhanced usage of digital payments by merchants. The high-level outcome of the proposed Project activities will result in increased usage of the financial system and financial inclusion. The assumptions are that the financial service providers will utilize the payments infrastructure that is developed, and that the financial system remains relatively stable and conducive to supporting financial sector development and inclusion. It is expected that regulated entities, such as banks, that are currently hampered by the lack of interoperable infrastructure and prevalence of cash-based transactions are supporters and participants in the infrastructure. Such infrastructure would create incentives for development of the sector through: (i) an increase in the customer base due to enhanced payments infrastructure that can entice customers to make use of digital payments and substitute cash-based transactions, such as cash-in/cash-out services at automated teller machines (ATMs), most of which currently occur outside the formal financial sector; (ii) an increase in the number of interoperable transactions within the financial sector for high-value payments; (iii) a reduction in the need to deploy costly physical infrastructure such as branches, agents and ATMs to cover cash-in/cash-out needs; (iv) an increase in revenue by creating new use cases on top of the new payments infrastructure, such as P2M, B2B and government collections; and (v) an increment in the capacity of formal financial services providers to provide credit and other financial services due to increased number of customers, the availability of deposits and increased funds for intermediation.



## PDO Indicators

1. Increased payments, as measured by the number of beneficiaries who received or made payments and transfers through electronic channels (of which female).
2. Efficiency of payments systems, as measured by percentage decrease in transaction cost to customers.
3. Increase in large-value payments across the financial markets, as measured by percentage increase in the value of RTGS transactions.
4. Increased access to digital financial services, as measured by the number of financial access points.

## Intermediate Results Indicators by Components

### Component 1: Development of Fast Payment Systems

- FPS is developed and operational (yes/no)
- Annual volume and value of cleared transactions
- Number of participating financial institutions
- Number of use cases (P2P, P2M, G2P, B2B, etc.)

### Component 2: Development of a Real Time Gross Settlement System (RTGS) for Yemen and upgrading Core Banking





- RTGS is developed and operational (yes/no)
- Number of participating payment service providers (PSPs), both banks and non-banks

Component 3: Supporting access and usage of the payment infrastructure

- Number of merchants accepting electronic payments
- Number of active bank and e-wallet accounts (*corporate scorecard indicator*)
  - Out of which are female-owned (*corporate scorecard indicator*)
- Number of agents of licensed FIs (of which female)
- Number of Financial Literacy campaigns (of which women-focused)

Component 4: Project Management

- Percentage of beneficiaries who are satisfied with the level of service (Percentage) (*corporate scorecard indicator*)
  - Women only - Satisfaction with level of service (Percentage)
- Grievances addressed within stipulated time (Percentage)
  - Women only - Grievances addressed within stipulated time (Percentage)

### C. Project Beneficiaries

20. **The primary beneficiaries of the proposed Project will be the Yemeni population in Project areas, including aid recipients, public and private employees, as well as CBY and the banking sector.** This population will benefit from more secure and affordable financial and payment services resulting from increased competition. This population will benefit from more secure and affordable financial and payment services resulting from increased competition. Additionally, they will enjoy more convenient financial services, reducing the necessity of traveling to conduct transactions, whether with individuals, businesses, or government entities. This will enhance the transparency and accountability of government payments by transitioning from cash-based to digital payments. The improved payment system will also enable banks to develop more efficient payment products and services tailored to meet the needs of their clients. Individuals located outside of Yemen will also benefit through lower costs and more efficient remittance transfers.

### D. Project Components

21. **The Proposed project will include four components focused on developing the payments infrastructure and supporting the digitization of payments in Yemen as follows:**

- Component 1: Development of Fast Payment Systems (FPS) (US\$7.5 million)
- Component 2: Development of a Real Time Gross Settlement System (RTGS) and upgrading Core Banking for CBY Aden (US\$5.4 million)
- Component 3: Supporting access and usage of the payment infrastructure (US\$2.36 million)
- Component 4: Project Management (US\$4.74 million)

22. **The proposed Project will be implemented in IRG-controlled areas to support the establishment of a payments system that will serve as the foundation for the payments infrastructure in Yemen.** In addition, in alignment with the Yemen portfolio, the proposed Project will use an agile approach to adjust to changes in the fragile operating environment and adopt the Entry Criteria for Access (ECA), accordingly. The ECA is a set of actionable risk-based measures which provide a set of “stop and go” mechanisms for Project activities when the criterion is not met enabling the project to halt activities in non-compliant parts of the country without affecting implementation in other areas. This ensures flexibility and agility. The ECA factors in challenges and risks that exist including those related to: (i) Anti-Money Laundering/Countering Financing of Terrorism (AML/CFT) compliance; (ii) financial stability risks; (iii) restrictions on women's access to financial services; (iv) access and clearance to operate for UNDP and Third Party Monitoring (TPM); (v) political interference in the



operations and governance of UNDP's key local implementing partners (if applicable) and contractors under the proposed Project. For each of these risks, the World Bank and UNDP have identified actionable management measures, indicators to assess the continuity of operations, and scenarios for immediate corrective actions. The ECA has been defined and agreed to with UNDP, and its details, including operational procedures and arrangements for monitoring their compliance, will be finalized and included in the Project Operations Manual (POM), whose adoption is an additional effectiveness condition of the Financing Agreement.

### ***Component 1: Development of Fast Payment Systems***

**23. The proposed Project will support the development of a well-functioning Fast Payment System in IRG-controlled areas.** The FPS will be managed and operated by the private sector. This approach will enable the private sector to innovate in response to financial sector requirements, while protecting the system from political conflicts.

**24. The FPS will be open to the participation of banks licensed by CBY Aden.** Banks in Yemen already offer intra-bank transfers to their customers, reflecting the demand and need to digitize payments. The FPS will help strengthen transparency and integrity of the financial sector by enabling more robust screening of payment transactions and keeping a record of traced transactions for a long time, enabling stronger combating of money laundering and terrorism financing. The introduction of an interbank system through the FPS will further enhance the use of digital payments and increase payment digitalization. This structure is expected to enable banks and other participants to provide a more convenient service to customers, while competing directly with cash-based services, such as those offered by money exchange houses. In doing so, it will contribute to the development of a cashless economy, increase financial inclusion, and boost revenues for all FPS participants. Revenue generation can be achieved through the monetization of payment services, including the provision of credit, deposits, and other financial products.

**25. This component will also include activities to ensure that all banks connected to the FPS will meet AML/CFT standards, as well as capacity building in AML/CFT oversight to the CBY-Aden.** Consulting services supported by the proposed Project will independently review all banks that are allowed to connect to the FPS to ensure that their customer onboarding and due diligence controls, including those with branches in Houthi-controlled areas, meet AML/CFT standards. This will include both banks that operate just in IRG-controlled areas and those with branches in Houthi-controlled areas. However, for those with branches in Houthi-controlled areas, the proposed Project will fund a more enhanced verification protocol that ensures compliance with AML/CFT standards in light of the enhanced risks. This will ensure that every individual initiating a transaction through the FPS will have undergone customer due diligence as per national AML/CFT requirements. The proposed Project will also support capacity building for CBY-Aden with regards to AML/CFT compliance, which will be complemented by the broader technical assistance AML/CFT program that is currently ongoing.

**26. The FPS system will include robust measures to ensure compliance with AML/CFT standards.** The FPS will also be governed by robust financial integrity measures to ensure full compliance with AML/CFT regulations. All users of the FPS must be registered clients of regulated financial institutions by CBY Aden. Both the sending and receiving institutions will be responsible for screening the payer and payee during the processing of FPS transactions. An integrated AML/CFT module will conduct real-time screening of every transaction against recognized sanctions lists, such as the United Nations and the US Office of Foreign Assets Control. Walk-in and over-the-counter transactions—where either the sender or recipient does not hold an official account with a regulated financial institution—will be excluded from FPS usage until a comprehensive National Risk Assessment is completed and specific risk mitigation measures are adopted. Consequently, only registered individuals, merchants, and enterprises will be permitted to conduct transactions via the FPS. To prevent misuse of the systems, such as money exchangers using personal accounts for client transactions or businesses using personal profiles for commercial payments, transaction limits will be imposed based on user categories. These limits, both in terms of volume and value, will be enforced through the FPS and participating institutions. In addition, advanced



technologies, including artificial intelligence, may be deployed to analyze transaction patterns and identify suspicious behavior. Although such modules may not be fully integrated with the FPS from the outset, the system's design will allow for their phased implementation, either before or after launch. Importantly, all FPS transactions will be securely recorded and stored for an extended period, ensuring that any illicit activity can be retrospectively investigated and linked to the individuals involved, thereby strengthening the system's AML/CFT capacity.

**27. Activities under Component 1 include:** (i) funding the FPS solution, including hardware and software requirements, and services associated with the installation, configuration, and testing, as well as outsourcing to operate the IT systems<sup>6</sup> (US\$5m); (ii) capacity building and training of the relevant staff of the system operator (US\$0.5m); and (iii) funding consulting services to ensure AML/CFT compliance (US\$2m).

***Component 2: Development of a Real-Time Gross Settlement System (RTGS) and upgrading Core Banking for CBY Aden***

**28. This component supports the development of an RTGS for Yemen, including required upgrades to the central bank's core banking system.** The proposed Project will support the establishment of an RTGS in Yemen that will be managed by CBY-Aden and that will serve as the foundation for the payment's infrastructure in the entire country (See Box 1). The proposed Project will also support the modernization of the core banking system (CBS) of CBY-Aden to ensure smooth integration with the RTGS.

**29. Activities under this component will include:** (i) funding the cloud-based solution for the procurement of the RTGS system, including the acquisition of needed hardware<sup>7</sup> and software for the RTGS and the services associated with the installation, configuration, and testing by the vendor (US\$4.7m); (ii) funding the CBS vendor to make the required changes to integrate the CBS with the RTGS (US\$0.3m); and (iii) capacity building and training of CBY-Aden relevant staff (US\$0.4m).

***Box (1) RTGS: Importance & Benefits***

**RTGS is a critical element of national financial infrastructures, serving as a foundational mechanism for the facilitation of retail payments.** The absence of an RTGS-dedicated infrastructure for handling large-value payments, which is needed to facilitate the settlement of various retail transactions and other essential payment services presents a significant barrier for the functioning of retail payment systems. Also, the absence of an RTGS indicates the lack of an adequate mechanism that allows to monitor financial risks and secure settlement of obligations contracted in such systems. The existing settlement mechanism exacerbates settlement risk, as there is no active monitoring of obligations contracted during the day, with net obligations being calculated until the end of the day and hence increasing the likelihood of participants failing to cover such obligations. RTGS systems provide a conduit for central banks to distribute intraday liquidity in the form of central bank funds. These funds are essential for the clearance of transactions across various payment infrastructures, including those for retail payments. Furthermore, RTGS systems enable the settlement of financial obligations arising from retail payment systems, such as card switches and FPS, thereby offering a secure and efficient platform managed by the central bank for carrying out these essential financial activities.

**Large value payment systems, such as the RTGS, are typically managed by central banks due to their systemic importance.** These systems provide settlement of obligations among the financial sector participants in central bank money, which is a globally recognized best practice. Hence, it is of paramount relevance that an internationally recognized currency is used across the system. Currently, OBN and e-rial are not internationally recognized currencies, as countries, like Saudi Arabia, have enacted limitations to the exchange of such currencies, which poses serious limitations in terms of the day-to-day operation of the system. As for the ownership model, data from the World Bank's Global Payment Systems Survey shows that 96 percent of the countries that responded to the survey reported that the central bank owns their national RTGS.

<sup>6</sup> The IT components of the FPSs will be handled by a specialized company based outside the country. The outsourced payment systems will be monitored through off-site reports, interviews with the operator and outsourced entity, as well as by reviewing books, arrangements, and IT systems either remotely or on-site.

<sup>7</sup> Any hardware will be following internationally recognized or equivalent energy efficiency performance standards, such as Energy Star, and will be indicated in the bidding document.

***Component 3: Supporting access and usage of the payment infrastructure***

30. Activities under this component will be implemented following the implementation of components 1 and 2. **Component 3 aims at expanding access points and boosting usage of digital payments, thereby increasing the volume processed through the payment infrastructure supported by the project.** This component includes developing cash-in cash-out networks in IRG-controlled areas, to ensure consumer trust and continued access to cash, as elements of encouraging usage of accounts. Activities under this component will include the following sub-components:

- **Sub-component 3-1: Developing a database for the access points with their geographical distribution, to encourage development of further access points in unserved and underserved areas.** Activities under this sub-component will include funding a vendor to develop a database for the access points with their geographical distribution which would include both demographic data about the population, and financial sector access points, including bank branches, ATMs, POS (Point of Service) terminals, merchants with QR (Quick Response) Code, and money exchangers across Yemen. Specifically, activities would include (i) procuring the Geographic Information System (GIS) software and a server for this Geospatial system and (ii) consultancy for mapping the data sent from banks and other PSPs. This GIS system will be hosted by UNDP.
- **Sub-component 3-2: Capacity building and training to FIs and PSPs.** Activities under this sub-component will include: (i) capacity building and training to FIs and PSPs on good practices and actionable tools to strengthen (or build) robust agent/merchant networks to enhance efficiency and reach<sup>8</sup> and serve economic activity centers; and (ii) tailored training programs and support services will be provided to help merchants transition smoothly to electronic transactions. This sub-component will concentrate on specific geographic areas with the aim of creating a model for expanding digital payment usage throughout the country and contributing to greater financial inclusion and economic growth.
- **Sub-component 3-3: Subsidizing the onboarding costs of merchants in underserved areas with a focus on areas where cash transfers are rolled out and incentive programs to merchants and consumers.** This is critical to increase the electronic payments acceptance network and to ensure users continue to have access to cash in and cash out locations. Activities under this sub-component will include offering incentives through competitive selection amongst FIs<sup>9</sup> to: (i) subsidize the onboarding costs of merchants in under-served areas to increase the electronic payments acceptance network; and (ii) provide incentive programs<sup>10</sup> such as prizes for merchants that reach a certain volume of electronic payments and consumer incentives (cashback or lottery programs). These will run over a short period of time, but will be repeated every six to twelve months, with the objective of creating the habit of using electronic payments at merchants. Selection criteria will aim to ensure that at least 50 percent of women-owned business merchants are included. FIs are free to form a consortium/Joint venture to bid for the contracts. The proposals will be submitted and evaluated. The UNDP will monitor the performance of winning bidders. The bidding institution should meet a well-defined, transparent and publicly available eligibility criteria (see box 2). The eligibility criteria will be further detailed in the POM.
- **Sub-component 3-4: Outreach activities.** This sub-component will finance outreach activities to raise awareness about cash-out methods and locations, the benefits of electronic payments, and the consumer protection measures afforded to the clients of FIs. The communication materials and channels will consider literacy levels; targeted outreach to women will be supported. This includes providing targeted financial literacy programs designed to address women's specific needs, including educating them about basic bank accounts, mobile wallets, and digital payment services. Market development efforts would include awareness-raising activities to collect

<sup>8</sup> This support will focus on improving agent recruitment, business case development, and liquidity management, among other areas and Merchant strategy, incentives, how to build a loyalty program and create an integrated ecosystem, etc.).

<sup>9</sup> FIs will be procured competitively with the non-consulting services method.

<sup>10</sup> This activity will incentivize merchants to accept electronic payments building on the GIS system that will be used to measure the proper level of incentives based on the area and identify the areas that needs incentives based on number of consumers and access points



new ideas from the industry, civil society, entrepreneurs, and schools/colleges on how to expand digitization in Yemen. Activities under this subcomponent will include: (i) developing and distributing educational materials; (ii) community workshops and training sessions<sup>11</sup> to provide hands-on demonstrations and answer questions about electronic payments; (iii) deploy mobile units equipped with educational materials and staff to visit remote and underserved areas and UCT areas; and (iv) SMS and USSD Campaigns with tips and information about electronic payments and consumer protection.

#### Box (2) FIs and Merchant incentives eligibility criteria

The incentive programs for merchant onboarding will be provided by selected (FIs) and will cover list of underserved locations. The bidding institution should meet the following eligibility criteria: FIs should be licensed; FI's owners should be fit and proper. I.e. must have qualified and experienced management, adequate organization and institutional capacity for its specific risk profile; FI meet all prudential regulations and remain in compliance at all times; FI should have well defined policies and written procedures for management of all types of relevant financial risks (liquidity, credit, currency, interest rate and market risk as well as IT and cyber risks); have operational guidelines for management of payment processors; FI should demonstrate appropriate operational capacity, including technical capability and staffing, the FI must have adequate liquidity, maintain capital adequacy prescribed by prudential regulations, have an acceptable risk profile; must be a member in the fast payment company; and FI must have adequate management information system and compliant with existing CBY cyber security requirements.

For each of the locations, the financial institution will have to commit to onboarding one or two merchants (a retail or service business), which will be equipped with everything that is needed to accept electronic payment for goods and services offered. Merchant incentives will be based on an eligibility criterion that will include the following: the merchant is located no more than 2.5 km away from the geographical coordinates of each underserved location as determined by GIS and UCT beneficiaries data base; the merchant has a bank account or EMI that accept electronic payment through QR Code or merchant ID; to be open to the public during the regular business hours as customary in the location concerned; the merchant accepted 100 transactions before applying for the incentives; be involved in commercial activity that is relevant to the needs of UCT beneficiaries in the same location (example: shops, pharmacies; service providers-doctors, teachers, barbers, tailors, carpenters).

### Component 4: Project management

**31. This component will fund the costs associated with the Project management for the UNDP, which is the Project implementing entity, the grievance mechanism (GM) and TPM.** Implementation costs that the Project will cover under this component include (i) financial management; (ii) procurement; (iii) environmental and social aspects; (iv) communication and stakeholder engagement; (v) overall monitoring and evaluation (M&E); (vi) grievance mechanism (GM); and (vii) TPM.

### E. Rationale for Bank Involvement and Role of Partners

**32. Large-value payment systems, such as the RTGS, are typically managed by central banks. These systems provide the ultimate settlement of obligations among financial sector participants in central bank money.** There is a need to establish one to reflect the balances of commercial banks in the central bank's books. The CBY in Aden will manage the RTGS system in the IRG-controlled areas. While the central bank will not host the RTGS on its own premises, it will retain full control over the system, including its participants, operational rules, and related governance. The FPS will be managed by the private sector; however, the settlement of net obligations among FPS participants must occur through the RTGS to mitigate liquidity and credit risks. Consultations with the financial sector will be conducted to ensure adoption and the eventual transfer of certain payment infrastructure elements to the private sector.

**33. The World Bank will bring forward its convening power, cross-border experience, regional knowledge, as well as international best practices.** The World Bank's effective collaboration with partners will be critical for mobilizing a successful and technically sound crisis response on the ground, and the project complements other development partners'

<sup>11</sup> Banks could also contribute to funding the sessions to attract new customers and merchants, especially in areas where banks have branches or intend to establish branches or attract agents.





activities, such as cash transfers. Yemen Resilience, Recovery, and Reconstruction Multi-Donor Trust Fund (MDTF) will be mobilized to support the project implementation, particularly preparing technical requirements for fast payment and RTGS, complementary AML/CFT capacity building, and supporting payments regulatory reform. The technical support under this project has been defined and will be further developed through close consultation, collaboration, and coordination with stakeholders and donors supporting payments infrastructure and digitization in Yemen.

## F. Lessons Learned and Reflected in the Project Design

**34. The proposed Project will build on similar payments projects that the WB has completed throughout the world, including in Fragility Conflict & Violence (FCV) countries.** The World Bank has supported the development of payments infrastructure in FCV countries such as Afghanistan under the Payments Automation and Integration of Salaries in Afghanistan (PAISA) (P168266) and Somalia under the Capacity Advancement, Livelihoods and Entrepreneurship project (P168115). These projects demonstrated the potential for driving financial inclusion through the development of the payment infrastructure in a country. These examples have also shown the need to support infrastructure and its usage, which influenced the design of the proposed project. These examples also highlighted the potential of cloud-based solutions in FCV environments, which led to the focus on cloud-based solutions for the FPS and RTGS systems (see Box 3 for additional examples). The proposed Project will also build on lessons learned from the World Bank Financial Sector Policy in Fragile State report to address current challenges, where the appropriateness of policy interventions will depend on the accurate understanding of the situation on the ground.

### Box (3) Similar WBG payment projects

- Somalia:** The World Bank played a key role in helping Somalia modernize its financial system, particularly through the Capacity Injection Project and Recurrent Cost and Reform Financing Project (RCRF). Somalia's experience shows how a national payment system helps build legitimacy and can be a transformative tool in fragile and post-conflict settings. One of the major milestones in rebuilding the central bank and the banking sector was supporting the development of a national payment system. Further, by introducing digital payments, Somalia was able to eliminate ghost workers from public payrolls, increase transparency, restore a degree of public trust in government institutions, and increase AML/CFT compliance (all transactions in the IDA-funded Real-Time Gross Settlement (RTGS) system are subject to sanction-screening in real time). The system also allowed for more efficient aid delivery and reduced opportunities for corruption by ensuring that funds reached the intended recipients. A key lesson is that building a formal payment infrastructure not only improves financial oversight but also supports the broader process of rebuilding state legitimacy.
- Pakistan:** In Pakistan, remittances were often routed through informal channels such as hawala (money exchangers), which were harder to track and more prone to delays or misuse. Regulatory reforms and incentives to allow more regulated remittance services to enter the market and introduction of centralized payment systems in early 2000's led to faster and more transparent remittance services, reduced transaction costs, and encouraged the use of formal financial channels. This has been now taken a step further with the Raast instant payment system in place since 2021. The World Bank provided lending and technical assistance to Pakistan to implement regulatory reforms, procure the centralized payment systems, develop rules, and market adoption of Raast. The improvements in the fast payment system in Pakistan has resulted in a substantial improvement in financial inclusion, which grew to 64 percent in 2023 from 30 percent in 2021 due to the introduction of the Raast system. Yemen faces similar challenges in the absence of a central payment system. A secure national payment system would help monitor and ensure that funds reach recipients safely and efficiently, reduce leakage, and enhance AML/CTF compliance, while also providing the Central Bank with better oversight and policy tools to advance financial inclusion.
- Ukraine:** Ukraine has continued to invest in the payments infrastructure and maintained its ability to disburse salaries, pensions, and humanitarian aid, largely due to its strong payment infrastructure. In particular, the National Bank of Ukraine (NBU) launched a new version of its System of Electronic Payments (SEP), enabling instant fund transfers. SEP supports both high-value and retail payment settlements but is primarily used for retail transactions, including consumer payments, B2B transfers, and bulk disbursements like salaries and allowances. With 24/7 interbank settlement, SEP has enhanced retail instant payments across the country—reducing transaction costs, promoting cashless payments, and improving financial inclusion through better accessibility and affordability. Continued upgrades, such as user-friendly features, overlay services, and standardized QR codes, have further accelerated the adoption of digital payments. The World Bank has supported the NBU to enable the development and expansion of the instant payment infrastructure.

**35. The experience of similar projects in other countries also indicates that interoperable systems derive the greatest benefits in the short and long term.** While interoperability is not a requirement to launch electronic G2P payments, it has



a significant impact in terms of: (i) adoption and usage of digital financial services by end-beneficiaries; (ii) feasibility of new players entering the market to help in the delivery of G2P payments; and (iii) allowing the beneficiaries to use the received funds to make payments through electronic channels to merchants, billers, and other individuals. In previous cash transfer programs in Yemen, agreements have been negotiated with only two payment providers at a time, which limits the G2P recipients' choice. In an interoperable finance market, G2P payers' decision to work through a designated provider for any reason would not affect the recipients' options to access funds. In its design, the proposed Project builds on Fast payments as the backbone for the payment infrastructure, to guarantee interoperability between FIs, which will also support cash transfer projects in Yemen.

**36. The design of the proposed Project has benefited from the lessons and implementation experience of a joint FCI/SPJ ASA funded by the World Bank's Government-to-person (G2Px) initiative to assess the Yemen's government to person payment landscape and the piloting of digital payments via the UCT in Yemen.** Specifically, in addition to developing fast payments, the proposed Project design will help provide needed elements to complement the Emergency Social Protection Enhancement Project (ESPECRP) by addressing some of the bottlenecks including availability of PSPs, access Channels (POS, ATM) terminals in serviced areas to shift users from cash to digital payment, and to build trust in the system, and allow the user to withdraw funds at any time through ATM terminals and through agents, the need for a well-planned and executed outreach, financial literacy, and communications campaign to raise awareness about the payments reform to ensure smooth implementation to ensure that stakeholders understand the intent, process, and expected benefits.

**37. The proposed Project design draws on the World Bank's Fast Payments Flagship Report which highlights the development of FPS as a foundational digital public infrastructure and the importance of following a lifecycle approach to successfully deploy an FPS.** The proposed Project design and the complementary financial sector analytical work for CBY would support CBY play a championing role as the absence of a championing entity would leave the FPS without guidance and therefore expose the FPS to the risk of failing to deliver its full potential. The work will support CBY role in engaging with all relevant stakeholders; support the development of high payment council as a platform which will facilitate cooperation with stakeholders; support CBY develop communication initiatives to support the adoption of fast payments by end users and will provide guidance and advice for the enhancement of fast payments that continues beyond the initial go-live of the system. FPS design, implementation and operation will leverage the design principles and technical considerations under the World Bank's flagship project FASTT (Frictionless Affordable Safe Timely Transactions) implemented by the WB.

**38. As the operational environment in Yemen became increasingly challenging, the proposed Project design incorporates Entry Criteria for Access (ECA) to define clear operational standards.** The ECA are a set of actionable risk-based measures to preserve adequate operational space in an environment of the following heightened risks. The ECA measures provide a set of "stop and go" mechanisms for Project activities which will be based on compliance with ECA criteria, enabling the project to halt activities with flexibility and agility.

### III. PROJECT IMPLEMENTATION

#### A. Institutional and Implementation Arrangements

**39. IDA grant is provided to UNDP for the benefit of the Republic of Yemen. UNDP will be the implementing entity.** The UNDP will implement the proposed Project through its Yemen Country Office and its Operational Hub in Amman.

**40. Besides its long experience working in FCV contexts globally, the UNDP has a strong presence in Yemen and the capacity to reach out to relevant stakeholders.** Working in Yemen since the conflict started in 2015, UNDP has



demonstrated strong capacity and readiness to implement investment projects in extremely challenging circumstances. UNDP has preparedness and mobilization mechanisms in place, which enable optimal emergency procurement, and is well informed about the financial sector in Yemen. To ensure implementation readiness, UNDP will deploy an internationally experienced project manager who will oversee the day-to-day implementation of the project activities and will be assisted by experienced advisors and experts in procurement and financial management within its office in Yemen. The team will be supported by experienced counterpart teams in its regional offices.

**41. The UNDP will:** (a) take responsibility for project implementation; (b) monitor the project targets and results in coordination with the local partners; (c) handle relevant procurement, financial management, M&E, and disbursement management including the preparation of withdrawal applications under the project; (d) enter contractual arrangements with service providers and third-party monitors; and (e) ensure that all reporting requirements for the Association are met per the Financing Agreement. UNDP will also ensure that the ECA are met on an ongoing basis and will undertake monitoring to ensure that appropriate actions are taken if the ECA are not met at any time during the project implementation period. UNDP will decide on the appropriate procedures for selecting contractors, consultants, and implementation partner(s) in accordance with its own operational guidelines, in accordance with the Alternative Procurement Arrangements (APA).

**42. The UNDP's role as the recipient of IDA funds for the benefit of the Republic of Yemen and alternative implementation agency on an exceptional basis is in line with the Financial Management Framework Agreement (FMFA) between the Association and UN agencies.** The financial management arrangements will be governed by the FMFA, which provides for the use of the UN's Financial Regulations. UNDP will follow its own procurement procedures as APA allowed by the World Bank's Procurement Framework Policy, Section III.

**43. A dedicated Project Management Unit (PMU) will be established to provide support** in project management, technical aspects, procurement, financial management and financial sector aspects, communications, M&E, environmental and social issues, logistics, administration, information technology (IT), and security will be handled by the Yemen Office with close support on a day-to-day basis from Amman. This will be established by not later than one month after the effective date of the Financing Agreement. The core project management and implementation support team from UNDP would include a project manager, an operations specialist, local and international payment experts, IT and MIS Specialist, an environmental specialist, a social and communication specialist (with skills and experience in gender issues, gender mainstreaming in financial inclusion projects), financial inclusion experts, an M&E specialist, procurement specialists and an assistant, financial management specialist and an assistant, and an administrative assistant.

**44. The Association will conduct implementation support missions of the Project through the UNDP in Amman.** The Association will closely coordinate with the UNDP, on regular basis, in connection with UNDP's implementation and overall oversight of the proposed Project, and as part of the validation of the supervision, the Association will: (a) review technical and financial progress reports to assess achievement of the PDO and intermediate indicators; (b) discuss relevant risks and mitigation measures; and (c) conduct validation of supervision missions with UNDP regional office in Amman, CBY and its local partner(s). Additionally, regular virtual meetings will be conducted with UNDP. The Association validation of supervision will be enhanced through a multipronged approach that enables it to verify outputs including potentially engaging independent third-party monitoring agents.

## **B. Results Monitoring, Evaluation, and Verification Arrangements**

**45. The UNDP will be responsible for results monitoring and will put in place an adequate system and procedures to ensure regular monitoring and reporting of project implementation and results.** M&E would be done through regular field visits to project sites, quality control, regular follow-up with local partner(s), progress review meetings, data collection and verification, and documenting progress towards achieving results and reporting in line with the results framework (see Section VI). Given the evolving conflict and security situation in Yemen, UNDP will ensure that results





monitoring is responsive to the changing circumstances on the ground. UNDP will conduct a mid-term review jointly with the Association to evaluate all aspects of project implementation. UNDP will submit to the Association quarterly technical and semi-annual financial progress reports on project activities and regular status reports of compliance with the Environment and Social Commitment Plan (ESCP) and the environmental and social instruments in accordance with the Financing Agreement. The detailed contents of these reports will be described in the POM.

**46. The technical part of the report will include:** (a) a summary of the progress and the context within which the proposed Project is implemented; (b) ongoing and completed activities carried out during the reporting period; (c) any challenges encountered, and measures taken; (d) changes introduced during implementation, including changes in the budget; (e) achievements and results of the proposed Project with reference to identified indicators; and (f) the work plan for the subsequent reporting period.

**47. The UNDP will engage a third-party monitoring agent (TPMA) to undertake independent results verification of project outcomes,** leading to documenting achievement of the PDO. The TPMA will also verify on-the-ground reports on the status of project implementation. The TPMA shall be provided by UNDP and its contractors, sub-contractors and supervision consultants, with unlimited access to all relevant project information and documents and will attend project meetings as an observer.

#### IV. PROJECT APPRAISAL SUMMARY

##### A. Technical, Economic and Financial Analysis

**48. Payment systems are critical infrastructure for any country and play a crucial role in maintaining economic resilience in fragile settings.** In times of conflict and crisis, the payment system is vital to facilitating the inflow of humanitarian and official development assistance as well as migrant remittances, a traditionally important source of capital in fragile settings. A functioning payment system is also essential to maintaining correspondent banking relationships and avoiding de-risking.

**49. Introducing FPS can bring significant financial benefits, especially in places where large amounts of humanitarian aid are distributed in cash.** Global evidence has shown that FPS systems have been proven to boost the use of financial services and stimulate economic activity. They also reduce transaction costs, such as those seen in Yemen's UCT program, where cash disbursement is costly. Additionally, FPS systems can lower fees for customers, as many offer free P2P transfers compared to the high transfer fees currently charged in Yemen.

**50. Financial market infrastructure such as RTGS systems are typically established to mitigate systemic and credit risks and provide efficiency in the whole economy.** By enforcing interbank settlement on real-time basis, when and only when the payer bank has enough liquidity to make the payment and by making the payment final and irrevocable, RTGS systems prohibit the transfer of risk from one participant to the other and the risk that a failure of one participant (commercial bank) could lead to the failure of many other participants, in the absence of an RTGS system. Such failures might lead to the collapse of the whole economy, especially in times of market shocks and severe market conditions. An RTGS system is required in each economy to avoid such types of risks. The investment and operational costs are not comparable to the mitigated risks, which might cause hundreds of millions of dollars in losses from bank failures.

**51. A specific analysis of the cost of operations versus the expected number of participants and transactions through the two systems has been carried out.** The analysis shows that the operational cost could be recovered in the third year



of RTGS operations and the fourth year of the FPSs operations. The analysis<sup>12</sup> was based on an operational cost recovery basis, including maintenance cost and outsourcing fees, and utilized a conservative estimate for usage. The break-even point would be even earlier if one assumed an aggressive estimate for usage of the systems installed. The analysis adopted a model with monthly participation fees plus transaction fees. The fees of the RTGS system were flat, while the FPS adopted fees based on the use case, with an assumption that all P2P transactions are free of charge while charging P2M, B2B, and others use cases. The excess revenue from the system during the proposed IDA project would be reserved to cover the depreciation of the systems and the replacement of the IT systems needed in five to seven years to ensure that the systems do not require additional investment from CBY to ensure their sustainability.

**52. The project design ensures the sustainability of the system beyond the Closing Date of the proposed Project.** The proposed Project will not fund the cost for system changes of the commercial banks. Operational costs, after the project's Closing Date, are expected to be funded by a combination of fees from participants and CBY in Aden. In Somalia, this model was implemented under the WB Somalia Capacity Advancement, Livelihoods and Entrepreneurship Project (P168115), where it proved to be successful and potentially replicable in other FCV locations. In the long term, the solution can continue to be operated either remotely through the outsourced vendor or brought to Yemen, depending on the political conditions and the availability of proper infrastructure.

## **B. Fiduciary**

### **(i) Financial Management (FM)**

**53. The financial assessment complies with the Financial Management Manual for WB Investment Project Financing (IPF) operations and the Financial Management Framework Agreement signed with UNDP.** As per the FMFA, the financial management is based on UNDP financial rules and regulations, and additional due diligence agreed upon with the Association. The objective of the assessment is to evaluate the adequacy of the financial management system and its ability to plan, budget, execute, account for, report, and provide adequate audits to ensure that the proposed Project financing has been used for intended purposes.

**54. The UNDP's FM arrangement for the proposed Project is considered adequate.** UNDP is experienced in the management of IDA-financed projects and will manage all the financial management aspects of the project, maintain separate accounts for the project, and ensure that original supporting documents of expenditures are retained and adequately archived. UNDP will prepare a budgeted annual work plan for implementation and a detailed procurement plan (in consultation with the Association). The budgeted Annual Work Plan will be prepared no later than one month after the Effectiveness of the Financing Agreement. It will highlight the activities to be implemented for the subsequent 12 months by component, sub-component, and activity level with intended results, timeline, budgets, and planned procurement activities. It will also identify issues/ implementation bottlenecks and relevant remedial actions and outline key responsibilities. The budgeted Annual Work Plan and the progress report will be the monitoring tools to help UNDP and the Association to regularly monitor activities of each component, evaluate progress, and discuss corrective actions or changes as needed. A detailed POM will be prepared and is an effectiveness condition in the financing agreement. The proposed Project will use unaudited IFRS for disbursements and will submit the reports on a quarterly basis to the Association. Funds will flow from the Association to the UNDP's corporate accounts, then be transferred to the UNDP bank account or the bank accounts of their implementing partners (IPs) and ultimately to the beneficiaries. The proposed Project will follow the single audit principle agreed between WB and UNDP as per the Financial Management Framework Agreement (FMFA). The Association and UNDP may agree that additional due diligence is needed.

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<sup>12</sup> The sustainability assessment also considered the annual costs for offshore hosting of the systems, annual depreciation of the proposed systems, and cost of replacing the systems.



55. **The overall Financial Management risk is rated High due to the overall high risks posed by the ongoing conflict in the country, the Central Bank-Aden decision to relocate commercial bank Headquarters from Sana'a to Aden, and the Conflict in the Middle East.** The main FM risks include liquidity shortage and constrain financial transactions because of the recent CBY in Aden's decision. UNDP will implement a business continuity plan to address the current crisis in the banking sector. The plan will include the limitation of advance, the use of the direct payment method and e-wallet, and the opening of bank accounts in acceptable commercial banks based in Aden. The FM risk is further mitigated using TPMs that provide an additional layer of Project monitoring to help identify risks and appropriate mitigation actions. UNDP will report on the financial values related to high-risk issues that have persisted for over 3 months.

#### **(ii) Procurement**

56. **The proposed project will apply Alternative Procurement Arrangements (APA) utilizing the procurement regulations, rules, policies, and procedures of UNDP found acceptable to the Bank under other agreements and allowed by the Procurement Framework Policy Section III. F.** The APA is considered a fit-for-purpose arrangement for several reasons:

- UNDP has a strong presence on the ground, has proven that they are well equipped to work in conflict and post-conflict areas in Yemen and has the capacity to reach out to the most affected beneficiaries.
- The procurement activities proposed under this project are within the mandate of UNDP. UNDP has in place fast-track procedures for countries in emergencies such as Yemen to ensure the required technical and operational support is provided in a timely manner.
- UNDP's procurement arrangements provide reasonable assurance that WB financing will be used for the intended purpose.

57. **The proposed Project will be financing the procurement of the FPS/RTGS hardware/software, and the services associated with the installation, configuration, and testing.** It is expected to finance several technical assistance and consultancy services to conduct assessments, capacity building, and develop the governance arrangements. Moreover, the proposed Project will finance a modern central banking core banking system that is required to develop the payments infrastructure in Yemen, in addition to funding the software upgrade and the training of CBY staff. UNDP is expected to hire a TPMA; the TOR, names, and a summary of the qualifications of the selected firm will be shared with the Association for review and approval.

### **C. Environmental, Social and Legal Operational Policies**

58. **The environmental risk rating of the proposed Project is low.** The project does not support rehabilitation or construction activities, or civil works, and therefore, none of the interventions under this project result in notable negative environmental impacts. Nonetheless, the proposed Project will fund the acquisition of some equipment under component one, which might result in generating limited quantities of electronic waste. The e-waste will be generated through the replacement of old hardware/software/systems, and/or when the procured equipment comes to the end of life. This risk will be assessed going forward and once more information is gained on the amount of equipment to be procured, adequate mitigation measures -if needed- will be agreed on with the implementing agency. This includes the preparation of an electronic waste management plan and/or adding adequate clauses to the contracts with the implementing agencies to ensure adequate management of such waste.

59. **The social risk rating of the project is moderate.** The social risks associated with the proposed Project include: i) Exclusion risks involve the potential marginalization of poor, vulnerable, and underserved groups who may lack access to necessary technology or banking services, exacerbating existing inequalities; ii) Security risks heightened due to the ongoing conflict and volatile political situation, affecting the safety of system operators and users; iii) Sexual exploitation and abuse (SEA) risks are particularly concerning at payment sites managed by service providers, posing threats of sexual



harassment and exploitation; iv) Elite capture risks involve powerful individuals or groups monopolizing the benefits, excluding marginalized groups; v) Fraud and corruption could undermine the integrity of the systems, particularly in the selection and operation of private sector operators and vendors; vi) Operational risks include data security, system reliability, and effective monitoring challenges, especially with IT outsourcing; vii) Consumer trust and protection are critical, with risks related to fraud and misuse needing robust communication and awareness campaigns; and viii) Low digital literacy, particularly among women and underserved populations, could limit the effectiveness of digital payment initiatives, necessitating targeted literacy programs.

60. The project aims to address and mitigate social risks, particularly those related to exclusion, security, Sexual Exploitation and Abuse (SEA), and elite capture. This will be achieved through the application of comprehensive implementation guidelines, including the development of site-specific Environmental and Social (E&S) instruments as needed during the implementation phase. Furthermore, to tackle risks associated with fraud and corruption, data security, consumer trust, and low digital literacy, the proposed Project will incorporate UNDP's anti-corruption policies and conduct regular audits. It will also implement robust data protection measures, launch effective communication and awareness campaigns, and develop targeted digital literacy programs, especially for women and underserved populations. Continuous monitoring and evaluation will be conducted to ensure the successful and inclusive development of Yemen's financial infrastructure.

### **Gender**

61. **The project supports developing an integrated and modern payment infrastructure**, which will promote digital financial services (DFS) through creating sustainable and digitally enabled mechanisms for service delivery. This includes support for Government digital payments and the construction of interoperable retail payment services, which will lead to an increase in account ownership and expand financial inclusion for individuals, particularly for women. It will also increase individuals' and businesses' access to services that expand economic opportunities and help restore resilience in a gender-sensitive manner. This is particularly important in the case of Yemen, where women make up a disproportionately large share of unbanked adults, with only five percent holding a financial account in 2022.

62. **The proposed Project is supporting the creation of a more inclusive DFS system through activities that use a gender lens** to ensure that constraints that women face in accessing and using DFS in Yemen are accounted for, through policy and infrastructure. Specifically, the project supports the following activities:

- **Payment Infrastructure.** The proposed Project will support the creation of a payment infrastructure that facilitates access to and use of DFS. While these infrastructural elements are equally important for expanding access for both men and women, ease of access may have a greater impact on women's uptake and usage of DFS.
- **Gender-sensitive DFS policy.** The proposed Project promotes the adoption and usage of DFS and digital payments in geographies with limited access to formal bank accounts to make government-to-person (G2P) payments, which includes cash transfer programs, including for women. Long distance and time spent are among the main constraints facing cash transfer beneficiaries. Around 10 percent of cash transfer beneficiaries (48 percent of whom are women) travel more than 10 kilometers to reach payment sites. The proposed Project through component 1 will support interoperability among financial institutions, thus beneficiaries will be able to access funds from any ATM and wallet, cutting the distance and time needed to get payments. Also, through component 3, the proposed Project will support agent networks and merchants onboarding in underserved areas which will create use cases and promote the adoption and usage of DFS and digital payments.
- **Gender-centric interventions.** The proposed Project, under component 3, will develop a database for the access points with their geographical distribution, to encourage the development of further access points in unserved and underserved areas. Thus, it will help provide guidance for the provision of appropriate and reliable access points for the distribution of DFS, such as cash-in/cash-out (CICO) agents, and merchant payment points,



particularly for underserved areas and areas that are easily accessible by women. This will be further supported under component 3 through capacity building and training to FIs and PSPs on good practices and actionable tools to strengthen (or build) robust agent/merchant networks and help merchants transition smoothly to electronic transactions.

- **Women-focused financial literacy programs.** Using digital and other communication tools to develop and deepen equitable financial and digital literacy programs tailored to address women's specific needs. This will also include SMS and messaging services to send regular tips and updates on financial and digital literacy topics.
- **Establish user-friendly grievance resolution** tailored to address women's needs to reduce risk and vulnerability of women.

63. In addition, the proposed Project includes an ECA measure to ensure that the project is not being implemented in any geographic area where financial sector policies are put in place that discriminate against women.

### **Paris Alignment**

64. **The operation is aligned with the goals of the Paris Agreement, Nationally Determined Contribution (INDC) and the Yemen Country Climate Development Report (CCDR).** In the latest INDC submitted to the United Nations Framework Convention on Climate Change (UNFCCC), Yemen proposes 14 percent greenhouse gas (GHG) emission reduction target by 2030 below BAU which represents an estimated total cumulative GHG reduction of about 35 MtCO<sub>2</sub>-eq from 2020 through 2030; this includes one percent unconditional target and 13 percent conditional target on mitigation, and multi-sectoral and stakeholder consultations to build up resilience of the major priority sectors being affected by climate change. Yemen intends to plan and implement medium- and long-term resilience-building measures to address the impacts of climate changes, given that these changes have significantly affected most sectors relevant to economic, food and water security of Yemeni citizens on adaptation. The proposed Project contributes to the INDC by reducing GHG emissions related to payment processes in Yemen by supporting digitization of payments in Yemen. Digitization of payments reduces the number of in-person visits to access the service or carry out a transaction, which in turn, reduces travel-related GHG emissions. This proposed Project is also a prerequisite for any future climate action by creating transparency in financial transactions and strengthening institutions. This project will improve capacity to handle data and decarbonize services. The project is consistent and does not hinder climate commitments and strategies as relevant to the project.

### **Climate Co-Benefits**

65. **Digitization of services can contribute to both decarbonization and resilience by mitigating risks associated with climate change.** The project will be the first to scale up digitalization after a successful pilot in some urban areas that leveraged one e-wallet ecosystem and tested beneficiaries' willingness and ability to receive their cash digitally. With interoperability provided by the project, the pilot can further expand into other urban areas as well as rural regions, where most beneficiaries are based. Furthermore, digitizing payments is expected to reduce the need for in-person visits to access services or conduct transactions, thereby decreasing travel-related greenhouse gas emissions. Building on Yemen Emergency Social Protection Enhancement and COVID-19 Response Project and First, Second and Third Additional Financing projects (P173582, P177020, P180358, and 181468), 4.3 percent of the target 9,570 individuals traveled over 10 km by car to receive payment. On average, driving 1 km emits 121 g of CO<sub>2</sub> [1]. Therefore, for the 4.3 percent who traveled over 10 km, the total emissions amount to 4,115.1 g of CO<sub>2</sub>. The project report indicates that 97 percent of participants are satisfied with digital payment systems and are likely to continue using them. Consequently, we assume that instead of traveling over 10 km, they will prefer to use digital payment systems, resulting in an emission reduction of 3,991.647 g of CO<sub>2</sub>. This represents a 97 percent reduction in greenhouse gas emissions from the baseline, demonstrating the potential for substantial emissions reduction through large-scale digitalization activities.



66. **As for adaptation risks, Aden is at high risk from sea level rise, flooding, and rising temperatures. Office computers, equipment, and other hardware are likely to be exposed to these risks.** To minimize the residual material risk to an acceptable level, it will be ensured that hardware is placed on an elevated surface, including placing them on the sixth floor to protect from impacts of floods. To ensure extreme heat events do not negatively impact hardware operations, due diligence will be taken to install energy-efficient cooling systems<sup>13</sup>.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Area OP 7.60	No

#### Grievance Redress Services:

67. **Citizen Engagement and Grievance Redress Mechanism.** In accordance with the Labor Management Procedure (LMP) and the Environmental and Social Standards (ESS 2), the project will establish and maintain a grievance mechanism for all stakeholders, including the direct workers, contracted workers, and their organizations, to raise workplace concerns. UNDP will leverage on its existing system and will set up multiple channels including a toll-free hotline number, a complaint box at the project site, a WhatsApp number, and an email address, for the stakeholders and beneficiaries to reach out and register grievances and ensure that the grievance mechanism is easily accessible to all parties. Stakeholders will be informed of the grievance mechanism at the time of recruitment and the measures put in place to protect them against reprisal for its use. A poster about the Grievance Mechanism (GM), including the project key information and the hotline number, will be placed at the project/activity location.

68. **The current contextual sensitivities, people's overall distrust of the banking sector, and the general government distrust need to be taken into consideration to further strengthen the engagement and consultations with all stakeholders throughout the project life cycle.** In addition to its primary function of receiving complaints, the GM will be designed to operate as a broader feedback system to absorb and address beneficiaries' queries and suggestions within the scope of the project. All complaints received will be registered and redressed confidentially. For the critical cases like SEA/SH/GBV, UNDP has trained operators and experts to receive and handle such cases with the 'survivor-centered approach', ensuring the confidentiality and safety of the complainants. All complaints received through any of the GM channels will be registered, and a record log will be kept. UNDP will report on the status of complaints on a quarterly basis

69. **The project will also publicly disclose** all the input received and communicate to the public how this has been utilized to track performance and improve development results of the project. In addition to the mechanisms of obtaining input from beneficiaries, the project will conduct biannual beneficiary surveys to gauge satisfaction and perception regarding the activities implemented. These surveys assess satisfaction levels with, e.g., new financial services for making or receiving payments and the transition from cash-based to digital payment methods.

<sup>13</sup> Any hardware will be following internationally recognized or equivalent energy efficiency performance standards, such as Energy Star, and will be indicated in the bidding document.





70. **Considering the prevailing lack of trust in the banking industry and government**, coupled with the identified social risk of potential exclusion of certain segments of the Yemeni population such as the poor, women, elderly, people with disabilities, illiterates, and those with limited digital skills it is imperative that project activities be carried out with utmost inclusivity. To safeguard this, the project will seek collaboration with local communities and Civil Society Organizations (CSOs) that advocate for the rights and interests of these marginalized groups by setting up a multi-stakeholder advisory group.

## V. KEY RISKS

71. **The overall risk rating is High.** This rating stems from the exceptional context of ongoing conflict in Yemen. The key risks that may affect the achievement of the PDO and results are summarized below.

- **Political and Governance risks are High.** The ongoing conflict in Yemen and Conflict in the Middle East could significantly hinder the implementation of this project. A deterioration in the security situation may prevent effective execution and regular supervision of project activities. Additionally, the proposed Project could exacerbate tensions between the CBY in Aden and the CBY in Sana'a and could further contribute to fragmentation of the financial system. To mitigate this risk, the project is designed to focus on areas under the IRG's control and benefit citizens who utilize Financial Service Providers (FSPs) regulated and monitored by the CBY in Aden, which increasingly includes all banks operating in Yemen.
- **Macroeconomic risk is Substantial.** The economic outlook remains uncertain due to oil export constraints and ongoing political negotiations. To mitigate this risk, project implementation does not depend on improvements in the macroeconomic or political environment and can be implemented successfully even if conditions do not improve.
- **Sector strategies and policies risks are Substantial.** The overall sector priorities are impacted by the conflict in Yemen and Conflict in the Middle East, ongoing negotiations, and the situation in the country, which adds to sectoral volatility. Risks related to financial stability and policies aimed at limiting access to financial services for vulnerable populations, such as women, will be mitigated through inclusion in the ECA if these risks were to materialize. Cyber threats would be an important risk to be taken into consideration, especially while considering the outsourcing of the systems operation to an external provider, and the remote connectivity of all banks in Yemen, including the central bank to the system. Key mitigation measures include establishing consultations with stakeholders, including commercial banks, at all stages of project design and implementation to ensure continued stakeholder buy-in and ownership. Cyber threats would need to be managed through the system's technical requirements within the procurement process, and after implementation, by requiring IT security certificate, penetration and vulnerability tests reports to the system on a regular basis and ensuring CBY receives and audits these reports on a regular basis.
- **Project design risk is Substantial**, mainly related to the weak capacity of the CBY-Aden in managing complex IT-based projects, lack of expertise on relevant technical subjects and time needed to digest new concepts, may significantly delay the project implementation, and thus weaken the effectiveness of the PDO. Key mitigation measures include (i) outsourcing the procurement of software and implementation of the RTGS and FPS systems to a vendor which would provide strong technical and project management support to the CBY; and (ii) sequencing of project implementation to execute TA activities and capacity building for the new processes and technologies.



- **Institutional Capacity for Implementation and Sustainability risk rating is High.** The weak institutional capacity of CBY Aden poses risks to the sustainability of the activities they are expected to benefit from under the proposed Project. To mitigate this risk, the proposed Project will provide advisory and capacity building program to CBY Aden to strengthen its institutional capacity to support the implementation of planned activities.
- **The Residual procurement risk rating is Substantial** due to the potential risk of delay in delivery/implementation due to the volatile security situation in Yemen and the supply chain disruption because of the Conflict in the Middle East. In addition, there are risks associated with the potential interference of local authorities, limited competition of service delivery in Yemen, and the nature of project activities that might be affected by the situation on the ground in conflict and post-conflict zones.
- **Financial management and integrity risk rating is High** due to weak capacity and division among the managing authorities and the private sector. There are significant AML/CFT risks that will be mitigated primarily through TA and a third-party monitoring funded by the Project and the ECA. Mitigation measures also include consideration of AML/CFT controls as part of the design of the fast payment system, such as value limits for transactions, to help further reduce the vulnerability of a fast payment service to illicit activities. Also, under the complementary Capacity building Program, the Association will provide training and capacity building to targeted PSPs, operators, and authorities in transaction monitoring and screening, detecting, and responding to suspicious activities to deal with the high speed of fast payments. The risks will be reassessed as part of continuous implementation support of the project. The main FM risks include liquidity shortages that constrain financial transactions. UNDP will implement a business continuity plan to address the current crisis in the banking sector. The plan will include the use of the direct payment method, and the opening of bank accounts in acceptable commercial banks based in Aden. The FM risk is further mitigated by using TPMAs that provide an additional layer of Project monitoring to help identify risks and appropriate mitigation actions. UNDP will report on the financial values related to high-risk issues that have persisted for over three months. In case the financial sector becomes completely dysfunctional in Yemen, UNDP's business continuity plan may, *inter alia*, include direct payments made by UNDP HQ to beneficiaries.
- **The environmental risk rating of the project is Low.** The project does not support rehabilitation or construction activities, or civil works and therefore, none of the interventions under this project result in any mentionable negative environmental impacts. Therefore, no environmental impact assessment or mitigation measures are required under the project at this stage. Nonetheless, limited quantities of e-waste may be generated under the project due to the replacement of old hardware/systems and/or when the procured equipment comes to the end of life. This risk will be assessed going forward and once more information is gained on the amount of equipment to be procured, adequate mitigation measures -if needed- will be agreed on with the implementing agency.
- **The social risk rating of the project is Moderate.** The social risks are related to the exclusion risks, security risks, SEA, elite capture, fraud and corruption, operational risks, consumer trust and protection, and digital literacy challenges. These social risks will be managed through robust implementation guidelines and meaningful stakeholder engagement by the implementing agency including the development of site-specific E&S instruments if required to address these risks and should be applied throughout the project lifecycle.





## ANNEX 1. RESULTS FRAMEWORK

### PDO Indicators by PDO Outcomes

Baseline	Closing Period
<b>A digitally enabled environment through enabling digitalization of different payment services and higher financial inclusion rates</b>	
<b>Increase in large-value payments across the financial markets, as measured by the percentage increase in the value of RTGS transactions (Percentage)</b>	
Jan/2025	Jun/2030
0	20%
<b>Increased payments, as measured by the number of beneficiaries who received or made payments and transfers through electronic channels. (Number)</b>	
Jan/2025	Jun/2030
10,761	1,000,000
<b>➤ Out of which are female (Number)</b>	
	Jun/2030
	480,000 (48% of total number)
<b>Increased access to digital financial services, as measured by the number of financial access points (Number)</b>	
Jan/2025	Jun/2030
817	1,021 (25% increase)
<b>Efficiency of Payments systems, as measured by percentage decrease in transaction cost to customers (Percentage)</b>	
Jan/2025	Jun/2030
0	50%

### Intermediate Indicators by Components

Baseline	Closing Period
<b>Development of Fast Payment Systems (FPS)</b>	
<b>Fast Payment System is developed and operational (Yes/No)</b>	
Jan/2025	Jun/2030
No	Yes
<b>Annual volume and value of cleared transactions (Number)</b>	
Jan/2025	Jun/2030



0	600,000
<b>Number of participating financial institutions (Number)</b>	
Jan/2025	Jun/2030
0	10
<b>Number of use cases (P2P, P2M, G2P, B2B, etc.) (Number)</b>	
Jan/2025	Jun/2030
1	3
<b>Development of a Real Time Gross Settlement System and upgrading Core Banking for CBY Aden</b>	
<b>Real Time Gross Settlement System is developed and operational (Yes/No)</b>	
Jan/2025	Jun/2030
No	Yes
<b>Number of participating payment service providers (PSPs) both banks and non-banks (Number)</b>	
Jan/2025	Jun/2030
0	10
<b>Supporting access and usage of the payment's infrastructure</b>	
<b>Number of merchants accepting electronic payments (Number)</b>	
Jan/2025	Jun/2030
170	500
<b>Number of active bank accounts (corporate scorecard indicator) (Number)</b>	
Jan/2025	Jun/2030
1,062,441	1,381,171 (30% increase on baseline)
<b>➤ Out of which are female owned (corporate scorecard indicator) (Number)</b>	
Jan/2025	Jun/2030
200,898	261,167 (30% increase on baseline)
<b>Number of active e-wallet accounts (Number)</b>	
Jan/2025	Jun/2030
375,252	487,828 (30% increase on baseline)
<b>➤ Out of which are female owned (Number)</b>	
	May/2030
	73,174 (15% of total number)
<b>Number of agents of licensed financial institutions (Number)</b>	
Jan/2025	Jun/2030
65	71 (10% increase)
<b>➤ Number of Female agents (Number)</b>	



Jan/2025	Jun/2030
1	20
<b>Number of Financial Literacy campaigns (Number)</b>	
Jan/2025	Jun/2030
0	10
➤ Of which are female-focused (Number)	
Jan/2025	Jun/2030
0	5
<b>Project management</b>	
<b>Percentage of beneficiaries that are satisfied with the level of service (Percentage)</b>	
Jan/2025	Jun/2030
0	80%
➤ Women only - Satisfaction with level of service (Percentage)	
Jan/2025	Jun/2030
0	80%
<b>Grievances addressed within stipulated time (Percentage)</b>	
Jan/2025	Jun/2030
0	90%
➤ Women only - Grievances addressed within stipulated time (Percentage)	
Jan/2025	Jun/2030
0	90%



## Monitoring & Evaluation Plan: PDO Indicators by PDO Outcomes

<b>A digitally enabled environment through enabling digitalization of different payment services and higher financial inclusion rates</b>	
<b>Increase in large-value payment systems across the financial markets, as measured by the percentage increase in the value of RTGS transactions (Percentage)</b>	
Description	This indicator will calculate the percentage increase in value of RTGS transactions and will use the daily average of Commercial banks transactions in core banking system as a baseline.
Frequency	Semi-annually
Data source	CBY
Methodology for Data Collection	CBY
Responsibility for Data Collection	UNDP
<b>Increased payments, as measured by the number of beneficiaries who received or made payments and transfers through electronic channels (of which female). (Number)</b>	
Description	This indicator will rely on supply side data to measure the Percentage of adults using a transaction account (with a bank or other formal financial institution or mobile money operator) to make or receive a digital financial payment Includes: Use the internet to pay bills or make purchases online; Use a phone to pay bills, make purchases, or send or receive money from an account (with a bank or other formal financial institution or mobile money provider); Use a debit or credit card to make a direct payment from an account; Send or receive remittances to/from an account; Receive wages, government transfer payments, or agricultural payments to an account; Send utility or school fees from an account. This indicator will be disaggregated by gender
Frequency	This will be administered in the first year of implementation, mid-project and at endproject.
Data source	Supply data gathered from market participants with support of CBY-Aden and Fast payment company
Methodology for Data Collection	Supply side data
Responsibility for Data Collection	UNDP
<b>Increased access to digital financial services, as measured by the number of financial access points (Number)</b>	
Description	The term " financial access points" is meant as the sum of: (1) the number of branches of commercial banks and licensed Electronic Money Institutions; (2) the number of active agents of licensed financial institutions; (3) the number of in-service ATMs of commercial banks; and (4) the number of POS terminals accepting electronic payments.
Frequency	Semi-annually
Data source	CBY
Methodology for Data Collection	Number of registered access points with CBY
Responsibility for Data Collection	UNDP
<b>Efficiency of Payments systems, as measured by percentage decrease in transaction cost to customers (Percentage)</b>	
Description	This indicator will calculate the transaction costs to customers through the weighted average of customer fees for different types of products
Frequency	Surveys will be administered in the first year of implementation, mid project and at endproject.
Data source	UNDP
Methodology for Data Collection	Survey
Responsibility for Data Collection	UNDP



## Monitoring & Evaluation Plan: Intermediate Results Indicators by Components

Development of Fast Payment Systems (FPS)	
Fast Payment System is developed and operational (Yes/No)	
Description	This indicator is meant to follow up on progress in developing and operationalizing the Fast payment system
Frequency	Semi annually
Data source	CBY
Methodology for Data Collection	CBY
Responsibility for Data Collection	UNDP
Annual volume and value of cleared transactions (Number)	
Description	This indicator will measure the annual volume and Value of cleared transactions in the fast payment system
Frequency	Annually
Data source	Fast Payment company
Methodology for Data Collection	Fast payment company
Responsibility for Data Collection	UNDP
Number of participating financial institutions (Number)	
Description	This indicator will measure the number of participating banks and emoney issuers in FPS.
Frequency	Semi annually
Data source	Fast Payment company
Methodology for Data Collection	Fast payment company
Responsibility for Data Collection	UNDP
Number of use cases (P2P, P2M, G2P, B2B, etc.) (Number)	
Description	This indicator will measure the number of use cases supported by Fast payments
Frequency	Semi-annually
Data source	Fast payments company
Methodology for Data Collection	Fast payment company
Responsibility for Data Collection	UNDP
Development of a Real Time Gross Settlement System and upgrading Core Banking for CBY Aden	
Real Time Gross Settlement System is developed and operational (Yes/No)	
Description	This indicator is meant to follow up on progress in developing and operationalizing the real time gross settlement system.
Frequency	Semi annually
Data source	CBY
Methodology for Data Collection	CBY
Responsibility for Data Collection	UNDP
Number of participating payment service providers (PSPs) both banks and non-banks (Number)	
Description	This indicator will measure the number of participating banks and emoney issuers in RTGS .
Frequency	Semi annually
Data source	CBY



Methodology for Data Collection	CBY
Responsibility for Data Collection	UNDP
<b>Supporting access and usage of the payment's infrastructure across Yemen</b>	
<b>Number of merchants accepting electronic payments (Number)</b>	
Description	This indicator will measure the number of merchants accepting electronic payments in Yemen
Frequency	Semi annually
Data source	CBY
Methodology for Data Collection	CBY
Responsibility for Data Collection	UNDP
<b>Number of active bank accounts (corporate scorecard indicator) (Number)</b>	
Description	This indicator tracks accounts on which one transaction was performed (withdrawal, deposit, transfer or electronic/ authenticated balance inquiry) within at least one year for current accounts
Frequency	Semi annually
Data source	CBY
Methodology for Data Collection	CBY
Responsibility for Data Collection	UNDP
<b>Out of which are female owned (corporate scorecard indicator) (Number)</b>	
Description	This indicator tracks progress for women only.
Frequency	Semi-annually
Data source	CBY
Methodology for Data Collection	CBY
Responsibility for Data Collection	UNDP
<b>Number of active e-wallet accounts (Number)</b>	
Description	Mobile money accounts that have been used to perform at least one financial transaction within the last 90 days.
Frequency	Semi annually
Data source	Mobile money operators
Methodology for Data Collection	Mobile money Operators
Responsibility for Data Collection	UNDP
<b>Out of which are female owned (Number)</b>	
Description	This indicator tracks progress for women only.
Frequency	Semi annually
Data source	Mobile money operators
Methodology for Data Collection	Mobile money Operators
Responsibility for Data Collection	UNDP
<b>Number of agents of licensed financial institutions (Number)</b>	
Description	The number of active agents of licensed financial institutions offering, at the minimum, cash-in and cash-out services



Frequency	Semi-annually
Data source	CBY
Methodology for Data Collection	List of agents
Responsibility for Data Collection	UNDP
<b>Number of Female agents (Number)</b>	
Description	Number of active female agents of which, owned or operated by women.
Frequency	Semi-annually
Data source	List of agents
Methodology for Data Collection	CBY
Responsibility for Data Collection	UNDP
<b>Number of Financial Literacy campaigns (Number)</b>	
Description	This indicator tracks the number of financial literacy campaigns
Frequency	Semi-annually
Data source	UNDP
Methodology for Data Collection	UNDP
Responsibility for Data Collection	UNDP
<b>Of which are female-focused (Number)</b>	
Description	This sub-indicator tracks outcome for women only.
Frequency	Semi-annually
Data source	UNDP
Methodology for Data Collection	UNDP
Responsibility for Data Collection	UNDP
<b>Project management</b>	
<b>Percentage of beneficiaries that are satisfied with the level of service (Percentage)</b>	
Description	Percentage of beneficiaries that are satisfied with the level of service
Frequency	Surveys will be administered in the first year of implementation, at midterm and at the end of the project.
Data source	TPM
Methodology for Data Collection	TPM Surveys of with the primary beneficiaries (CBY, Fis and beneficiaries receiving payments through electronic means) to collect feedback along several dimensions.
Responsibility for Data Collection	TPM
<b>Women only - Satisfaction with level of service (Percentage)</b>	
Description	Percentage of female beneficiaries that are satisfied with the level of service
Frequency	Sample of beneficiary Survey that will be administered in the first year of implementation, at midterm and at endproject.
Data source	TPM
Methodology for Data Collection	Sample of beneficiaries Survey
Responsibility for Data Collection	TPM
<b>Grievances addressed within stipulated time (Percentage)</b>	
Description	This indicator measures effectiveness of citizen feedback mechanisms established under the Project. It measures the



	percentage of cases (including complaints and inquiries) that are addressed as per the standards agreed upon in the GRM procedures.
Frequency	Semi -annually
Data source	Reports from GRM database
Methodology for Data Collection	GRM reports
Responsibility for Data Collection	UNDP
<b>Women only - Grievances addressed within stipulated time (Percentage)</b>	
Description	This indicator measures effectiveness of citizen feedback mechanisms established under the Project. It measures the percentage of cases (including complaints and inquiries) that are addressed as per the standards agreed upon in the GRM procedures.
Frequency	Semi-annually
Data source	Reports from GRM database
Methodology for Data Collection	GRM reports
Responsibility for Data Collection	UNDP





## ANNEX 2: IMPLEMENTATION ARRANGEMENTS and SUPPORT PLAN

### A. Institutional and Implementation Arrangements

1. **The IDA grant is provided to UNDP for the benefit of the Republic of Yemen** and will act as the project's implementing entity, while leveraging local capacity. This arrangement maximizes development impact on the ground while helping to preserve and build local institutional capacity.
2. **Besides its long experience working in FCV contexts globally, UNDP has a strong presence in Yemen and the capacity to reach out to relevant stakeholders.** Working in Yemen since the war started in 2015, UNDP has demonstrated strong capacity and readiness to implement investment projects in extremely challenging circumstances. UNDP has preparedness and mobilization mechanisms in place, which enable optimal emergency procurement, and is well informed about the financial sector in Yemen. To ensure implementation readiness, UNDP will deploy an internationally experienced project manager who will oversee the day-to-day implementation of the project activities and will be assisted by experienced advisors and experts in procurement and financial management within its office in Yemen. The team will be supported by experienced counterpart teams in its regional office in Amman and Istanbul.
3. **UNDP's role as the recipient of the Bank funds for the benefit of the Republic of Yemen and alternative implementation agency on an exceptional basis is in line with the Financial Management Framework Agreement (FMFA) between the WB and UN agencies.** The financial management arrangements will be governed by the FMFA, which provides for the use of the UN's Financial Regulations. UNDP will follow its own procurement procedures as Alternative Procurement Arrangements allowed by the WB's Procurement Framework Policy, Section III.F.
4. **UNDP will:** (a) take responsibility for project implementation; (b) monitor the project targets and results in coordination with the local partners; (c) handle relevant procurement, financial management, M&E, and disbursement management including the preparation of withdrawal applications under the project; (d) enter contractual arrangements with service providers and third-party monitors; and (e) ensure that all reporting requirements for the Bank are met per the Financing Agreement. UNDP will decide on the appropriate procedures for selecting contractors, consultants, and implementation partner(s) in accordance with its own operational guidelines, and support of the WB team. UNDP will implement the Project through its Yemen Country Office in Yemen and the Operational Hub in Amman. A dedicated Project Management Unit (PMU) will be established to provide support in project management, technical aspects, procurement, financial management and financial sector aspects, communications, M&E, environmental and social issues, logistics, administration, information technology (IT), and security will be handled by the Yemen Office with close support on a day-to-day basis from Amman.
5. **The Association team, in close coordination with the Yemen Country Management Unit, will conduct scheduled validation of supervision missions with UNDP in Amman for the Project.** The Association will closely coordinate with the UNDP, on regular basis, in connection with UNDP's implementation and overall oversight of the proposed Project, and as part of the validation of the supervision, the Association will: (a) review technical and financial progress reports to assess achievement of the PDO and intermediate indicators; (b) discuss relevant risks and mitigation measures; and (c) conduct validation of supervision missions with UNDP regional office in Amman, CBY and its local partner(s). Additionally, regular virtual meetings will be conducted with UNDP. The Association validation of supervision will be enhanced through a multipronged approach that enables it to verify outputs including potentially engaging independent third-party monitoring agents.



## B. Results Monitoring and Evaluation Arrangements

6. **UNDP will be responsible for results monitoring and will put in place an adequate system and procedures to ensure regular monitoring and reporting of project implementation and results.** M&E would be through regular field visits to project sites, quality control, regular follow-up with local partner(s), progress review meetings, data collection and verification, and documenting progress towards achieving results and reporting in line with the results framework (see Section VI). Given the evolving conflict and security situation in Yemen, UNDP will ensure that results monitoring is responsive to the changing circumstances on the ground. UNDP will conduct a mid-term review jointly with the WB to evaluate all aspects of project implementation. UNDP will submit to the Bank quarterly technical and semi-annual financial progress reports on Project activities and regular status reports of compliance with the Environment and Social Commitment Plan (ESCP) and the environmental and social instruments in accordance with the Financing Agreement. The contents of these reports will be described in the Project Operations Manual (POM).
7. **The technical part of the report will include:** (a) a summary of the progress and the context within which the Project is implemented; (b) ongoing and completed activities carried out during the reporting period; (c) any challenges encountered, and measures taken; (d) changes introduced during implementation, including changes in the budget; (e) achievements and results of the Project with reference to identified indicators; and (f) the work plan for the subsequent reporting period.
8. **UNDP will engage a TPMA to undertake independent results verification of project outcomes** leading to documenting the achievement of the PDO. The TPMA will also verify on-the-ground reports on the status of activities, outcomes, and intermediate results indicators, and monitor compliance with fiduciary and social and environmental processes. The TPMA shall be provided by UNDP and its contractors, subcontractors, and supervision consultants, with unlimited access to all relevant project information and documents and will attend project meetings as an observer.

## C. Entry Criteria for Access (ECA)

9. **The project will adopt Entry Criteria for Access (ECA) that will dictate the ability of the project to operate. The ECA will allow for the project to be paused if certain risks materialize.** The ECA will include the following areas that have been agreed to during project preparation:
  - (i) **AML/CFT compliance:** Monitoring of AML/CFT commitment by all financial sector beneficiaries of the project will take place during project implementation in any geographic location where the project is implemented.
  - (ii) **Financial stability risks:** risks related to financial sector stability will be monitored to ensure that the broader financial sector conditions support effective project implementation.
  - (iii) **restrictions on women's access to financial services:** monitoring of any actions that limit female access to financial services will take place to ensure that the project is not being implemented in any geographic area where financial sector policies are put in place that discriminate against women
  - (iv) **UNDP and Third-Party Monitoring Access:** the project will only be implemented where TPM providers and UNDP are safely able to access the counterparts needed and information needed to complete their activities under the project.



- (v) **political interference in the operations and governance of key implementing partners, vendors, and payment providers supported by the project:** the project will monitor government interference in financial sector beneficiaries of the project to ensure that the project is paused if this interference creates conditions that inhibit the project from meeting its objectives

10. **For each of these risks, the World Bank and UNDP have identified actionable management measures, indicators to assess the continuity of operations, and scenarios for immediate corrective actions.** The draft ECA has been defined and agreed to with UNDP and will be finalized and included in the Project Operations Manual (POM).

#### D. COMPREHENSIVE FINANCIAL MANAGEMENT ASSESSMENT REPORT

##### Main conclusions of the assessment

11. **The financial assessment complies with the Financial Management Manual for WB Investment Project Financing (IPF) operations and the Financial Management Framework Agreement signed with UNDP.** As per the FMFA, the financial management is based on UNDP financial rules and regulations, and additional due diligence agreed upon with the WB. The objective of the assessment is to evaluate the adequacy of the financial management system and its ability to plan, budget, execute, account for, report, and provide adequate audits to ensure that the project financing has been used for intended purposes.
12. **UNDP FM arrangement for the project is considered adequate.** UNDP will manage all the financial management aspects of the project, maintain separate accounts for the project, and ensure that original supporting documents of expenditures are retained and adequately archived. UNDP will prepare a budgeted annual work plan for implementation and a detailed procurement plan (in agreement with the WB). This budgeted Annual Work Plan will be prepared no later than three months after project effectiveness. It will highlight the activities to be implemented for the subsequent 12 months by component, sub-component, and activity level with intended results, timeline, budgets, and planned procurement activities. It will also identify issues/implementation bottlenecks and relevant remedial actions and outline key responsibilities. The budgeted Annual Work Plan and the progress report will be the monitoring tool between implementing partners and the WB to regularly monitor activities of each component, evaluate progress, and discuss corrective actions or changes as needed. A detailed POM will be prepared before project effectiveness, and it will be subject to the WB's no objection. The project will use unaudited IFRs for disbursements and will submit the reports on a quarterly basis to the WB. Funds will flow from the WB to the UNDP's corporate accounts, then be transferred to the UNDP bank account or the bank accounts of their implementing partners (IPs) and ultimately to the beneficiaries. The project will follow the single audit principle agreed between WB and UNDP as per the Financial Management Framework Agreement (FMFA). If the Association and the Recipient agree that additional due diligence is needed, the Recipient shall ensure that any further due diligence is carried out exclusively according to the TORs agreed on with the WB.
13. **The overall Financial Management risk is rated High due to the overall high risks posed by conflicts, the Central Bank-Aden decision to relocate commercial bank Headquarters from Sana'a to Yemen, and the escalation of Conflict in the Middle East.** The main FM risks include liquidity shortage and constrained financial transactions because of the recent Central Bank of Yemen decision. UNDP will implement a business continuity plan to address the current crisis in the banking sector. The plan will include the limitation of advances to Implementing Partners, the use of the direct payment method and e-wallet, and the opening of bank accounts in acceptable commercial banks based in Aden. The FM risk is further mitigated using TPMs that provide an additional layer of Project monitoring to help identify risks and appropriate mitigation actions. UNDP will report the financial values related to high-risk issues that have persisted for over three months. In case the financial sector becomes completely



dysfunctional in Yemen, UNDP's business continuity plan will include, if feasible, air transport cash to Yemen (as done in Afghanistan) and direct payments made by UNDP HQ to beneficiaries.

14. **The residual fiduciary risk is assessed as High.** This is due to the overall high inherent risk posed by conflicts and escalation in the Red Sea. The detailed FM risk and mitigating measures are in Table 1.

## Detailed Assessment

### Annual Work Plan and Budget

15. **UNDP will prepare a budgeted annual work plan for implementation and a detailed procurement plan (in agreement with the WB).** This budgeted Annual Work Plan will be prepared no later than one month after project effectiveness. It will highlight the activities to be implemented for the subsequent 12 months by component, sub-component, and activity level with intended results, timeline, budgets, and planned procurement activities. It will also identify issues/implementation bottlenecks and relevant remedial actions and outline key responsibilities. The budgeted Annual Work Plan and the progress report will be the monitoring tool between UNDP and the WB to regularly monitor activities of each component, evaluate progress, and discuss corrective actions or changes as needed. The project will use unaudited IFRs for disbursements and will submit the reports on a quarterly basis to the WB.

### Accounting and Internal Control

16. **UNDP will apply its financial rules and regulations,** which are based on the International Public Sector Accounting Standard (IPSAS) and use an automated accounting system (ATLAS) to record and report the project's financial transactions.
17. **To ensure that adequate internal controls are applied on the use of funds, UNDP will ensure the following:** (a) The finance team located in the field is comprised of sufficient qualified staff to review and adequately maintain and file all original project supporting documents. The finance team will ensure that proper controls are in place over the use of funds and that payments are made for eligible expenditures with consideration to economy and efficiency; (b) The compliance team or its equivalent will assist their finance teams to ensure arrangements are in place for funds to reach the legitimate beneficiaries; (c) Finance and compliance teams will ensure proper controls are in place for management and recording of inventory. They will ensure that proper measures are in place to prevent double-dipping of activities; (d) Adequate financial and technical reviews are conducted regularly by the TPMAs and recipient's finance and M&E teams; (e); (f) UNDP will ensure that IFRs are appropriately reviewed and approved before submission to the WB. IFR-reported expenditures would include no advances other than those agreed with the WB and disclosed in the IFR; (g) UNDP has measures in place for conducting regular spot-checks and annual audits (of implementing partners receiving more than US\$300,000 per annum). A detailed POM will be prepared before project effectiveness, and it will be subject to the WB's no-objection.

### Unaudited Interim Financial Report (IFR)

18. **UNDP will prepare a quarterly financial report that will be shared with the WB within 45 days of the Quarter's end.** The IFR will be IPSAS compliant, and its format will be agreed upon and annexed to the Disbursement and Financial Information Letter (DFIL). It will comprise (i) the statement of source and use of funds, (ii) the statement of the use of funds by project activities, (iii) the Designated account reconciliation statement, (iv) the commitment, (v) detail of advances to Implementing Partners, and (vi) fixed assets.



## Disbursement and flow of funds

19. **The project will use the IFR-based disbursement method.** The recipient will use the Direct Implementation modality as much as possible to mitigate any risk associated with advances to the UN account, by which funds will flow from the WB to UNDP corporate accounts and then to the ultimate beneficiaries/recipients without going through intermediary accounts. Transfer from the UNDP corporate account to UNDP Yemen will be based on semi-annual forecasts or less. UNDP disburses in US\$, after obtaining market rates based on the UNDP Guidance Note on Exchange Rate, following the Yemeni Association for Money Exchangers' published rates on the telegram channel.

Table 1: FM Risks and Mitigation Measures for the proposed project

FM Risks	Proposed Mitigation Measures
<p><b>High risk</b> due to limited capacity and fragile independence of TPMAs/auditors, implementing partners (IPs), and M&amp;E consultants. This risk derives from the security situation in Yemen, resulting in reliance on local firms hired directly by the recipients.</p> <p><b>Impact:</b> Inaccurate reported results. Recipients rely on the work of IPs and reports from various types of monitoring and review agents. Because TPMs' and auditors' contracts can be terminated directly by the hiring agency, this may negatively impact on their independence and impartiality in reporting findings.</p>	<ul style="list-style-type: none"> <li>• Appoint IPs/TPMA and audit firms.</li> <li>• The WB will explore, with the help of the Yemeni Association of Accountants and Auditors, areas where capacity-building support needs to be provided to local firms.</li> <li>• Selection of TPMs and auditors will be in consultation with the WB.</li> <li>• TORs for TPMs will be prepared in agreement with the WB.</li> <li>• The recipients will share the TPM reports with the WB immediately after receipt of the reports from the TPM.</li> <li>• Sharing the results of initial assessments of proposed implementing partners with the WB before signing with them. In addition, periodic spot checks and annual audits of implementing partners are conducted.</li> <li>• Implementation of these mitigation measures will reduce the risk to <b>Substantial</b>.</li> </ul>
<p><b>High risk</b> related to fraud and corruption due to the use of cash in IDA projects.</p> <p><b>Impact:</b> Misuse of IDA funds.</p>	<ul style="list-style-type: none"> <li>• Regular FM reviews of financial reports during supervision missions to ensure compliance with WB rules/regulations.</li> <li>• Recipients will maximize the use of the Direct Implementation modality, by which funds will flow directly from recipients' accounts to the ultimate beneficiaries.</li> <li>• Recipients will rely more on e-payments, mobile banking, and payment agencies to ensure that the funds reach the legitimate beneficiaries.</li> <li>• Implementing these mitigation measures will reduce the risk to <b>Substantial</b>.</li> </ul>
<p><b>There is a high risk stemming from concerns related to the difference in the Yemeni Rial (YER)—US Dollar (US\$) exchange rate between the IRG-controlled areas and outside of IRG-controlled areas and the associated risks related to a possible lack of transparency on how the project funding would be converted from US\$ into YER.</b></p>	<ul style="list-style-type: none"> <li>• A streamlined mechanism has been developed to use the market rate in the IRG-controlled areas. The new mechanism uses the daily published market rate by the Currency Traders Association and maintains the funds in USD accounts while conversion to YER is made at the time of payment. All implementing partners will apply the new mechanism for the YER treatment in the IRG-controlled areas. The spot checks and annual audit of implementing partners will ensure compliance with the new mechanism.</li> <li>• This mitigating measure should bring the risk down to <b>Moderate</b>.</li> </ul>
<p><b>High risk</b> due to the limited capacity of national and international staff on the ground.</p> <p><b>Impact:</b> Inadequate controls are applied, augmenting the risk of misuse of funds; a gap</p>	<ul style="list-style-type: none"> <li>• The recipient will ensure their finance and compliance departments are sufficiently staffed with qualified individuals responsible for the ex-ante and ex-post review of all transactions.</li> <li>• Implementing these mitigation measures will reduce the risk to <b>High</b>.</li> </ul>



FM Risks	Proposed Mitigation Measures
emerges between what is reported and what is implemented on the ground (inaccurate reporting of results).	
<b>High risk</b> of extensive use of advances leading to improper use of funds. <b>Impact:</b> Using the funds for unintended purposes.	<ul style="list-style-type: none"> <li>• Use of Direct Implementation modality, applying strong ex-ante (e.g., enrollment measures) and ex-post control over beneficiaries' payments.</li> <li>• Implementing these mitigation measures will reduce the risk to <b>Substantial</b></li> </ul>
<b>High risk</b> due to limited access to areas (nationally and sub-nationally) due to conflict <b>Impact:</b> The number of project beneficiaries could be affected, as could the capability of TPM and monitoring agents to access those areas and provide assurance on the work.	<ul style="list-style-type: none"> <li>• Regular checks by the WB team with the UN agencies, national institutions, and monitoring agents to assess the magnitude of this risk and the areas affected.</li> <li>• WB and UN agencies prepare plan B to apply in cases where this risk materializes. The residual risk will be <b>Substantial</b>.</li> </ul>

20. **UNDP will make sure that the commercial banks they deal with apply the rates accordingly.** The use of advances to UNDP should be limited. In cases when advances are used, UNDP will ensure proper controls are in place, such as: (a) the advances should not exceed certain thresholds; (b) no new advances are released to UNDP unless previous advances are fully settled (in cases of partial settlement, additional funds can be provided within the limit of the partial settlements made); (c) all original supporting documents for expenditures incurred under the project are maintained; and (d) all advances have proper audit trails. UNDP will exert all efforts to ensure that funds reach the ultimate beneficiaries with sufficient evidence provided. This includes ensuring that no funds are transferred to the central government.

#### External and Internal audit

21. **The single audit principle applies,** and UNDP will share its annual audited financial statement with OPCS annually. In addition, UNDP will share the annual audited financial statement, including the Implementing Partners' management letter.
22. **UNDP will ensure that the project is included in the periodic internal audit and** agree to collaborate with the WB if additional due diligence or a specific audit is needed and agreed upon.

#### Implementation support

23. **The WB FMS** will conduct desk reviews and field missions at least every Quarter to monitor the project's implementation.