

# 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 a special topic on the Yemeni Economy. The third section summarizes new legislation, publications, data, conferences, and donor activities in Yemen. The fourth section describes World Bank operations in Yemen and summarizes ongoing operations. The fifth section gives detailed information on World Bank publications and provides contact information.

SPRING 2005

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The World Bank Group  
Sana'a Office

## I. SUMMARY:

### *Yemen's Macroeconomic Outcomes Show Increasing Fragility*

Decelerating GDP growth, widening primary non-oil fiscal deficit, persisting double-digit inflation and rapidly dwindling current account surpluses characterize the weaknesses in the Yemeni economy. Decline in oil production is proving to be an important turning point in Yemen's economic development. With the annual growth of GDP projected around 3 percent for the second year in a row, Yemen's per-capita GDP is set to decline again in 2005. Underlying primary non-oil fiscal deficit continued to widen to 27 percent of GDP in 2004, reflecting the poor resource mobilization efforts. Inflation has persisted near 12 percent annual rate in the last two years and the inevitable revisions to petroleum prices and introduction of general sales tax would call for tighter monetary management to contain inflation in 2005. The buffer of foreign exchange reserves that the government has built to US \$ 5 billion from high oil prices by end 2004 (some 16 months of imports equivalent), could only provide a temporary cushion against erosion of current account balance.

### *Policy and Institutional Environment Deteriorated Somewhat In 2004*

In the context of increasing fragility of macroeconomic outcomes, Yemen's overall institutional and policy environment has slightly deteriorated in 2004. Policy and institutional environment in all the four clusters - economic management, structural policies, social inclusion and equity, and public sector management – witnessed some deterioration. The weakness in economic management is seen mainly in limited use of monetary policy to contain inflation and insufficient efforts to rein in fiscal deficit



. In the structural area, though Yemen's trade policy is not restrictive, underdeveloped financial system and stifling business regulatory environment are the problem areas. In the social inclusion and equity cluster, Yemen's weak record in promoting gender equality, and unaddressed agenda of reforms in the health sector weigh down on ratings. Finally, in the public sector management and institutions cluster, stalled and slow reforms of budgetary and financial management and the need to improve transparency, accountability and integrity call for lowered rating.

### *Continued Delay in Implementing Reform Proposals In Budget 2005 Raises Concern:*

The fiscal reforms proposed in the budget for 2005 are long overdue. Originally proposed in 2001, they have been repeatedly postponed. It is creditable that the government finally managed to include the proposals in the budget for 2005 and get the budget approved by the parliament. However, three months into the fiscal year, the implementation of reform proposals in the budget remains paralyzed by the conditions imposed by the parliament before the reform proposals can be implemented.

*Even If Reforms in Budget 2005 Are Implemented, The Challenge Of Long-Term Growth Will Remain.* Though the fiscal reforms in budget proposal for 2005 are badly needed, these will not be enough to face up to the medium-term challenge of growth. The looming crisis of decline in oil production is a very big challenge facing the Yemeni economy. By most counts, removing petroleum subsidies and introducing General Sales Tax would yet leave a large fiscal and BOP gap un-bridged. This would call for more determined efforts to identify and sequence reforms in the areas of governance and investment climate to reap the potential for growth in sectors such as fisheries, tourism and possibly gas exports.

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## II. MACROECONOMIC DEVELOPMENTS AND OUTLOOK

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### 1. *Yemen's Macroeconomic Outcomes Show Increasing Fragility:*

Decelerating GDP growth, widening primary non-oil fiscal deficit, persisting double-digit inflation and rapidly dwindling current account surpluses characterize the weaknesses in the Yemeni economy.

**2. *Growth Continues to Decelerate:*** Yemen's economic growth has been decelerating from 2001 (Table 1), a year after oil production started leveling off. The outlook for the current year (2005) continues to be worrisome implying a stagnant or declining per-capita GDP growth for the third year in a row. In general, the deceleration in growth is mainly because of rapidly falling oil-sector growth accompanied by the failure to stimulate a broad-based growth in non-oil sectors. Continued low growth in 2005 is because of the expected steep decline in oil production of about 5 percent and little sign of revival elsewhere except for a possible rebound in agriculture.

Table 1: GDP Growth, 2001-2004

	2001	2002	2003 (est)	2004 (est.)	2005 (proj.)
GDP Growth	4.6	3.9	3.1	2.7	2.9
Oil	1.3	0.4	-1.8	-5.9	-4.7
Non-Oil	5.2	4.6	4.0	4.1	4.0
<i>Memo Items</i>					
Per-capita GDP growth	1.5	0.8	0.1	-0.4	-0.2
Crude oil production (1,000 barrels/day)	434.3	432.9	425.2	400.0	381.0

Source: Staff Estimates based on World Bank and IMF sources.

**3. *The Widening Primary Non-Oil Fiscal Deficit Is Worrisome:*** Analysis of budget<sup>1</sup> indicates that overall budget deficit in 2005 could stay at around 5 percent of GDP, the same as in 2004. This, however, masks considerable expenditure restraint (4 percent of GDP) envisaged by cutting on subsidies and development expenditure as shown in Table 2. On the revenue side, the

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<sup>1</sup> The continued delay in implementing the reform proposals in budget clouds the validity of the analysis. On the one hand, cuts proposed in diesel subsidy are not implemented and additional expenditures implied by the parliament's conditions are not accounted for. On the other, oil prices have ruled higher than budget's conservative assumption of \$30 a barrel.

government has to cope with a moderation in oil price (US \$ 30 /bbl assumed for 2005<sup>2</sup>) and about 5 percent decline in oil production. However, the implementation details of the budget are unknown at this stage. Recently, there has been widespread protest in Yemen about the introduction of GST arising from ill-founded fears about the impact on the poor (see Box-1 for more details). The removal of petroleum subsidies in the budget has been conditioned on several other measures (Box 2) which also could prove to be contentious.

Table 2: Central Government Finance 2002-05 (In percent of GDP)

	2002	2003	2004 (estimate)	2005 (Proj)
<b>Overall Fiscal Balance (commitment basis)</b>	<b>-0.7</b>	<b>-4.9</b>	<b>-4.4</b>	<b>-4.7</b>
<b>Primary non-oil fiscal balance</b>	<b>-21.5</b>	<b>-26.9</b>	<b>-27.5</b>	<b>-22.2</b>
<b>Total Revenues and Grants</b>	<b>33.9</b>	<b>33.3</b>	<b>35</b>	<b>30.6</b>
Oil and gas revenues	22.3	23.6	25.2	20.1
Tax Revenues	7.5	7.1	7.5	7.5
Direct Taxes	3.2	3.4	3.1	3.2
Indirect Taxes	4.2	3.8	4.4	4.3
Grants	1.6	0.4	0.2	0.8
<b>Total Expenditure and net lending</b>	<b>34.8</b>	<b>38.2</b>	<b>39.4</b>	<b>35.3</b>
Current Expenditure	27.7	28.6	29.6	26.5
Transfers and Subsidies	7.2	8.7	10.2	7.0
Wages and Salaries (civilian)	7.7	7	7.2	6.9
Goods and Services	2.6	2.5	2.5	3.0
Interest Obligations	2	1.9	2.1	2.6
Development Capital Expenditure	7.1	9.7	8.8	8.1

Source: IMF estimates, based on Article IV report, March 2005.

Note: Budget and projected estimates for 2005 differ because the government usually comes with a supplementary budget during the course of the year. Primary non-oil is derived by subtracting interest obligations and oil and gas revenue from overall balance (commitment including grants)

<sup>2</sup> The assumption on oil prices is usually conservative compared to the projected price for the year.

**Box 1.: Introduction of GST in Yemen – Facts and Myths**

Yemen’s central government budget proposes the introduction of VAT at 10 percent, labeled as General Sales Tax (GST) from July 1, 2005. However, this is not the first time VAT is proposed in Yemen. Introduction of VAT in Yemen by 2000 was part of the reforms under Enhanced Structural Adjustment Facility 1999-01. The budget of 2001 proposed the law but it was not implemented because IMF advised a delay to broaden the base and improve tax administration. Since then, vested interests have frustrated the introduction of a simple, broad-based GST. Though more preparation has gone into building the infrastructure for tax administration, opposition to GST also has grown. On the one hand, this has polarized opinion between the ruling and opposition parties. On the other, private business sector, regardless of their political affiliation, have rallied against GST. This note provides a brief overview of the rationale for, key features of, and an evaluation of GST.

Introduction of GST is a part of fiscal reforms to improve transparency, reliability and efficiency of revenue mobilization in Yemen. GST is set to replace the existing tax on production, consumption and services (TPCS). TPCS has a narrow base and multiple tax-structure (5 to 40 percent) fetching a meager revenue of 1.6 percent of GDP. GST, in contrast, has a simple uniform rate of 10 percent with a potential to generate 3 to 3.5 percent of GDP in about three years.

The draft GST law awaiting approval in the parliament proposes a uniform 10 percent rate (imported and domestic goods and services) with exemptions for food products, medicines, books, inputs into agriculture and fishing, and sale of land and buildings. Exempt services are financial and banking, health, education, land transport, water, sewage and electricity. Exported goods and services, and international transportation services are zero-rated (exemption with refund of GST at the preceding stage). With a compulsory registration threshold of YR 50 million (US \$270,000), GST aims to net 800 to 1000 large tax-payers. If GST is implemented this year, Yemen will join the ranks of the majority of MENA countries that have VAT with Libya and Syria as the exceptions.

Though several design issues remain <sup>a/</sup>, there will be little adverse impact on the poor with most of the goods consumed by the poor exempt from GST. The concern of traders appears to be mainly from the fear of losing more of their business to smugglers. Since GST is applied to imported goods at the same time as custom duties are collected (as opposed to TCPS collected at the point of final sales) without compensating reduction in import duties, the existing incentive to smuggling will increase. Therefore, a complementary proposal imposed by the parliamentarians is to cut import duties to 5 percent across the board from the current 12 percent average rate. Better communication to explain the working of GST and speeding the refund mechanisms could allay the unfounded fears of opponents of GST in the business community. Reaching out to the gainers from the introduction of GST, mainly the exporters, is also important to balance public opinion.

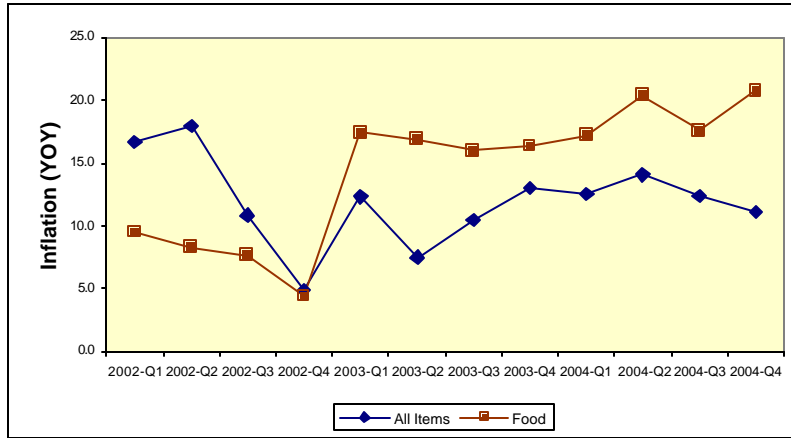
a/ Mr. Bennon’s (Adviser with IMF’s Middle East Technical Assistance Center) report of December, 2004 lists six issues in this regard: exemptions remain wide, multiple rate structure remains, timeframe for refunds is too long, insufficient enforcement powers, streamlining of contest and appeal procedures and inappropriate incentives for tax officials.

**Box 2.: Uncertainties in Yemen’s Central Government Budget 2005**

**Budget conditionally approved with a small majority.** The Yemeni Parliament has approved the 2005 state budget on the 5<sup>th</sup> of January, 2005 with a small margin of 10 votes over the required majority after an extended discussion about removing subsidies on petroleum products. Parliament’s approval of the energy price reform was subject to the submission to parliament of several new draft laws and amendments: new customs law (with uniform tariff of 5 %); a general sales tax (GST at 10%) act; a new borrowing strategy act; an amendment to the fiscal law; an amendment to the procurement law; and an amendment to the local administration law. In addition, the government was required to submit to parliament a national strategy on wages and salaries (unifying civilians and military employees in one database and improving scales of wages and salaries), subsidize inputs to fishermen, and allocate more resources to the social safety net. With full details of the content of all the provisions of these laws and additional spending plans not known at this stage, there is potential for delay in moving to the implementation stage and gauging the final impact on the budget.

4. ***Inflation Persists In Double Digits:*** In the last two years, inflation, as measured by consumer price index, has averaged at 12 percent annual rate (Figure 2). Sharp rises in food and qat prices account for about 80 percent of inflation in CPI. About two-thirds of the total inflation in the last 12 months can be attributed to the strong rise in food prices (43% weight in CPI) of about 19%. Though the world food grain prices have hardened by 11 % during the year, domestic factors must have played a significant part of the explanation. These include poor agricultural crop, speculative behavior by traders and insufficiently flexible monetary policy. Qat (12 % weight in CPI) have also risen by about 15 % helped by declining production and ban on imports. The habit of chewing Qat has emerged as a major development challenge for Yemen in the last three decades (Box 3). With inflation persisting at 12% annual rate and stable exchange rate against the US dollar at about YR185, Yemen’s competitiveness in the export markets is beginning to suffer. The impact of high food prices on the poor could also be severe given that the social welfare fund transfers are too small in relation to the food poverty line.

Figure 1: Inflation in Consumer Prices, 2001-04.



Source: Central Statistical Organization, Yemen

Note: Food refers to food and non-alcoholic beverages excluding qat.

### Box 3: Qat Chewing – A Development Challenge for Yemen

The leaf of the Qat plant provides natural stimulants. When chewed, the chemicals (cathinone and cathine, schedule I and IV drugs, respectively<sup>3</sup>) from the leaves pass through the membrane in the mouth to the blood stream producing the effects of exaltation. Though prevalent since the 16th century, Qat chewing has dramatically spread in the last three decades helped by the remittance inflows introduction of drilling rigs and government policy to promote irrigated agriculture. Qat chewing has become so pervasive in Yemen – the rich and the poor, the Northern and the Southern Yemenis, men and women – all chew Qat. Despite the significant economic opportunities for the suppliers of Qat, *the net effect of this chewing obsession is negative for Yemen's economic development.*

Qat plays a major economic role in the Yemeni economy. Qat's contribution to GDP at 10 percent, including direct and indirect effects, equals two-thirds that of oil. One-third of agricultural GDP, the main source of income in the rural Yemen, is from Qat. With nearly half-a-million persons employed, Qat is the second largest employer in Yemen employing one in every seven working Yemeni, surpassing even public sector

The negative effects of Qat are grave. It depletes scarce water resources, deprives agricultural exports, lowers domestic savings, wastes human resources, and damages health. Since Qat is an irrigated crop with unmatched profitability, one-third of all ground water abstraction for all other uses (agricultural, industrial and residential) is utilized for Qat cultivation. The area under Qat has expanded 13 fold in the last three decades, displacing potentially the area that could have been planted with exportable coffee, fruits and vegetables. If the expenditures on Qat were to be saved, savings would have been

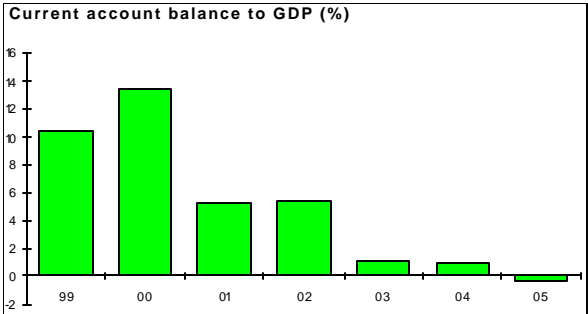
<sup>3</sup> According to Department of Drug Enforcement Administration, USA. Though illegal in USA, Qat chewing is legal in Europe and the middle-east.

higher by 5 percent points of GDP. If the poor families put the money spent on Qat for good uses, the percentage of poor would be lower by 6 percent points. The culture of spending extended afternoon hours chewing Qat is inimical to the development of a disciplined work ethics, with nearly a quarter of usable working hours wasted. Adverse health effects of Qat are many: high blood-pressure, underweight children (when pregnant women chew Qat), and cancer (from pesticide residues).

Overcoming the obsession of chewing Qat is a critical and complex task for Yemenis. It is far too well integrated into the Yemeni economy and society to be abruptly ended without serious short-term adverse effects. Beyond prohibiting chewing Qat in government offices, the government and all other stake holders in development must step up a campaign and rehabilitation policy that helps Yemenis realize their full development potential.

5. *External Current Account Switches To Deficit*: Yemen's current account balance has been in surplus since 1999 because of buoyant oil revenues. After narrowing sharply in 2003-04 to 1.1 percent of GDP, the indications are that the current account would turn into a small deficit (-0.3% of GDP) in 2005 because of falling oil production. Income account deficit is likely to be enlarged by 23% and cross the one billion US dollar mark in 2004, as oil companies remitted higher profits abroad. International reserves of Yemen continue to increase albeit at a slower pace than in the past. In 2004, international reserves of the central bank are projected to be close to the US \$ 5 billion equivalent to about 16 months of imports.

Figure 2: Current Account Balance as a ratio of GDP (percent)



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**III. STRUCTURAL DEVELOPMENTS AND POLICIS:**  
*Successes & challenges of Basic Education Strategy*

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**6. *Education is one of the pillars of the five-year plan and PRSP. The PRSP identifies*** human capital as particularly important in addressing poverty and inequity. It emphasizes the need to: expand basic education, close the gender gap in education, support literacy programs and inclusive education. Since 2001, the Government has initiated the development of a basic education development strategy (BEDS) in a participatory manner. The BEDS was approved by the Cabinet in 2003. The BEDS is a twelve-year program that serves as a schemata toward achieving the MDGs related to education, i.e. universal completion of primary education and gender parity by 2015.

**7. *The BEDS has become an important basis for donors to move towards jointly supporting programs rather than isolated Projects.*** In order to formalize planning, monitoring and evaluation arrangements, eight in-country donors formally agreed, together with the Government of Yemen, Public Works Project and Social Fund for Development, to the Partnership Declaration signed in January 2004. The international community has recognized these tremendous efforts Yemen has made in achieving Education for All (EFA) goals. A good example is that the international community chose Yemen, along with nine other countries, to be in the first group of a global initiative, called “Education for All-Fast Track Initiative” (FTI). The country was granted US\$10 million towards its program for 2004 during the official launch of the FTI Catalytic Fund. This was the second largest allocation among the FTI countries that received financial support from the Fund. In addition, US\$ 10 million is allocated for 2005, provided the implementation of 2004 programs is satisfactory.

**8. *Furthermore, three signatories of the Partnership Declaration, the World Bank*** and the Governments of the Netherlands and the United Kingdom have also agreed to combine resources through a pooled financing arrangement as a single contribution to the comprehensive pre-SWAP Project prepared by the GoY, the Basic Education Development Project (BEDP). The BEDP is expected to be effective in March 2005, with a total of planned donor contribution of US\$114 million. Other donors may choose to contribute to this pooled funding arrangement in the future.

**9. *Since its preparation, progress has been made towards BEDS objectives,*** but more so in the area of expansion than on reform objectives. Performance has been especially strong in expanding of access and improving the equity. The gross

enrollment rate has increased from 62.3% in 2000 (baseline data) to 67% in 2003 (PRSP monitoring report). The number of enrollments increased by nearly half million, reaching 4 million in 2003/2004. The ratio of girls to the total enrollments has also improved from 36% in 2000/2001 to 39% in 2003/2004. On quality, progress has been made in expanding delivery of in-service teacher training program, management and supervision training programs. However, there is a tendency that technical work of research and development in preparation for reform interventions is behind schedule, such as in the quality of teacher training programs and teacher deployment strategy.

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**IV. ECONOMIC & SECTOR DIALOGUE**

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***Roundtable Conference on Growth, Employment and Social Progress (April 9-10, 2005)***

To enhance awareness and dialogue among the Yemen citizens on the development agenda for their country, the World Bank, in collaboration with the Ministry of Planning and International Cooperation of Yemen, conducted a two-day high-level Roundtable on “Growth, Employment and Social Progress”. The four World Bank regional flagship reports on Trade & Investment, Governance, Gender, and Employment have been used as background material for the development of the agenda and content of the proposed discussions.

The Roundtable was very successful, judging by the level of attendance, the size and composition of the audience, and the level of discussions. Some 300 senior participants attended the conference representing all segments of the society: Government, Parliament, Shura Council, Private Sector, NGOs, Political Parties, Local Councils, and donors. A special effort has been made to ensure adequate participation of women: one in six participants was a highly qualified women. The discussions were lively, substantive and productive.

It was clear throughout the conference that the Yemenis were eager to participate in the development of their country and contribute to the development agenda. One key message came out quite clear during the conference, that is the need on the part of the government, the civil society and the development partners to act now. Time is running out for Yemen. Many participants believe that Yemen is at a critical crossroads and far reaching reforms need to be taken in order to face the challenges arising from the decline in oil production and underground water. The roundtable provided a timely opportunity to discuss these challenges.

***Procurement Reform Workshop( May 9-11, 2005)***

The Workshop was implemented by the Ministry of Finance/High Tender Board supported by the World Bank, the Royal Netherlands Embassy (RNE) and assisted by “Crown Agents” the procurement reform consultants of the MoF. It aimed at the provision of an Action Plan for National Procurement Manuals for Works, Goods and Consultant Services.

The workshop was attended by participants from MOPIC, COCA, MOIT, MOE, MOLA, MOPWR, MOPHP, MOAI, SFD, MOTIT, MOE in addition to the Ministry of Finance. The Manuals & SBDs in their final forms according to the results &

recommendations of the workshop will be submitted for approval by the Cabinet in July 2005 Approval. The next step would be the training of trainers for a core group of civil servants in the Government's Procurement Functions.

*Public Financial Management (May 17-19, 2005)*

The history of Public Financial Management reform in Yemen has been slow and generally unsatisfactory. For this purpose a Workshop was led by the MOF and included participants from other ministries and agencies including Planning, Civil Service and Administrative Reform (MOCSAR), Local Authorities (MOLA), the Central Bank (CBY) and COCA (the external audit authority). The Workshop was successful in establishing the first steps on the long road of PFM reform, and the identification of key priority areas for reform.

## New & Noteworthy

### Laws, Decrees and Agreements (January-May):

- The Cabinet approved a draft Republican Decree on issuing a by-law governing the functions of the Board of Forensic Science and authorized the Ministers of Justice and of Legal Affairs to finalize the procedures for finalizing the by-law promulgation; on January 18.
- The Cabinet approved a draft Decree for setting up Environment Protection Agency; on January 18.
- The Cabinet approved a draft strategy for the integrated management of hazardous materials and the implementation of Basel Protocol on Liability and Compensation; on January 18.
- The Cabinet approved the implementation plan of the national small and micro enterprises strategy for 2005-2009 for the total amount of US\$ 136,858,000 on January 18.
- The Cabinet approved the Third Five-Year Plan (2006-2010) guidelines for development and poverty eradication based on the Millenium Development Goals on January 25.
- The President issued Law No. 9/2005 approving Yemen's accession to Rotterdam Convention, which aims at ensuring the development of chemicals and pesticide in environmentally sustainable way; on January 25.
- The President issued Law No. 10/2005 approving a Loan Agreement between Yemen and Iran-based Bank for Islamic Development for the amount of US\$ 10,350,000 to fund construction of Hajja-Kasher highway on January 25.
- The European Union agreed to grant Yemen €27 million to implement a number of development programs in the field of education, health, water and infrastructure on January 25.
- The Cabinet approved the proposal for the national strategy on salaries of public sector employees; on February 1.
- The Cabinet approved the draft Employment and Salaries Law; on February 1.
- The Cabinet discussed a memo submitted by the Ministry of Water and Environment regarding water desalination policy; on February 1.
- The Cabinet reviewed the results of the First International Conference on Investment Opportunities in Yemeni Islands and created a coordination committee for development of Yemeni Islands on February 1.
- The Cabinet formed a committee chaired by the Minister of Planning and International Cooperation for studying the results of the Labour Market Demands Survey conducted in 2003 on February 8.
- The Cabinet approved the Draft Strategy for Childhood and Youth on February 8.
- The Cabinet formed a Committee chaired by the Minister of Planning & International Cooperation for studying results of the Labour Market Demands' Survey in 2003.
- The Cabinet instructed all government bodies to include recommendations issued by the Parliament on the State Budget in their executive programs; on February 15.
- The Cabinet instructed all Ministries to review their 2005 agenda to set priority for social and economic reform as recommended by the parliament.
- The Cabinet approved a draft bill for modifications of customs tariffs in accordance with the economic reform program on February 22.

- The Cabinet approved a draft law on the financial receivables aimed at strengthening procedures for combating corruption and protection of public funds; on March 1
- The Cabinet approved a draft law of the judicial fees aimed at minimizing the number of fake lawsuits; on March 1 reviewed the report presented by the CBY Governor revealing that Yemen's trade balance realized a surplus of US\$ 937 million in 2004 compared to US\$367 million in 2003, and a current account achieved a surplus of US\$471 million in 2004 compared to US\$ 176 in 2003, while total balance of payments reached surplus of US\$ 532 million last year compared to US\$336 million in 2003 on March 8. It emphasized the importance of the structural adjustment in banking sector, including public, mixed and commercial banks.
- The Cabinet discussed a package of readjustments of the laws regulating levying of taxes and privatization to give more authority to the local government and enhance transparency of revenue collection; on April 5.
- The Cabinet discussed a package of readjustments of the laws regulating levying of taxes and privatization to give more authority to the local government and enhance transparency of revenue collection on April 5.
- The Cabinet approved recommendation by the Parliament not to extend the privilege of investment in oil block 18 for the Hunt Oil Company beyond November 5, 2005 on April 5
- The Cabinet approved the amendments for a number of financial laws related to organizing the process of collecting and protecting public funds and referred these law to the Parliament for finalizing On April 19;
- The Cabinet reviewed the report presented by the Ministry of Finance regarding Yemen's foreign debt situation as of December 31, 2004. The report indicated that Yemen had US\$ 9.8 billion, out of which US\$ 8.2 billion were used; On April 19

### Workshops:

- A workshop on Coordination, Preparation and Implementation of Social Activities was organized by Cultural Social Center for Development and Qualification with cooperation with French organization DIA in Taiz during January 15-18.
- A meeting on Debt Cancellation for Third World Countries was organized by the Yemeni Women Union in cooperation with Oxfam on January 16.
- A workshop on Clean Development Mechanism was organized by the Environment Protection Authority in cooperation with UNEP during February 8-9.
- A workshop on Rainfed Agriculture in Saber Al-Mawden Area was organized by the Faculty of Agriculture in Sana'a in cooperation with the French Food AID Program during February 11-13.
- A workshop on the third component of the Employment in Private Sector Program was organized by the Small Enterprises and Industries Fund during February 12-13.
- A roundtable discussion on Investment Climate in Yemen was organized by the Ministry of Planning and International Cooperation during February 12-14.
- A symposium titled "Water: Between Reality and Ambition" was organized by the Center for Environment Studies and Community Services in Taiz University during February 13-14.
- A workshop on "Reduction of Poverty in Arab Rural Areas" was organized by the Ministry of Agriculture in cooperation with the Arab Organization for Agricultural Development during February 13-15.

- A seminar of PorCurve Networking was organized by the Helwett-Packard Development Company during February 14-15.
- A ceremony on the occasion of the International Women's Day was organized by the National Women's Committee during March 8-9.
- A workshop on News Editing was organized by the Yemeni Journalists Union in cooperation with Arab Internees Network during March 12-14.
- A symposium on Genetically Treated Food was organized by the State Authority for Agricultural Research and Guidance during March 20-21.
- Two workshops on TV Journalism and Production for Yemen Satellite TV were organized by the US Embassy Public Diplomacy Section in cooperation with International Broadcasting Bureau during March 19-23.
- Training course for police officers on Human Rights was organized in Taiz by the Human Rights Information and Training Center during March 23-April 4.
- A workshop on how the Third Five-Year Plan can meet Millenium Development Goals was organized by the Ministry of Planning and International Cooperation in collaboration with UNICEF during March 23-24.
- A Symposium on Citizenship and Democracy was organized by the Women's Forum for Research and Training in cooperation with NED organization during March 23-25.
- A workshop on the Least-Developed Countries WTO Membership was organized by the Ministry of Trade and Industry in cooperation with the United Nations Conference on Trade and Development during April 4-6.
- A workshop on Children's Issues was organized by the Ministry of Information in cooperation with UNICEF during April 4-6.
- A regional workshop on Piracy and Ship Looting was conducted by the International Marine Organization in cooperation with the General Authority for Marine Affairs on April 9.
- A Round table on Growth, Employment and Social Progress was organized by the Ministry of Planning and International Cooperation in cooperation with the World Bank on April 9-10.
- A workshop on Protection of Public Funds was organized by COCA in cooperation with the GTZ during April 18-20.
- A symposium Independent and Fair Judiciary was organized by the Democratic Rights and Freedom Protection Organization in cooperation with the Yemenu Center for Human Rights and April 21.
- A workshop on Business Arbitration was organized by the Chamber of Commerce of Taiz in cooperation with GTZ during April 9-11.
- A workshop on Leasing was organized by the IFC in Cooperation with the CBY on April 25.
- A workshop on Women in Prisons was organized by the International Committee of the Red Cross during April 12-13.
- A training course on Juvenile Courts was conducted by the Judiciary Institute in cooperation with UNICEF during April 10-14.
- Technical Training Workshop on National Health Account was organized by the Ministry of Health and Population in cooperation with USAID on April 23-27.

**Donors Activities:**

- An agreement regarding Food Aid was signed between Yemen and France under which the French Government will provide 3,400 tons of food to Yemen.
- The Government of Japan presented 73 cleaning machines to Yemen at a cost of US\$ 10 million as a gift from Japanese People.
- European Commission pledged US\$ 3.3 million in aid to vulnerable groups in Yemen, "Al-Akhdam
- The European Union agreed to grant Yemen €27 million to implement a number of development programs in the field of education, health, water and infrastructure.
- The Development Partners Harmonization Declaration was signed between the Government of Yemen and the key donors on January 30
- A new water management and conflict resolution project at a total cost of £ 80,000 was launched by the British Embassy and Care International.
- German Program for Development (DAD) intends to send a team of experts to educate jobless students on electronic devices repairs thus improving their income-generating skills
- The Ministry of Agriculture and Irrigation has signed an agreement with the German organization of KAIR under which the latter will provide €116,404 for women empowerment in Hajja and food security projects.
- USAID delivers donation of school furniture and equipment to the five Yemeni governorates at a total cost of US\$132,000
- The German Siemens and Saudi BNCO are preparing for implementation of the gas-generating electricity plant in Marib in a €120-million project funded by the Arab Fund for Economic and Social Development, the Saudi Fund for Development and the Government of Yemen.
- Yemen and International Fund for Agricultural Development have signed in Rome an agreement for financing Al-Dhalea project for rural development under which the Fund will bear 95% of the cost.
- Yemen and UNDP signed a document of cooperation for supporting Yemen's work on the Third Five-Year Plan aimed at sustainable development and reducing poverty under which DFID will provide technical assistance to the Government of Yemen.
- Japanese government granted Yemen a donation of Yen 300 million for purchase of agricultural equipment for development of agricultural sector in Yemen.
- A Multipurpose Vaccination Project for Infants supported by the WHO and UNICEF was launched by the Ministry of Health and Population
- A grant agreement was signed between Yemen and the USAID for the amount of US\$ 492,000 for funding feasibility study for the treating sewage waters in Taiz.
- An agreement for launching the project for girl's access to education in Taiz was signed between Yemen and Japan International Cooperation Agency.
- The Government of South Korea granted new modern equipment for burns cosmetics center of the Republican Teaching Hospital at the amount of US\$ 1 mln.
- A cooperation agreement was signed between the Ministry of Agriculture and Irrigation and Care International for building water reservoirs and setting water

networks in Mahweet at a cost of €312,000 as part of the European Union aid program.

- Yemeni Public Electricity Corporation, the Arab Fund for Economic and Social Development and the Electricity Company for Southern Region have selected Tractebel Engineering-Cesi, Belgium-Italian company, for conducting feasibility study for a power line between Yemen and Saudi Arabia at a cost of 100,000 Kuwaiti Dinars funded by AFSED.
- The Social Fund for Development Final Account 2004 was approved by the Board. The report shows that the expenditure for setting up development projects reached YR 11.1 billion.
- Several agreements were signed between Yemen and Arab Development Fund, including grant agreement for the amount of Kuwaiti Dinars 26 million for rural roads project, and an agreement for contribution of KD 15 million towards Public Works Project.
- A tripartite agreement was signed between Yemen, Jordan and FAO for the amount of US\$ 2 mln to fund technical assistance for improved water management in agricultural production.

## IV. World Bank Group Operations in Yemen

Relations between the World Bank and the government of Yemen are close and continue to cover knowledge and lending services in sectors critical to development and poverty reduction. The World Bank assistance to the implementation of Yemen's Poverty Reduction Strategy Paper (PRSP) has progressed, and the Country Assistance Strategy (CAS) for FY03-06 program of lending and policy dialogue is being implemented as envisaged.

**Country Assistant Strategy** The four main objectives of the CAS are: (a) better public sector governance; (b) an attractive environment for private investment; (c) building and protecting human capital; and (d) ensuring environmental stability, particularly in the critical area of water. The implementation of the CAS is progressing well with US\$387.4 million committed between FY03 and the second quarter of FY05 for seven credits. These include two credits for agriculture/rural development, two for infrastructure/urban development, one for water, one for the innovative and successful social funds for development, and one for basic education development program. Two additional projects (*Second Rural Access Program*, and *Second Vocational Training*) are expected to be approved this Fiscal Year (FY05).

**Knowledge Services** Bank's key non-lending support included completion of analysis of public expenditure management, civil service modernization, and country financial accountability assessment, petroleum price policy reform, household energy supply and use, development of national gender strategy, environmental safeguard requirements, and strategic plans for long-term development of coastal aquifers. Bank is also assisting Yemen in preparing a progress report on PRSP by providing early comments as the draft is being prepared. Coordination among donors has become more regular and has elaborated into subgroups dealing with specific sectors (civil service, water, education, etc.). Collaboration with, and support for, civil society organizations has also deepened, both directly (e.g., NGO capacity building grants) and indirectly (e.g., credits for projects employing NGOs).

**Lending Services** : The current portfolio has 19 projects with total commitments of US\$ 820 million (net of cancellations), of which US\$280.4 million are disbursed. About 26 percent of the portfolio, by value, is dedicated to the water sector, 19 percent to education, almost 15 percent to health and other social sectors, over 16 percent to public administration, 9 percent to agriculture, 8 percent to transportation, 6 percent to energy, and 1 percent to financial sector.

Overall portfolio performance and management remain satisfactory. Out of 19 projects in the portfolio, only two (*Civil Service Modernization and Health Reform Support*) are

rated unsatisfactory/problem projects. The Bank and the Government are making efforts to address issues affecting the implementation of these projects.

The International Finance Corporation (IFC) has three active investments in grain processing, ceramic tile manufacturing, and bottled water, totaling \$11 million. Problems with the investment environment limit IFC activities in Yemen and (as in the case of the grain processing project) impede implementation and profitability. However, IFC has a very clear developmental role to play in the country and the Corporation has devoted considerable resources to promote business there. Several large projects are currently under consideration. In addition, IFC received approval for a new regional facility that will provide technical assistance in Yemen to help improve the business environment, strengthen the financial sector and stimulate the growth of SMEs.

*Bank-Fund Collaboration on* Bank and Fund staffs consult regularly and coordinate their activities. A major activity over the past year was assistance to the Yemeni experts who produced the Poverty Reduction Strategy Paper and subsequently collaboration on a Joint Staff Assessment of the PRSP. In addition, the staffs have worked closely together on civil service reform and government financial management, and in particular, budgeting and public expenditure modernization. Collaboration on these issues is expected to intensify. Bank and Fund staffs have also collaborated on financial sector development issues, with the aim of restoring financial stability (by now largely achieved) and removing constraints on economic development.

*International Financial Corporation* The International Finance Corporation (IFC) has three active investments in grain processing, ceramic tile manufacturing, and bottled water, totaling \$11 million. Problems with the investment environment limit IFC activities in Yemen and (as in the case of the grain processing project) impede implementation and profitability. However, IFC has a very clear developmental role to play in the country and the Corporation has devoted considerable resources to promote business there. Several large projects are currently under consideration. In addition, IFC received approval for a new regional facility that will provide technical assistance in Yemen to help improve the business environment, strengthen the financial sector and stimulate the growth of SMEs.

## Ongoing World Bank Operations in Yemen as of May 23, 2005

#	Name of the Project	Effectiveness Date	IDA Amount (In million US\$)	Credit (In million US\$)	Disbursed (In million US\$)
1.	Southern Governorates Agricultural Privatization	June 29, 1998	24.7		13.5
2.	Public Works Project III	July 15, 2004	45.0		4.6
3.	Sana'a Emergency Power	January 14, 1999	54.0		49.3
4.	Port Cities Development Program	July 14, 2003	23.4		2.4
5.	Civil Service Modernization	November 29, 2000	30.0		10.5
6.	Child Development	December 19, 2000	28.9		16.0
7.	Social Development Fund II	January 9, 2001	75.0		75.0
8.	Basic Education Expansion Project	January 16, 2001	56.0		34.8
9.	Irrigation Improvement	January 18, 2001	? 21.3		5.2
10.	Rural Water Supply and Sanitation	October 23, 2001	20.0		6.3
11.	Taiz Municipal Development and Flood Protection	February 26, 2002	45.2		20.8
12.	Rural Access Improvement	March 18, 2002	45.0		31
13.	Health Reform Support Project	January 22, 2003	27.5		2.0
14.	Higher Education Learning and Innovation	September 19, 2002	5.0		.425
15.	Urban Water Supply and Sanitation	November 24, 2002	130.0		9.5
16.	Sana'a Basin Water Management	December 22, 2003	24.0		1.6
17.	Ground Water & Soil Conservation	August 17, 2004	40.0		.533
18.	Social Development Fund III	August 15, 2004	60.0		1.6
19.	Basic Education Development Program	March 14, 2005	65.0		0.0
	<b>Total</b>		<b>820</b>		<b>280.4</b>

## V. World Bank Publications

### Recent World Bank Publications

#### *Economic Analysis of Investment Operations: Analytical Tools and Practical Applications*

ISBN 0-8213-4850-7

This Book has evolved over many years based on the author’s long association with development economics. Their message: microeconomics, especially benefit-cost analysis, is central to the effective functioning of government and provides the basic tools to help citizens, public servants, policymakers, and society as a whole making rational choices about the efficient allocation of resources, hereby supporting a more effective democratic process.

The book introduces a number of innovations. It encourages analysts to answer key questions that increase the likelihood of project and program success, rather than simply emphasizing the techniques for estimating shadow prices. An other message, one that is particularly relevant in this age of specialization, is the need for technical specialists, financial analyst, and economist to work closely as a team, using common data to ensure that their final analyses are consistent.

It presents general principles and methodologies that are applicable across sectors, including quantities risk analysis, provide both theory and practice about how to evaluate transportation, health, and education projects.

#### *The Challenge of Urban Government: Policies and Practices*

ISBN 0-8213-4738-1

This volume examines the wide-ranging issues confronting cities, and reviews successful tools, strategies and practices used to address them. It assembles a set of readings on nine “windows” of urban management to which the chapters of the book are devoted.

The book combines theoretical discussions of new, fundamental principles of Urban Management with practical discussions illustrating how these concepts are applied and translated into policy tools and strategies. This book will be of interest to city and municipal managers, students of urban management, and the general public who are interested in gaining a better understanding of the main challenges they face in their daily lives.

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**Contact Information**

**Sana'a Country Office**

**Address: P.O. Box 18152, Hadda Area, St. No. 40 off Damascus Road, Sana'a, Republic of Yemen**

**Telephone: (967) 1 413710, (967) 1 421623-8; Fax: (967) 1 413709, (967) 1 418733**

**Country Manager:**

Mustapha Rouis Ext. 237

**Economic Development:**

Srinivasan Thirumalai Tel: 1(202) 473 1288

Yahia Al-Anssi Ext 241

Lina Al-Saffi Ext 227

**Infrastructure Develop:**

Ali Khamis Ext. 223

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Maria Handal Ext: 238

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Samra Shaibani Ext 242

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Takako Yuki Ext. 233

Afrah Al-Ahmadi Ext. 236

**Country Director:**

Emmanuel Mbi

Tel: (20-2) 772-217

**Information Technology:**

Abdullah Haroon Ext. 225

**Agriculture & Natural Resources:**

Naji Abu-Hatim Ext. 228

**Procurement:**

Mikael Mengesha Ext. 222

**Country Coordinator:**

Gaiv M. Tata

Tel: 1(202) 473-2175