

WINTER 2003

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# YEMEN ECONOMIC UPDATE

Yemen Economic Update is a quarterly report that consists of five sections. The first section highlights major economic and policy developments. The second section provides "flash indicators" for key economic variables that are available on a monthly or quarterly basis from the Government of Yemen. The third section uses different data sources to compare one development indicator in Yemen with other countries in the MENA region and countries with similar GDP per capita and population. The fourth section summarizes new legislation, publications, data, conferences, and donor activities. The fifth section provides contact information and recent World Bank operations and activities in Yemen. Occasionally, special topics are featured in the Update.

## Economic and Policy Developments

### (i) Key Policy Developments:

Two major government decisions were taken in the last quarter of 2003 with strong implication on the business environment in Yemen. First, the Government of Yemen (GoY) amicably ended, in October 2003, the *concession of Yemen Invest* for the management of Aden port's container terminal and the Aden Free Zone (AFZ), which entered into force in 1996. According to the agreement, all moral as well as material rights, including the project assets, have been transferred to the Government. The GoY hopes to get a new international operator for the Port. Second, the Cabinet approved the bid to operate *TeleYemen* last November. France Telecom (the French telecommunication company) won the bid (worth about US\$ 11.3 million per annum) to run TeleYemen for five year, starting in January 2004.

On the fiscal front, a *budget supplement for 2003* was approved in the last quarter of the year. The budget supplement totaled YR 108 billion. Furthermore, the Supreme Committee for Budget approved draft *State Budget for 2004* last October. Parliament approved the budget on 29 December 2003. The budget continues to support economic and financial reforms and aims to enhance the role of local authorities, in addition to increasing investment in productive non-oil sectors with primary focus on addressing unemployment and poverty alleviation.



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About 600,000 voters participated in the *local by-elections* in December 2003. The by-elections were held in 384 electoral centers. More than 54 candidates competed in various governorates, while 179 others competed for seats in the local councils of the districts. The GPC ruling party won most of the contested seats.

Under the auspices of President Ali Abdullah Salih, Chairman of the Supreme Judicial Council, the *first Judicial conference* was organized by the Ministry of Justice in December 2003. The conference discussed many papers on the independence of the judicial system, means of its reform, the role of the judicial system in economic development, guarding public resources as well as the war on corruption. The conference aimed to enforce the role of the judicial authority and to bring it closer to the people.

The cabinet formed, in November 2003, the *Higher Council of Zakat Trustees* to set and oversee the general policies for managing Zakat resources as well as improving mechanisms for its distribution in accordance with the

Islamic laws. The Council will be chaired by the Prime Minister and include in its membership the Head of the Higher Judicial Council, and the ministers of Finance, Local Administration, Labor and Social Affairs and Guidance and Endowments.

The Second *Local Councils Conference* under the theme of "Enhancing Decentralization in Practice" was organized in Sana'a last October. After reviewing the experience of last year, the conference affirmed Yemen's commitment to the decentralization experience and made many recommendations to deepen decentralization practice in future.

The *President of the World Bank*, Mr. James Wolfensohn is scheduled to visit Yemen during 7-9 February 2003. He will meet with high-ranking Yemeni officials in the government to discuss the Bank's relations with Yemen and the projects funded by the Bank in the country.

Parliament resumed its sessions in the first week of December. It approved amendments to the *Civil Service Fund Law*. Among its important agenda for this session are the enactment of the Housing Law and the Council of Ministers Law.

*(ii) Economic Developments:*

*The emerging macroeconomic trends are disappointing.* They point to deceleration in GDP growth rates, higher inflation and a deficit in the resource balance). Newly released national accounts from the Central Statistical Organization (CSO) reveal that *the GDP growth rate decelerated in 2002 to 3.6%* down from 4.7% achieved in 2001. The GoY projects further deceleration in GDP growth to reach 3.3% in 2004 as contained in the draft 2004 Budget. Furthermore, the GoY also expect a decline in the unemployment rate from 11% in 2003 to 10.6% in 2004 and further decline in poverty incidence despite the low projected GDP growth rates for next year.

*Inflationary pressures were witnessed in the second half of 2003.* Inflation rate has been more than 10% throughout August-October 2003 and is expected to be more than 12% for the whole of 2003.

For the first time ever, *foreign reserves* in Yemen surpassed US\$ 5 billion by the end of October 2003 (covering about a year and half of imports of goods

and services). The *exchange rate* has remained stable during March-October 2003 at US\$/YR 184.

*(iii) Other Economic News:*

- Two agreements were signed between the GoY and the World Bank in Paris (France): (i) the first to finance the third phase of the Public Works Project (US\$ 45 million); and (ii) the second to fund the third phase for the Social Fund for Development for the period 2004-2008 (US\$ 60 million).
- During October 13-16, Yemen hosted the 8th Arab Mineral Conference organized by the Arab Organization for Industrial Development and Mining with participation of 18 countries. The purpose of the conference was to highlight investment opportunities in the field of minerals available in the Arab countries.
- The total number of projects licensed by the General Investment Authority (GIA) during June-September 2003 reached 92 projects at a cost of YR 66.9 billion, with fixed assets of YR 56.3 billion and providing 2,914 job opportunities. The industrial sector had the lion share in new projects with 39 projects worth YR 60.1 billion, followed by the services sector with 26 projects worth YR 3.6 billion and the agricultural sector with 16 projects worth YR 1.9 billion.
- The National Strategy for Women (Gender) Development was endorsed by the Cabinet in September 2003.
- The Ministry of Oil and Minerals and Koji Limited Group signed, last October, two agreements regarding oil production on block 57 in Al-Rian area and block 58 in Marib governorate, in according to which Koji Group will spend US\$ 10 million during the initial exploration stage.
- On November 10, an agreement was signed between Yemen and Italy regarding relieving Yemen of US\$ 16 million of debt by swapping this amount towards development projects.
- The GoY intends to increase its contribution in the funding of the Social Development Fund from US\$ 1.0 million in 2003 to US\$ 5.5 million in 2004.
- The Cabinet discussed, last December, the requirements for preparation of the Annual Progress Report on the Poverty Reduction Strategy (PRSP). It also approved draft amendment of Article 70 of Law 19, 2001 for putting on hold implementation of the Sales Tax Law until July 1, 2004.
- During a GCC meeting held in Kuwait during December 7-9, 2003, Yemen was granted membership of the Agricultural Cooperation Council of the GCC.

## Flash Indicators

### (i) GDP:

The Central Statistical Organization (CSO) has released a new set of national accounts. It updated GDP figures for the period 1995-2002. Based on the new set of national accounts, GDP growth in Yemen decelerated from 4.7% in 2001 to 3.6% in 2002 (Table 1). The relative importance of agriculture and manufacturing in GDP continued to decline in the last three years. The prominence of oil production has been a major phenomenon during 1996-2002 with oil constituting about a third of GDP (with the exception of 1998). The last three years also show declining trends in national domestic saving and domestic investment. Furthermore, the strong surplus in the resource balance in 2000-2001 has turned to a small deficit in 2002. GNP per capita (Atlas methodology) increased from US\$ 470 in 2001 to US\$ 490 in 2002. GDP per capita growth remained weak given the high population growth rates in Yemen. It declined from 1.6% in 2001 to only 1% in 2002.

**TABLE 1: GDP IN YEMEN, 1990-2002**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
<b>GDP, real growth rate (%)</b>	..	2.7	5.6	7.1	3.7	12.5	7.4	6.4	5.3	3.5	4.4	4.7	3.6
Agriculture (% of GDP)	24	21	23	21	22	20	17	17	20	17	14	15	15
Qat (% of GDP)	9	8	7	7	7	5	5	5	5	4	4	4	4
Industry (% of GDP)	26	23	22	21	24	31	40	42	32	41	47	42	40
Gas and Oil (% of GDP)	14	10	7	5	6	13	26	28	16	28	37	31	30
Manufacturing (% of GDP)	8	9	10	11	13	13	8	8	8	6	5	5	5
Services (% of GDP)	50	55	55	58	54	49	43	41	48	42	39	43	44
Domestic Absorption (% of GDP)	108	123	129	137	107	107	107	109	121	102	92	99	101
<b>Gross Domestic Savings (% of GDP)</b>	<b>6.8</b>	<b>-6.8</b>	<b>-6.6</b>	<b>-17.2</b>	<b>13.4</b>	<b>14.5</b>	<b>16.3</b>	<b>16.3</b>	<b>11.8</b>	<b>21.7</b>	<b>24.9</b>	<b>18.2</b>	<b>16.0</b>
Foreign Savings (% of GDP)	-8.5	11.2	18.8	25.4	-6.5	-4.3	-1.9	-0.3	5.1	-7.4	-14.2	-7.0	-4.1
Gross National Savings (% of GDP)	23.2	5.0	3.6	-5.2	27.2	26.1	25.2	25.5	27.6	31.4	31.6	24.3	20.8
<b>Total Consumption (% of GDP)</b>	<b>93</b>	<b>107</b>	<b>107</b>	<b>117</b>	<b>87</b>	<b>86</b>	<b>84</b>	<b>84</b>	<b>88</b>	<b>78</b>	<b>75</b>	<b>82</b>	<b>84</b>
Public Consumption (% of GDP)	18	19	19	19	19	14	13	13	15	14	13	14	14
Private Consumption (% of GDP)	76	88	87	98	68	71	70	70	74	65	62	68	70
<b>Gross Domestic Investment (% of GDP)</b>	<b>14.7</b>	<b>16.2</b>	<b>22.4</b>	<b>20.2</b>	<b>20.7</b>	<b>21.8</b>	<b>23.3</b>	<b>25.2</b>	<b>32.7</b>	<b>24.0</b>	<b>17.4</b>	<b>17.3</b>	<b>16.7</b>
Total fixed investment (% of GDP)	12.0	13.9	19.8	17.4	18.8	20.6	21.5	21.8	31.7	22.9	16.5	16.4	15.8
<b>Resource Balance (% of GDP)</b>	<b>-7.8</b>	<b>-22.9</b>	<b>-29.0</b>	<b>-37.4</b>	<b>-7.3</b>	<b>-7.3</b>	<b>-7.0</b>	<b>-8.9</b>	<b>-21.0</b>	<b>-2.4</b>	<b>7.6</b>	<b>0.9</b>	<b>-0.6</b>
Exports of GNFS (% of GDP)	17.2	22.1	21.4	27.3	50.5	50.6	42.8	36.5	27.0	35.8	42.6	37.1	37.9
Imports of GNFS (% of GDP)	25.0	45.0	50.4	64.7	57.9	57.9	49.8	45.4	48.0	38.2	35.0	36.1	38.6
Exports of GNFS, real growth rate (%)	..	32.0	2.4	36.7	91.8	12.7	-9.2	-9.2	-22.1	37.1	24.3	-8.8	5.9
GNP per capita, ATLAS methodology	..	..	380	370	290	280	290	330	370	370	410	470	490
GNP per capita, real growth rate (%)	..	-12.8	3.3	2.5	-5.6	10.3	6.9	6.1	6.1	-3.5	2.7	2.7	0.6
<b>GDP per capita, real growth rate (%)</b>	<b>..</b>	<b>-9.1</b>	<b>2.3</b>	<b>3.7</b>	<b>0.4</b>	<b>9.4</b>	<b>4.4</b>	<b>3.5</b>	<b>2.3</b>	<b>0.6</b>	<b>1.5</b>	<b>1.6</b>	<b>1.1</b>
Inflation, GDP Deflator, period average	..	16.7	21.0	16.0	25.3	47.8	32.3	12.6	-8.8	32.6	25.9	1.0	5.2

Source: Derived from data obtained from the Central Statistical Organization (CSO).

### (ii) Government Finance:

The 2004 budget which was approved in the last week of December 2003 increased projected government revenues by 13% over budgeted revenues of the previous year. Total fiscal revenues are expected to reach YR 681.2 billion in 2004 (about US\$ 3.7 billion). Total government expenditures are projected to reach YR 744.6 billion (11.4% more than budgeted allocations in 2003). The projected deficit in 2004 is estimated at about YR 84 billion (3.9% of GDP).

The 2004 budget projects 10% rise in total oil revenues to reach YR 411 billion (based on a projected oil price of US\$ 22 per barrel) as well as a 5% growth rate in non-oil sectors. Other notable features in the 2004 include: (i) increase in allocations for local authorities (YR 137 billion in 2004 compared with YR 105 billion in the 2003 budget); (ii) increase in education spending by 19% to reach YR 163 billion; (iii) lower increases for the allocations for health spending (about 3% only in nominal terms to reach YR 36 billion in 2004); (iv) allocations for defense in 2004 budget of about YR 117 billion; and (v) allocation of YR 189 billion for investment spending (in addition to YR 36 billion for raising government equity participation in enterprises).

**(iii) External Sector**

The Central Bank of Yemen (CBY) has recently revised BOP data for 2002 and issued preliminary figures for the first half of 2003. Based on the revised BOP data, the overall BOP surplus in 2002 was about the same level as in 2001 (US\$ 0.6 billion). The current account balance in 2002 was US\$ 443 million in comparison to US\$ 671 million in the previous year, despite more than US\$ 300 million increase in merchandise exports. The service balance deficit remained virtually unchanged in 2002 (at US\$ 0.68 billion), while the income balance deteriorated by more than US\$ 120 million in 2002. The capital and financial account recorded a small deficit in 2002 (compared with a moderate surplus in the previous year).

The first half of 2003 saw slight improvements in the current account surplus, despite further expansion in the deficits of the services and income accounts. The main factor in the larger surplus was increase in oil exports from US\$ 1.7 billion in the first half of 2002 to more than US\$ 1.95 billion in the first half of the current year. Unrequited transfers (and workers remittances in particularly) increased also by more than US\$ 100 million in the first half of the current year. Finally, the capital account deficit turned into surplus in the first half of the year. As a result the surplus in the overall BOP increased from US\$ 0.1 billion in the first half of 2002 to more than US\$ 0.4 billion in the first half of the current year.

**TABLE 2: YEMEN'S BOP, 1999-2003**

	1999	2000	2001	2002	1 <sup>st</sup> half of 2002	1 <sup>st</sup> half of 2003
<b>I- Current Account</b>	<b>768.5</b>	<b>1336.7</b>	<b>671.0</b>	<b>443.3</b>	<b>283.0</b>	<b>288.3</b>
<b>1. Trade Balance</b>	<b>357.8</b>	<b>1312.8</b>	<b>766.5</b>	<b>601.8</b>	<b>339.1</b>	<b>330.7</b>
Exports	2478.3	3797.2	3366.9	3684.4	1743.5	1946.6
Non-oil exports	347.1	398.4	461.8	537.8	263.5	311.9
Crude Oil	2131.2	3398.8	2905.07	3146.6	1480.0	1634.7
Imports	-2120.5	-2484.4	-2600.4	-3082.6	-1404.4	-1615.9
<b>2. Services balance</b>	<b>-535.5</b>	<b>-598.5</b>	<b>-677.6</b>	<b>-679.7</b>	<b>-351.6</b>	<b>-371.5</b>
Transportation	-243.1	-318.4	-329.2	-343.2	-178.3	-201.9
Travel	-75.4	2.9	-40.7	27.0	-24.4	-15.6
Communication	41.1	45.2	40.2	36.3	18.0	17.1
Construction	-125.4	-51.0	-38.7	-29.9	-9.3	-14.9
Insurance	-48.2	-56.5	-59.1	70.1	-31.9	-36.8
Other business services	-79.9	-205.0	-233.6	-287.5	-121.4	-119.9
Government services, nice	-4.5	-15.7	-16.5	-14.8	-4.3	0.5
<b>3. Income balance</b>	<b>-476.8</b>	<b>-777.1</b>	<b>-690.9</b>	<b>-818.4</b>	<b>-315.4</b>	<b>-393.7</b>
Credit	94.1	149.6	178.515	119.8	67.7	53.3
Debit	-570.9	-926.7	-869.43	-938.2	-383.1	-447.0
Direct investment income	-480.1	-855.4	-799.9	-877.9	-315.4	-393.8
Portfolio and other investment income	3.3	78.3	109.029	59.5	38.1	21.3
<b>4. Current transfers balance</b>	<b>1422.9</b>	<b>1399.5</b>	<b>1273.0</b>	<b>1339.6</b>	<b>610.9</b>	<b>722.8</b>
Credit	1453.6	1471.9	1344.38	1456.8	668.1	750.5
Debit	-30.7	-72.4	-71.404	-117.2	-57.2	-27.7
<b>II- Capital and Financial account</b>	<b>-526.1</b>	<b>-233.7</b>	<b>96.5</b>	<b>-16.5</b>	<b>-237.0</b>	<b>84.6</b>
1. Financial account balance	-526	-234	97		-237.0	84.6
1.1 Direct investment	-307.6	6.4	135.5	114	-67.6	-31.5
of which Oil company investment	-233.9	6.4	136	796.8	-67.6	-31.5
1.2. Other investment	-100.8	-240.1	-39.0	-118.2	-169.5	116.0
1.2.1. Government Loans (net)	27.1	-55.5	-33.2	39.1	-12.0	26.1
1.2.2. Trade Credits	-119.4	-17.7	75.6	-57.6	-75.7	-19.5
1.2.3. Commercial Banks	-9	-167	-101	-161.6	-122.2	69.0
1.2.4. Other Sectors	0	0	20	61.9	40.4	40.4
<b>III- ERRORS AND OMISSIONS</b>	<b>111</b>	<b>286</b>	<b>-114</b>	<b>170.5</b>	<b>58</b>	<b>51</b>
<b>OVERALL BALANCE</b>	<b>269</b>	<b>1389</b>	<b>653</b>	<b>597.4</b>	<b>103.8</b>	<b>424.2</b>

Source: Central Bank of Yemen (CBY).

**(iv) Inflation:**

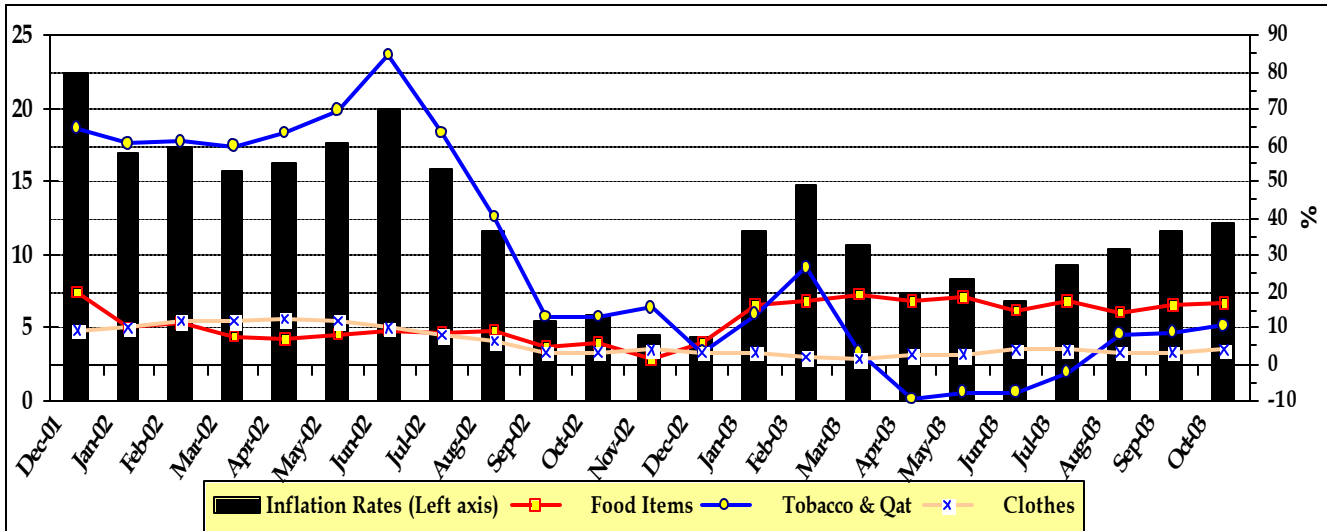
Inflation rate in 2003 is expected to exceed 12.5% compared with only 4.3% in 2002. Inflation rate was at a single digit during April-July 2003. In August, inflation rate (y-on-y) was 10.5%, increasing to 11.6% in September and further to 12.2% in October 2003 (see Figure 2 below). Almost most of the increases in CPI were attributed to the major increases in the food components of the index (44% of the total CPI). An average monthly increase in the food component of the CPI was 17% during January-October 2003. All other components of the CPI increased by

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less than 10% (including Qat). The computed inflation rate, excluding food and Qat, remained below 8% in the first 10 months of the current year.

The easing of both monetary and fiscal aggregates, the rise in transportation costs (due to increases in insurance premiums) have been the main factors behind the reversal in the inflation trend since mid-2003 (see section (v)).

**FIGURE 2: INFLATION RATES (Y-ON-Y), DECEMBER 2001-OCTOBER 2003**

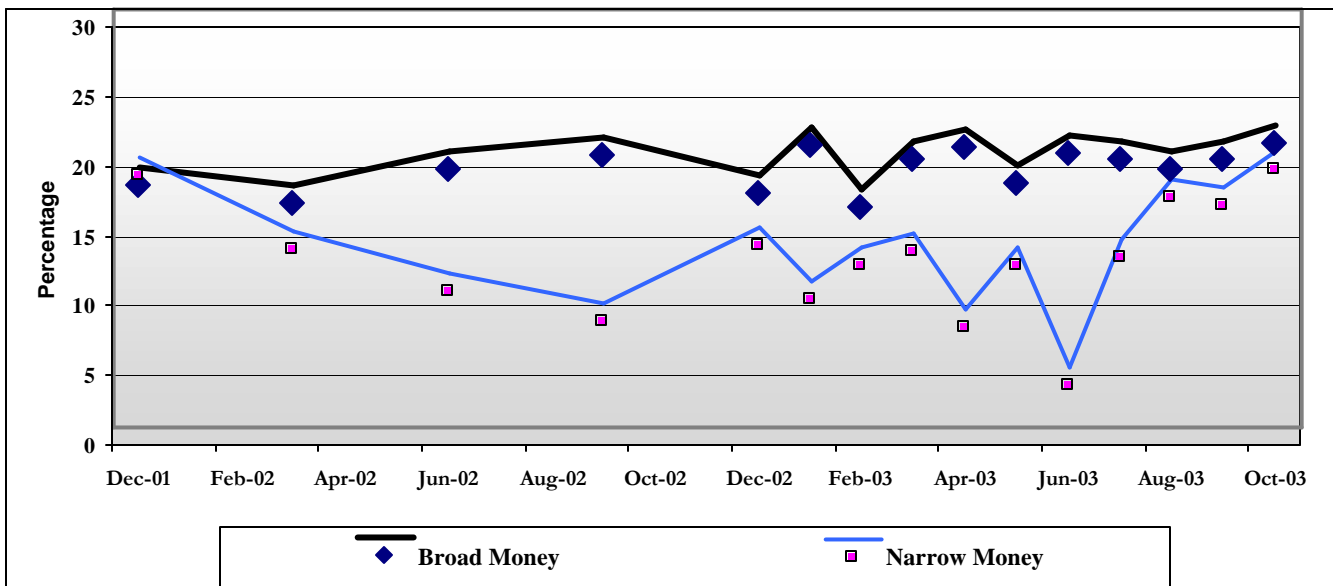


Source: CSO.

**(v) Monetary Aggregates and Domestic Credit:**

The rate of growth of monetary was relatively high in the second half of 2003. Broad money (M2) increases have been above 20% throughout the second half of the year. While the rate of increase of narrow money has also been relatively high (averaging 19.6% during July-October 2003), the rate of increase of quasi money has been higher (averaging 21.6% during July-October 2003). During the same period, the foreign currency component of the quasi money increased by about 18.3% while other components increased by 27.3%. The expansion in most monetary aggregates has been the main factor behind increases in prices as noticed in the trend of the CPI.

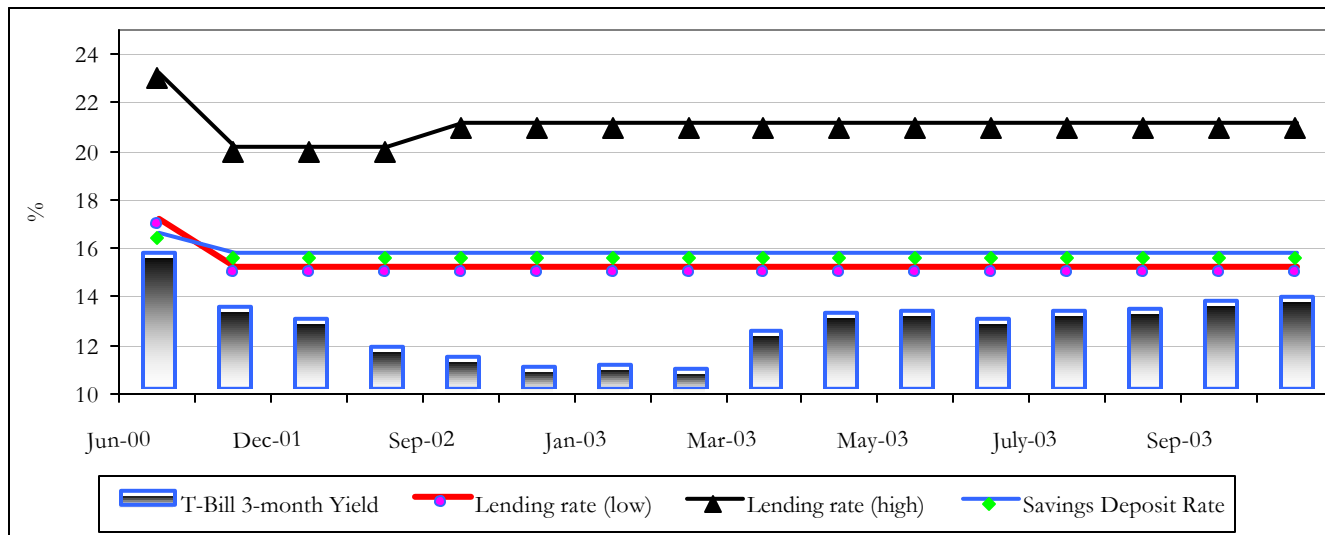
**FIGURE 3: MONETARY AGGREGATES, 2001-2003**



Source: CSO.

**(vi) Interest Rates:**

Interest rates remained virtually unchanged since mid-2001. The savings deposit rate (13%), the lending rates (15-21%) have remained at those levels since July 2001. The yield on the 3 months T-bills, which was about 12.9% in July 2003, increased in the subsequent months reaching 13.8% by end of October 2003 (see figure below). The rate on 6-month T-bills also increased from 13% to 13.9% during the same period.



**(vii) Exchange Rate and Foreign Reserves**

Yemen continued to build its foreign reserves. By end of October 2003, foreign exchange reserves surpassed US\$ 5.1 billion, which now cover more than 17 months of imports of goods and services (see Table below). In the first 10 months of the current year, net changes in reserves were more than US\$ 0.7 billion (similar to the additional reserves accrued in last two years). Reserves could have been even higher without the Central Bank interventions in the exchange rate market to smooth out fluctuations. Following the sharp depreciation in the exchange rate in the first quarter of 2003, the exchange rate remained stable throughout March-October 2003 at about US\$/YR 184.

TABLE: FOREIGN RESERVES AND EXCHANGE RATE, 1998-2003

End of Period	End of Period Exchange Rate Exchange Rate (YR/\$)	Foreign Reserves (US\$ millions)	Change in Reserves (US\$ millions)
1998	141.7	981	
1999	159.1	1,494	513
2000	165.6	2,914	1,420
2001	173.3	3,676	763
2002	179.0	4,425	749
Jan-03	181.7	4,475	50
Feb-03	181.9	4,598	123
Mar-03	183.6	4,605	7
Apr-03	183.6	4,653	48
May-03	183.9	4,741	88
Jun-03	184.0	4,843	102
Jul-03	184.0	4,886	43
Aug-03	183.9	4,900	14
Sep-03	184.0	4,989	89
Oct-03	183.9	5,116	127

Source: Central Bank of Yemen, December 2003.

# Yemen and the Education for All Fast Track Initiative (EFA-FTI)

*The Government of Yemen (GoY) considers education to be fundamental to its development strategy, in particular to poverty reduction. Education is thus a central part of IDA's assistance strategy in Yemen.*

## A. SECTOR BACKGROUND AND ISSUES

Yemen has some of the worst school enrolment and literacy rates in the world, especially for girls and women. The net primary school enrolment rates for boys and girls are 65% and 41% respectively. The situation is far worse in rural areas with only 30% of girls enrolled. Moreover, 50% of the girls who start primary school drop out before they reach grade 6. Not surprisingly therefore, 4 million women (22% of the country's population) are illiterate.

Education is thus a key priority in Yemen's Poverty Reduction Strategy and the World Bank Country Assistance Strategy. The Ministry of Education (MoE), through a broad participatory process with stakeholders, has developed a Basic Education Development Strategy (BEDS) that highlighted key education issues such as:

- (i) **Access to education:** overall access remains low at all levels and there are significant disparities between boys and girls, among and within governorates;
- (ii) **Availability of female teachers:** Recruitment of primary and secondary female teachers continues to remain problematic, especially in rural areas. This has a negative impact on the retention of girls in schools;
- (iii) **Teacher development and deployment:** teachers and administrators lack training and resources, and deployment of teachers remains inefficient and inequitable across the country;
- (iv) **Quality of education:** quality is poor at every level, and there are no standard core competences and national assessment system; and,
- (v) **Institutional capacity:** the capacity to plan, implement, monitor and evaluate the educational strategies and activities remains weak at all levels of the education system and concrete steps for decentralization need to be developed.

The GoY is committed to overcome obstacles that are impeding progress towards achieving the objectives of better education for all Yemeni children. But it needs strong international support to enable it to achieve Education For All (EFA) targets. Whilst the Government is increasing its financial support, with 48% of education expenditure already going to primary education, Yemen has a low GDP, a long backlog of under-investment. Moreover, the system has to expand to meet the high population growth rate of more than 3%.

## B. THE FAST TRACK INITIATIVE (EFA-FTI)

### (i) Yemen is One of 10 Low-Income Countries Eligible to FTI:

Through the Dakar Declaration of 2000, the international community committed itself to ensuring that no country that takes the goal of EFA seriously shall lack the resources to accomplish this. In April 2002, the World Bank's governing body, the Development Committee, endorsed an action plan to accelerate progress towards EFA. One of the key planks of this action plan was to pilot a new approach and "fast track" those developing countries that had demonstrated their commitment to achieving universal primary education by 2015 and eliminating gender disparities in primary and secondary education by *embracing sound education strategy, agreed with their donors partners, embedded in a national poverty reduction strategy.*

Since Yemen had already developed a good sector plan nested within a full PRSP, it has been naturally selected together with 9 other countries to be eligible for help to line up donor financing of remaining gap as

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\* This note has been prepared by Ousmane Diagana (Senior Operations Officers). For more information about the EFA -FTI please contact Mr. Diagana at the World Bank Office in Sana'a.

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an effort to scale up progress towards the goal of complete primary education. Yemen is the only country in the Middle East and North Africa (MENA) region invited to join the Initiative.

Some of the guiding principles of Yemen education strategy are: (i) education is a human right, (ii) education helps combat poverty, (iii) education gives the poor the possibility for economic, social and political participation; (iv) education for girls must be given high priority. The GoY is aware that educating girls is among the most effective forms of development. It has been found that women who themselves have received schooling are more likely to see the necessity of sending their children to school. Furthermore, educating girls reduce maternal and infant mortality and leads to lower birth rates. Enhancing girls education is, therefore, the central element of Yemen's Education Strategy approved by the Government and the civil society in October 2002 and endorsed by the international community in Paris in March 2003.

(ii) The FTI Catalytic Fund:

FTI was envisaged as a process to quickly mobilize incremental support. The intent is that the process would provide tangible incentives for countries that have not yet reached the goal of Universal Primary Completion to stay on course of policy reform, aid in testing and refining and a new policy framework and benchmarks.

A total of US\$ 245 millions has been committed for the next four years to be channeled through the recently established FTI Catalytic Fund administered by the World Bank, currently supported by four FTI donors (The Netherlands, Norway, Italy, and Belgium). Of this amount, US\$ 210 millions has been committed by the government of the Netherlands.

The Catalytic Fund was launched officially in Oslo, Norway, where donors, partners' countries and civil society organizations met during November 20-21, 2003. In Oslo, 6 FTI countries were granted a total of US\$ 35 million from the Catalytic Fund for 2004. These 6 countries are: Yemen (US\$ 10 million); Niger (US\$ 8 million); Nicaragua (US\$ 7 million); Guyana (US\$ 4 million); the Gambia (US\$ 4 million); and Mauritania (US\$ 2 million). The allocation of US \$ 10 millions to Yemen (this was the single largest allocation from the Catalytic Fund) to some extent is a recognition of the positive efforts of the Government and its partners to expand the coverage and improve the quality of basic education in Yemen.

C. OTHER "ADDED VALUE FROM FTI PROCESS

In addition to financing, FTI process in Yemen has contributed to achieve the following:

(i) Government action/commitment: The FTI has helped the government to establish common bases (such as a common database). For instance, the Ministries of Education and Planning & Development used to maintain separate education statistics and population projections from each other. During the preparation of the FTI proposal, the Government agreed to a common database used amongst the Ministries. Issues related to the database for school construction have also been resolved among public institutions, such as the Ministry of Education, Social Fund, and Public Works. Moreover, the FTI has contributed to improving technical capacity within the Ministry of Education - e.g., the financial gap estimation was prepared by the government's technical staff with support from the Bank. FTI has also helped to focus the government's attention on raising outcomes through continuous implementation of on-going projects.

(ii) Within Country coordination: The FTI has helped donors to establish an efficient coordination mechanism, not only among the donors but also between Donors and the Ministry of Education. Local Donors and Government have agreed upon a Partnership Declaration setting out commitments for greater harmonization and collaboration in the sector. This agreement will be officially signed on January 10, 2004.

(iii) Focus on Implementation: Yemen has established an Implementation team, which will be accountable of the implementation of BEDS and FTI and will identify, in a proactive manner, any obstacle to the program implementation.

## Yemen Compares: Governance Indicators

The Middle East and North Africa (MENA) region of the World Bank recently issued a report entitled “Better Governance for Development in the Middle East and North Africa: Enhancing Inclusiveness and Accountability”. The full report can be accessed at [http://wbwebapps5/wwwmna/webreports/mena\\_governance\\_data.htm](http://wbwebapps5/wwwmna/webreports/mena_governance_data.htm). The report aims to enhance the dialogue in the region on governance. It proposes an analytical framework for discussing and measuring governance. It also marshals evidence showing that good governance matters for development-globally and in the Middle East.

The report stressed that globalization and demographic pressures put a premium on faster economic growth, yet growth in the region remains below potential. The same pressures are raising people’s aspiration – for public services that work for everyone, for wider participation in governance, and for better social and human development. Weak governance translates into slower growth, less-than-effective public services, and missed opportunities because of the limited participation of the citizens in shaping their future.

The report reveals that measuring governance in the Middle East is made difficult by the region’s legacy of limited public disclosure and debate. However, when compared with other regions, the MENA region does not compare well with other countries of similar income with regard to the quality of public administration, including the rule of law. Countries of the region lag behind other similar countries with regard to public accountability. In relative terms, the region performance in the quality of public administration is better than its performance in public accountability. The rest of the World has much to offer in terms of innovative governance mechanisms.

Improving governance is not an easy task. It is a long and risky process. Mr. Jean-Louis Sarbib, the former Vice-President of the MENA region in his foreword to the report stated that: “A first step could be defining a program to enhance governance. The book proposes two universal criteria that have resonated in our consultations in the region: **inclusiveness** and **accountability**. On the premise that people are the source of public authority, inclusiveness means that everyone is treated equally by governments and can participate equally in governance. Accountability means that those who act on behalf of the people are answerable for what they do. Accountability also requires transparency (allowing everyone to be fully informed of relevant information), as well as contestability (enabling everyone to participate in the choice of leaders, policies, and service providers” .

TABLE 1: KEY SOCIOECONOMIC INDICATORS, YEMEN AND COMPARATOR COUNTRIES  
(2000 or more recent)

	Yemen	MENA-13	Low- Income Countries
Population, mid-year (millions, aggregate)	17.5	265	2,460
Population under 15 years (%)	46	36	37
Life expectancy at birth (years)	56	70	59
Urban population (%)	25	72	30
Population growth (average annual, 1995-2001, %)	2.9	2	1.9
GNI per capita (PPP, US\$)	730	5,198	2,110
GNI (PPP, US\$ billions, aggregate)	12.8	1,380	5,210
GDP per capita growth (average annual, 1995-2001, %)	2	2.5	
Exports of goods and services (% GDP)	43.7	38	29
Net petroleum exports (% GDP)	33	24.5	4
Government expenditure (% GDP, 1999)	27	21	18
Military expenditures (% GDP)	5.4	6	2.2

This issue of the Update intends to highlight the performance of Yemen with other MENA countries and low-income countries. First, as Table 1 above shows, Yemen has special development characteristics. These include the following: (i) very high population growth rates, fairly young population with almost half of total population are below the age of 15, and relatively low life expectancy at birth; (ii) low urbanization rate particularly in comparison with other Middle Eastern countries; (iii) low income per capita; (iv) higher share of exports to total output (mainly oil); and (v) higher levels of military spending (though comparable with middle eastern ratios).

Different governance indicators have been constructed for MENA countries as well as other countries with similar income. Data coverage for MENA countries is limited. The analysis for this report required adapting conceptual and methodological approaches and supplementing data with additional sources to construct three broad governance indexes:

1. The *index of governance quality (IGQ)* aggregates all indicators available for MENA and measures the overall quality of governance processes. It is separated into two broad indexes:<sup>1</sup>

(a) The *index of quality of administration (IQA)* assesses the capability of the public administration to formulate and implement the sound policies and the respect for institutions that govern interactions between citizens and government. Broadly, it measures the quality of governance according to the relative strength of internal accountability mechanisms in the public administration. It aggregates 10 indicators that measure the risk and level of bureaucratic corruption and black market activity, the degree and extent to which certain rules and rights are protected and enforced (for example, property rights, laws and regulations), the quality of the budgetary processes and public management, the efficiency of revenue mobilization, the overall quality of the bureaucracy, and the independence of civil service from political pressures; and,

(b) The *index of public accountability (IPA)* assesses the process of selecting and replacing those in authority. It measures the quality of governance according to the inclusiveness of access to basic political and civic rights and the relative strength of external accountability mechanisms. It aggregates 12 indicators that measure the level of openness of political institutions in a country and the extent to which political participation is free, fair, and competitive; civil liberties are assumed and respected; and the press and voice are free from control, violation, harassment, and censorship. It also captures the transparency and responsiveness of the government to its people and the degree of political accountability in the public sphere.

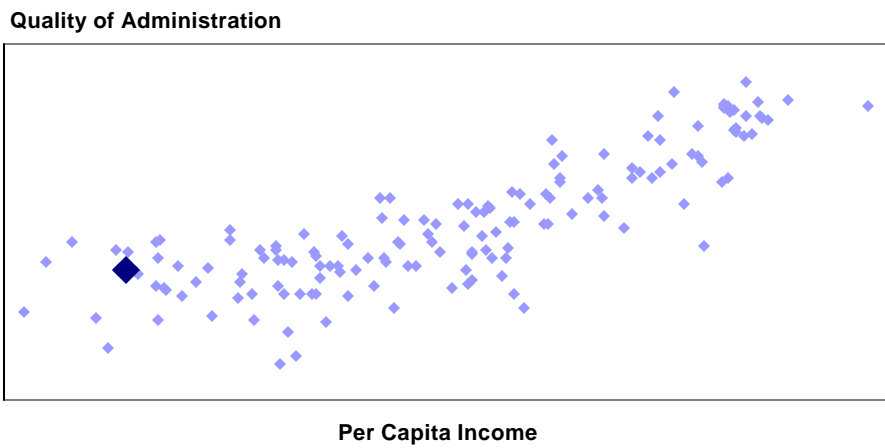
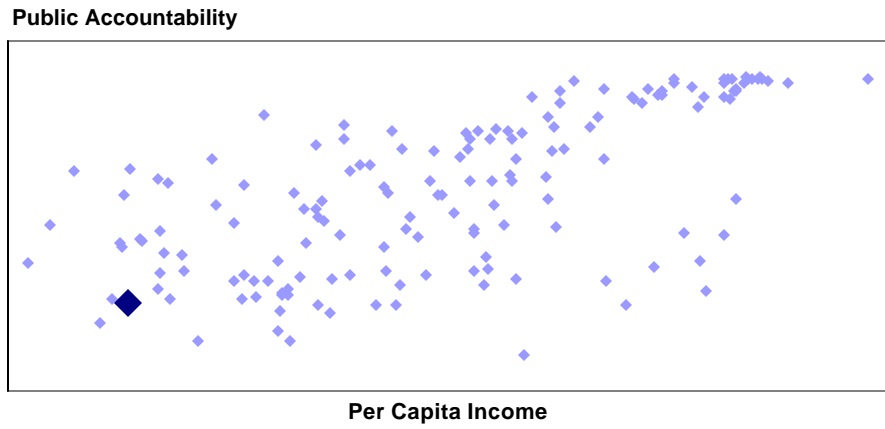
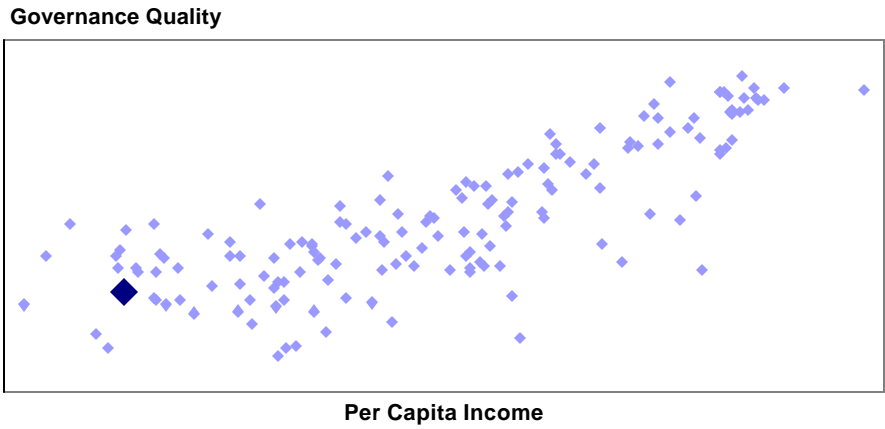
**TABLE 2: KEY MEASURES OF PUBLIC SECTOR PERFORMANCE AND GOVERNANCE INDICATORS, YEMEN AND COMPARATOR COUNTRIES**  
(2000 or more recent)

	Yemen	MENA-13	LIC
Number of procedures to start business	27	23	25
Number of days to start business	240	284	263
Government expenditure (% GDP, 1999)	27	31	18
Public spending on education (% GDP, 1998)	..	6.7	2.7
Public spending on health (% GDP, 1998)	2.1	2.9	1.3
Infant mortality (per 1,000 live births)	85.0	31.0	81.0
Maternal mortality (per 100,000 live births)	850	180	..
Illiteracy (% population age 15+)	53	28	38
Female illiteracy (% female population age 15+)	75	38	47
Ratio of girls to boys in primary and secondary education	50	93	..
Access to improved water (% population)	69	83	76
Access to improved sanitation (% population)	38	85	44
Roads paved (% total roads, 1999)	11.5	65	16
Telephone mainlines (per 1,000 people)	19	123	27
<b>MEASURES OF GOVERNANCE QUALITY (0-100 AND HIGHER IS BETTER)</b>			
<b>Index of public accountability (IPA)</b>	<b>19</b>	<b>32</b>	<b>38</b>
<b>Index of quality of administration (IQA)</b>	<b>33.5</b>	<b>47</b>	<b>30</b>
<b>Index of governance quality (IGQ)</b>	<b>22.5</b>	<b>37</b>	<b>28</b>

The results for Yemen are shown on Table 2 above. Yemen performance with regard to public accountability is far below the average for the other 15 countries in the MENA region as well as other low-income countries. With regard to the quality of administration, Yemen's indicator was better than the average low-income countries though was still below the indicator for the MENA region. As a result, Yemen's combined indicator of Governance quality (22.5) was below the MENA indicator (37) and the indicator for low-income countries (28). The graphs below show Yemen records in comparison with other countries. It should be noted that quality of public administration improves with income and the comparison for Yemen should take into consideration the low income of the country.

<sup>1</sup> Data used for the construction of indices is obtained from Kufmann, Dani; Arat Kraay; and Maximo Mastruzzi (2003). "Governance Matters II". World Bank Policy Research Working Paper No. 2772. World Bank, Washington DC.

FIGURE 1: YEMEN GOVERNANCE INDICATORS



# What's New?

## Laws, Decrees and Agreements (September- December 2003):

- Law No. 39/2003 was issued endorsing a budget supplement of YR 108.8 billion for the FY 2003.
- Law No. 40/2003 was issued to endorse the cooperation agreement for oil production in sector 45 in Al-Mahra signed on April 2 between the Ministry of Oil, CCC Company and Yemen Gas and Oil Corporation.
- Law No. 41/2003 was issued to endorse cooperation agreement for oil production in sector 33 in Hadhramout signed on April 2 between the Ministry of Oil, CCC Company and Yemen Gas and Oil Corporation.
- Republican Decree No. 255.2003 was issued to approve organizational bylaws for the Ministry of Human Rights.
- On October 7, Yemen and Korean Development Fund signed a soft loan agreement for the amount of US\$ 30 million to expand telecommunications network in Yemen.
- On October 13, Yemen and Kuwait have signed a Memorandum of Understanding regarding technical cooperation in the field of Oil and Minerals.
- On December 15, a Republican Decree 264/2003 was issued regarding formation of a ministerial committee for enhancing decentralization chaired by the Prime Minister.

## Data and Statistical Information:

- To commemorate the 26 September and 14 October Revolutions, a total of 947 development projects at a cost of YR 63.6 billion were launched including:
  - (i) 13 projects in Sana'a for YR 4.4 billion;
  - (ii) 15 projects in Aden for YR 2.9 billion;
  - (iii) 60 projects in Taiz for YR 1.8 billion;
  - (iv) 29 projects in Lahej for YR 1.1 billion;
  - (v) 30 projects in Ibb for YR 2.5 billion;
  - (vi) 47 projects in Abyan for YR 1.1 billion;
  - (vii) 35 projects in Al-Beidha for YR 1.6 billion.
- Geological surveys confirm large mineral reserves in Yemen including: 20 sites for gold, 25 sites for silver, 30 sites for zinc, 60 sites for platinum and 61 sites for iron.
- A new bilingual website was created in the information gateway to Yemen for President Salih (<http://www.presidentsaleh.info>).

## Conferences and Workshops:

- The first "Renewable Energy" seminar was held in Al-Hodeidah during September 30–October 1.
- The Ministry of Public Works and Roads organized a workshop on "Human Settlements" in cooperation with Poverty Reduction Strategy Committee during October 1-2.
- The Ministry of Communications and Information Technology organized a regional workshop on "Policies for Comprehensive Services and Finance" during October 6-8.
- The 8<sup>th</sup> Arab Minerals Conference was organized by the Arab Organization for Industrial Development and Mining during October 13-16.
- The first regional conference on "Disability" was organized in Sana'a by the Arab Human Rights Foundation during October 15-17.
- The second Local Councils Conference under the motto "Enhancing Decentralization in Practice" was held in Sana'a on October 18-22.

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- A seminar on the "Relationship between Investment and Trade within WTO" was organized by the Ministry of Industry and Trade in Sana'a during October 21-22, 2003.
- The Gulf Forum for Political Action was organized by the National Democratic Institute for International Affairs during October 25-31.
- The 48<sup>th</sup> Anniversary of the United Nations was celebrated on October 25, 2003 in the Police Academy, Sana'a.
- A workshop on "Social Awareness of Children's Rights" was organized by the Supreme Council for Motherhood and Childhood in cooperation with Radda Barnen Organization on October 24.
- The "NGO Management Workshop" was organized by the Women Economic Empowerment Association in cooperation with the Dutch Embassy during November 8-10.
- A regional workshop on "E-Government" was organized by the Ministry of Telecommunications and Information Technology in cooperation with UNDP during December 1-4.
- The 31<sup>st</sup> Conference of the Federation of Arab News Agencies took place in Yemen (Sana'a) during December 6-7, 2003.
- A workshop on "Health Insurance" was organized by the Ministry of Health and Population in cooperation with OXFAM on December 6.
- The 32<sup>nd</sup> Meeting of the "Arab Financial Auditing and Accounting Organizations" was held during in Sana'a during December 9-10.
- An "Anti-Money Laundering" workshop was organized by the Central Bank of Yemen in cooperation with the National Bank and the Banking Studies Institute in Aden during December 13-16.
- The 1<sup>st</sup> Judiciary Conference under the motto "Just Judiciary is the Basis of Security, Development and Investment" was held during December 13-15.

## Donor Activities:

- Yemeni NGOs will receive US\$ 200,000 in the framework of the Global Environment Facility (GEF) Small Grants Program.
- On October 16, two agreements were signed under the Japanese "General Grant Aid for Grassroots Projects". The first agreement was signed between the Japanese Embassy and the Deaf and Mute Care and Rehabilitation Association for the amount of US\$ 34,000. The second agreement was signed between the Embassy and Al-Mahweet Republican Hospital for the amount of US\$ 28,000.
- On October 20, an agreement was signed between the Ministry of Fisheries and the Food and Agricultural Organization (FAO) for the amount of US\$ 107,000 for the promotion of the Fisheries Cooperative Union.
- The United States Agency for International Development (USAID) allocated US\$ 20 million for supporting Yemen's development process particularly in the fields of building democracy and social development.
- Donor community granted Yemen US\$ 8 million for support of basic education during a Partnership Conference held in Oslo during October 19-22.

## Development News:

- The Cabinet approved, in November, the renewal of an agreement between the Ministry of Oil and Minerals and the Hunt Oil Company regarding block 18 in Al-Jawf - Marib, for another five-year term. The General Authority for Rural Water is currently implementing 58 projects in the Ibb Governorate with a total cost of YR 240 million from the government contributions as well as contributions of donor agencies.
- The Ministry of Endowment is executing investment projects with a cost of YR 450 million in Dhamar.
- Social Fund for Development launched its Third Phase on October 8; this phase will include 4,400 projects with a cost of YR 76 billion. Projects implemented in the first and second phase totaled 3,300 at a cost of YR 45 billion.

## World Bank Operations in Yemen

Ongoing World Bank Operations in Yemen on 15 December, 2003

#	Name of the Project	Effectiveness Date	IDA Amount (In million US\$)	Credit (In million US\$)	Disbursed (In million US\$)
1.	Education Sector	March 23, 1995	33		23.2
2.	Vocational Training	August 7, 1996	24.3		19.8
3.	Southern Governorates Agricultural Privatization	June 29, 1998	20.7		9.6
4.	Seeds and Agricultural Services	September 2, 1998	12.5		10.9
5.	Sana'a Emergency Power	January 14, 1999	54		41.2
6.	Sana'a Water Supply and Sanitation	June 30, 1999	25		22.7
7.	Legal and Judicial Reform	January 24, 2000	2.5		1.9
8.	Port Cities Development Program	January 23, 2003 (Board Day)	23.4		0.5
9.	Civil Service Modernization	November 29, 2000	30		4.7
10.	Child Development	December 19, 2000	28.9		12.2
11.	Social Development Fund II	January 9, 2001	75		59.4
12.	Basic Education Expansion Project	January 16, 2001	56		13.8
13.	Irrigation Improvement	January 18, 2001	21.3		2.7
14.	Rural Water Supply and Sanitation	October 23, 2001	20		2.1
15.	Taiz Municipal Development and Flood Protection	February 26, 2002	45.2		8.3
16.	Rural Access Improvement	March 18, 2002	45		10.1
17.	Health Reform Support	July 22, 2002	27.5		1.5
18.	Higher Education Learning and Innovation	November 14, 2002	5		0.3
19.	Urban Water Supply and Sanitation	November 24, 2002	130		1.5
20.	Sana'a Basin Water Management	June 3, 2003 (Board Date)	24		0
	<b>TOTAL</b>		<b>703.3</b>		<b>246.4</b>

To get more information about these projects, please refer to the Yemen Economic Update No 10.

## World Bank Missions to Yemen (September–December)

### Human Resources Development Sector:

- To participate in the supervision of Yemen Education Sector and mid-term review of the Basic Education Expansion Project, Ms. Mira Hong (Operations Analyst), visited Yemen during October 10-20, 2003.
- To participate in preparation of the Child and Youth Strategy, Giorgio Tamburlini (Consultant), visited Yemen during October 16-25, 2003.

### Natural Resources Sector:

- To review sector performance and discuss future programs with the government, Mr. Narasimham Vijay (Sector Manager) visited Yemen during October 14-20, 2003.
- Mr. Maher Abu-Taleb (Senior Water Resources Management Specialist) visited Yemen during October 14-24m to provide support to water reforms and follow up on the Sana'a Water Basin Management Project.
- For the preparation of the Groundwater and Soil Conservation Project for appraisal and concept note for Coastal Aquifer, Mr. Satoru Ueda (Senior Water Resources Management Specialist) visited Yemen during October 19-28.
- Mr. Sinha Trayambkeshwa (Lead Operations Specialist) and John Macgregor (Senior Operations Officer) visited Yemen during October 10-24, 2003 for the supervision of the Irrigation Improvement project.
- Mr. Nejdet Al-Salihi (Consultant), visited Yemen during December 6-23, 2003 for the supervision of (i) Southern Governorates Agricultural Privatization, and Seeds and (ii) the Agricultural Services Projects.

### Infrastructure Sector:

- To work on the Investment Climate in Yemen, Mr. John Speakman (Senior Private Sector Development Specialist) visited Yemen during October 6-12 and November 10-12.
- Mr. Andreas Schliessler (Senior Transport Economist), Mr. Terje Wolden (Senior Transport Specialist), Mr. Robert Fishbein (Consultant), Mr. Hisham Labadi (Consultant), and Mr. Kawasumi Yoshimichi (Consultant) visited Yemen during December 1-16 to participate in the identification mission of the Rural Access Improvement Program.
- To supervise financial aspects of Rural Access Improvement Program and Sana'a Emergency Power Project, Josephine Masanque (Senior Financial Analyst), visited Yemen during December 3-18, 2003.
- Mr. Somin Mukherji (Senior Financial Analyst), visited Yemen during December 9-15 to supervise the Sana'a Emergency Power Project.

### Social and Economic Development Sector:

- Mr. Pedro Alba (Sector Manager) visited Yemen during October 2-10 to review the work of the Social and Economic Development Sector in Yemen (macroeconomic developments, poverty, civil service reforms and public expenditure management) and meet key government officials.

**WINTER 2003**

- To disseminate the Poverty Update report and to provide technical assistance for the upcoming Household Budget Survey, Ms. Setareh Razmara (Lead Social Protection Specialist) Ms. Dominique Van de Walle (Lead Economist), Mr. Juan Munoz (Consultant) and Mr. Giovanni Vecchi (Consultant), visited Yemen during October 2-13.
- Ms. Carmen Niethammer (Operations Officer) visited Yemen during October 9-16 to follow up on Yemen's Gender Note.
- To conduct the mid-term review of the Civil Service Modernization Project, Ms. Catherine Laurent (Senior Public Sector Management Specialist), Ms. Johanne Angers (Operations Officer), Mr. Giulio De Tommaso (Senior Public Sector Management Specialist) and Ms. Marie-Huguette Osselyn (Team assistant) visited Yemen during October 6-20.
- Mr. Richard Allen (Lead Public Sector Specialist) paid two visits to Yemen during October 28-30 and December 15-17 to follow-up the task of public expenditure management with the concerned government counterparts.

**Country Unit:**

- To conduct the Risk and Opportunity Workshop for country office staff, Mr. John Liakakis (Manager) and Ms. Francine Leroux (Consultant) visited Yemen during October 10-15, 2003.
- To participate in delivering the Financial Management/Disbursement Workshop for government officials, Mr. Hisham Waly (Senior Financial Management Specialist), Ms. Thao Le Nguyen (Financial Officer), and Ms. Zeina Samara (Financial Analyst) visited Yemen during October 10-13, 2003.
- Ms. Samia Msadek (Manager) and Mr. Hisham Waly (Senior Financial Management Specialist) visited Yemen during December 5-20, 2003 to deliver the Country Financial Accounting Assessment (CFAA) workshop and work on the CFAA matters.
- To assess the decentralization process in the country office, Mr. Jochen Stange (Senior Management Consultant) visited Yemen during December 15-18, 2003.

## Contact Information

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