

YEMEN ECONOMIC UPDATE

Winter 2007

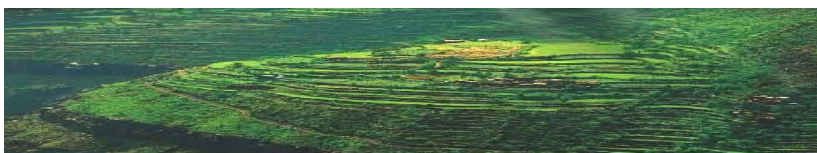
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The World Bank Group
Sana'a Office



Yemen Economic Update is a quarterly report that consists of several sections. The first section highlights major political and social developments. The second covers the macroeconomic developments. The third section provides a summary on structural reforms and developments; it also covers conferences, and donor activities in Yemen. The fourth section describes World Bank operations in Yemen and summarizes ongoing operations.



SUMMARY

The Government has intensified efforts to establish political consensus. Following the summer riots, the government emergency measures (the reinstatement of some of the retired army members from the south, the direct importation of wheat to soften the inflationary impact of rising international prices, the accelerated implementation of the second stage of the wage strategy and the implementation of various measures to reduce power interruption) have helped to ease tension. Later, the President also introduced a new proposal for broad political reforms, which is expected to bring further decentralization and increased regional autonomy. However, some contentious issues remain unresolved. The conflict between the Yemeni government and the radical Houthi group in the Saada governorate has resumed, though at much lower intensity. While the government has succeeded in controlling the spread of personal arms in major cities, rural areas continue to witness frequent armed clashes between the feuding tribes.

Preliminary estimates of the main economic indicators for 2007 call for a slight deterioration from earlier expectations. In the oil sector, falling crude oil output by more than 12 percent has negatively affected overall growth, which is now revised to 3.1 percent, as compared to earlier estimates of 3.8 percent. The non-oil output, however, remains relatively unchanged at about 5 percent, owing to strong capital spending both from private and public sources. In the fiscal area, the higher than budgeted oil revenue and earlier savings in fiscal spending are expected to be wiped out with the passing of the supplementary budget in October, causing a slight widening of the fiscal deficit to about 6 percent of GDP. The performance of the external sector is expected to remain as projected earlier, with current account deficit of about 4 percent.

Yemen's inflation rate has moderated in 2007. The tighter public spending in the early part of the year and good seasonal rains have helped to maintain average inflation during the first half of the year at a negative rate. However, during the second half, rising food prices led by imported wheat and increased public spending on wages and salaries have fueled inflationary pressures again. As result, the average inflation rate for 2007 is expected to come to less than 11 percent, a significant drop from the 18.5 percent in 2006.

With the continued firming of international prices and expected slower decline in oil production, the outlook for 2008 shows some improvement. Yemen's overall growth rate in 2008 is likely to improve by one percentage point to 4.1 percent on account of slower decline in oil production (about 3.3 percent as compared to 12.6 percent in the pervious year), and continued strong performance in the non-oil sector at about 5 percent. The improvement in the oil sector in Yemen is also expected to reflect positively on the fiscal and external sectors. Government fiscal balance is expected to witness a slight improvement owing to higher oil revenue and improved tax collection. In the external sector, current account deficit is expected to shrink to less than 2 percent of GDP as compared to 4 percent in 2007.

Structural reform efforts continued during the second half of 2007. In the area of governance, recently completed efforts include the establishment of the Supreme National Anti-corruption Commission (SNACC), the joining of the Extractive Industry Transparency Initiative (EITI), the passing of public procurement law, and the restructuring of High Tender Board. Work has also proceeded satisfactorily in various areas of public financial management. To this effect, the government has recently undertaken a comprehensive review of the performance of the public financial management system using the *Public Expenditure and Financial Accountability (PEFA)* framework. In civil services, the government has initiated the second stage of the wage strategy, while continued efforts to establish the biometric identification system (with current rate of completion nearing 70 percent for civil servants, and work commencing in November for the military) and the Civil Service Fund (CSF). Major reforms were also undertaken to improve the investment climate, including amendments of a number of legislation relating to tax and foreign investment, the simplification of business registration process and the revision of mining law. The Cabinet recently passed a new land registration law, and the Land Registration Authority is undergoing restructuring.

I. RECENT POLITICAL DEVELOPMENT

Following the June riots, the Yemeni president took a number of political decisions aimed at addressing grievances and calming down emotions. He issued instructions to bring back army retirees from the South to their workplaces, compensate them for the elapsed period, and give them the promotions and other benefits for which they were eligible. He also instructed the government, through the Yemen Economic Corporation (YER), to directly import and sell wheat and wheat flour. Others measures included granting a one-month salary to all public-sector employees, to coincide with the month of Ramadan, and issuing instructions to the Cabinet to devise new plans to create jobs, increase national power supply, and speedily implement the second phase of the wage strategy.

To further establish confidence, the President introduced in September a proposal for wide ranging political reforms. The proposal, which remains to be ratified by Parliament, contains a number of constitutional reforms, which include:

- conversion to greater presidential accountability (full presidential regime and the elimination of the Prime-Minster position);
- extended powers for local government and reduced number of central government agencies (reduced to six ministries: Foreign Affairs, Public Security, Finance, National Wealth, Trade and Planning Ministries) while the tasks of other ministries are delegated to the local governance authorities);
- The replacement of the current system of local authority of the governorates by a local rule headed by a governor elected by voters' board.
- a reduced presidential term in office from seven to 5 years with a maximum of two terms;
- A parliament based on proportional representation and a consultative council elected according to equal representation of every area
- The allocation of 15 percent of seats in parliament for women.

Independent observers perceive the amendments as a positive move towards democracy.¹ The proposed amendments would need to be approved by Parliament before becoming effective in 2013.

Some political uncertainties continue to be present. Sporadic protests continued in some cities touching issues such as high cost of living, scarcity of jobs, and inadequate infrastructure. The breakdown of the cease-fire agreement with the rebels in the Saada governorate is also bringing some concerns. Fighting resumed, but on a smaller scale, thus ending the agreement reached in June. The conflict with the Houthi group dates back to September 2004, and has been mostly localized and low key, but it has escalated earlier in the year after the killing of a number of Yemeni soldiers. Various mediation efforts were attempted in order to bring the two sides to negotiate, with the most recent such attempts

¹ “NDI Calls Support Constitutional Amendments”, Al-Thawara Dec 25.

were the efforts led by Qatar. Yemeni government is also facing challenges associated with terrorist groups linked to Al-Qaeda. Early in July, a deadly blast in a popular tourist center in the North left eight Spanish tourists and two Yemenis dead. More recently, another attack, claimed by the same group, has left two Belgian tourists dead in Hadramout. These incidents seem to be a part of Al-Qaeda efforts to destabilize the regime by affecting the country’s security image and undermining efforts to promote international tourism.

Table (1) Yemen Ranking on Global Gender Gap 2007*

	Rank	Score	Sample Average
Economic Participation and Opportunity	128	0.25	0.58
▪ Labor force participation	119	0.4	0.69
▪ Income (PPP US\$)	116	0.3	0.5
▪ Legislators, senior officials, and managers	109	0.04	0.26
▪ Professional and technical workers	101	0.18	0.68
Educational Attainment	127	0.57	0.92
▪ Literacy rate	126	0.43	0.85
▪ Enrolment in primary education	126	0.73	0.97
▪ Enrolment in secondary education	124	0.46	0.92
▪ Enrolment in tertiary education	111	0.38	0.81
Health and Survival	1	0.98	0.96
Political Empowerment	127	0.94	0.92
▪ Women in parliament	125	1.06	1.04
▪ Women in ministerial positions	120	0.03	0.11

Source: *Global Gender Gap Report 2007*

* The report is based on data published by various UN agencies and other international organizations, covering the years 2004-2007.

The Yemeni society remains traditional with women maintaining lower economic and social status compared to men, and subsequently scoring lower on social indicators such as health, education, political rights, and poverty. According to a recent report compiled by World Economic Forum under the title “*Global Gender Gap 2007*”, Yemen occupies the lowest overall global ranking among 128 countries in the report. The Report, which has its data compiled primarily from various United Nations and World Bank databases, focuses on four areas covering economic status, education, health, and political empowerment (table (1)). Among the factors, contributing to the poor status of women in Yemen is the lack of minimum age for marriage, which imposes severe negative implications on women’s social indicators such as low school enrollment, high fertility, and high maternal mortality. Recently the government made some efforts to improve this situation by committing to adopt policies to increase the share women in electoral positions, government jobs, and occupations in the justice system. Other efforts include:

- In 2006, the first female judge was appointed to the Supreme Court.
- A Council for Business Women was established in April 2007 to promote women’s entrepreneurship and assist women entrepreneurs.
- The Women’s National Committee developed a national strategy on women for 2006 - 2015. The government is in the process of developing a plan of action for this strategy.

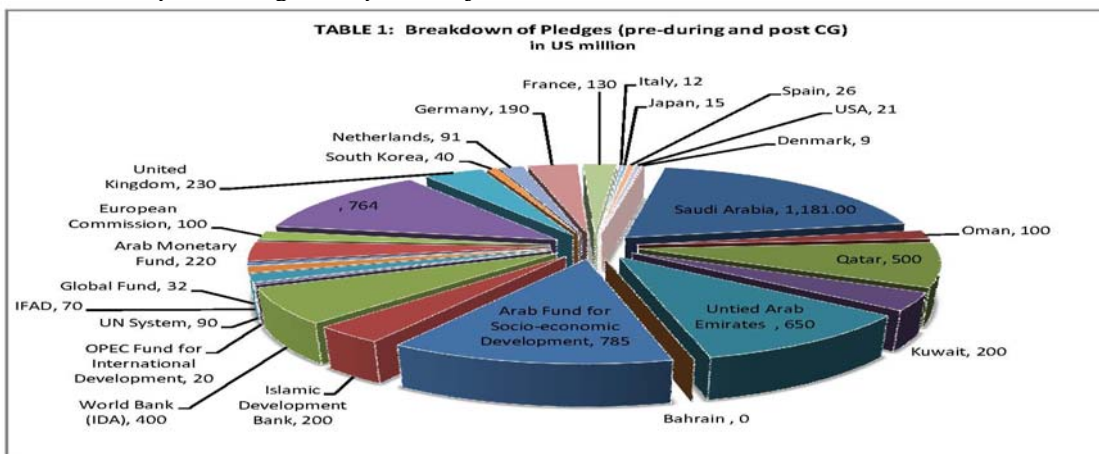
- Currently, the Ministry of Civil Service is implementing a decision by the Supreme Council for Women to increase female teachers in rural areas to 30 percent.
- In August 2007, the Cabinet approved the amendment of 10 laws containing discriminative articles against women. The Parliament is yet to vote on these amendments.

Yemen is holding its second post Consultative Group (CG) meeting in February 2008. Discussions are expected to center on the progress in allocating the pledges made during the London CG Meeting in November 2006, and the implementation of policy reforms. These pledges stood at about \$5.3 billion in late January (including additional \$370 million pledges made after the CG meeting), with about 55 percent in the form of grants and the rest in concessional loans. The share of GCC bilateral in these pledges amount to about 50 percent or \$2.6 billion. A good progress has been made in the allocation of pledges, with about \$3.7 billion (or 70 percent) have already been appropriated to specific projects. Disbursement of these pledges is expected to show considerable pick up in 2008.

Table 2. Total Financial Pledges for Yemen 2007-2010 - In million \$US

Donor	Pre-CG	During the CG	Post CG	Total
1. GCC Bilaterals	331	2300	0	2631
2. Multilaterals	0	1832	85	1917
3. Traditional Bilateral	0	578	186	764
Total	331	4710	271	5312

Breakdown of CG Pledges as of January 2008.



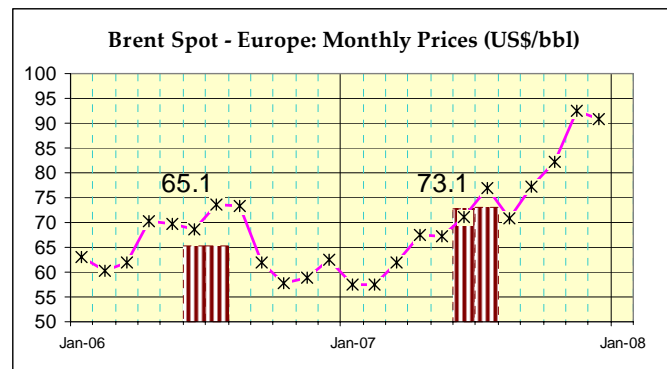
Source: MOPIC

II. MACROECONOMIC DEVELOPMENTS

Oil prices reached a record level in 2007. After falling sharply to below US\$55 per barrel (Brent- Europe) in January 2007, prices steadily climbed to touch the US\$100 mark in November 2007. For 2007 as a whole, the average price for Brent crude is estimated to have reached US\$73, about 12.3 percent increase over the 2006 average. The steady increase in oil

prices throughout the year was supported by continued geopolitical tensions, particularly concerning the Iranian-US standoff over the nuclear issue and the unstable situation in Iraq. Other factors that are believed to have helped to push prices higher are the weakening of the US dollar against other major currencies. Expectations of weaker global economic growth in 2008 stemming from the current credit markets crisis

Figure 1. International Crude Oil Prices

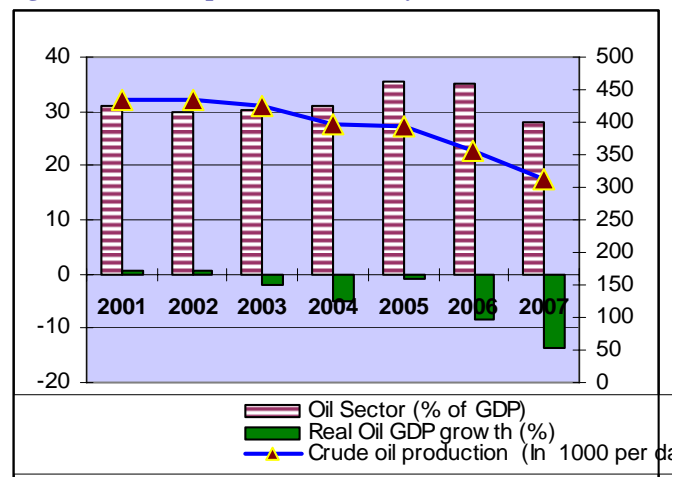


seems to have so far played very little role in dampening oil price expectations, with many analysts projecting prices to roll in the three digit levels in the coming few months. Adjusting for the price of Yemeni blend, the price of Yemeni crude exports is expected to have averaged US\$71.6 per bbl in 2007, as compared to the 2006 average of US\$63 per bbl.

Available data for the first 10 months of 2007 indicate a drop in oil production volume by more than 12.5 percent from previous year. Domestic production of crude oil has witnessed a steady decline since 2001, dropping

by almost a quarter to an estimated 312 million barrels per day in 2007. The increased pace of investment in secondary recovery and exploration in the past two years has yielded little results so far in arresting the rapid decline in production. Yemeni authorities, however, expect some of these efforts to begin bearing fruit in 2008 with the rate of decline moderating to only 3 percent. Exports of crude, which represent the residual amount after accounting

Figure 2. Yemen production history of crude oil



for refinery usage, has also witnessed a decline of around 12 percent (see table (1)).

Table 3. Oil production, trade, and fiscal revenue. 2006-07

	2006	2007 (Prelim.)	% change
<i>(in thousand bbls per day)</i>			
Crude oil output	357	312	-12.5
of which: State's share	235	210	-10.4
Exports of crude oil	293	258	-11.9
of which: State's share	171	145	-15.1
<i>(in billion Yemeni rials)</i>			
Exports of oil and products	1302	1155	-11.3
Imports of refined products	653	771	18.1
State's oil revenue ¹	1085	939	-13.5
of which: from oil exports	612	501	-18.1

Source: Ministry of Oil and the IMF estimates

1. on cash basis

Latest revisions of national account data show an upward adjustment in growth rate in 2005 from 4.6 to 5.6 percent and a downward revision in growth rate in 2006 from 3.3 to 3.2 percent. The adjustment of 2005 data mainly reflects revisions in the financial sector and to a lesser degree, in import duties. For 2006, the small downward adjustment in the rate of growth comes because of revisions in growth rates in the agricultural and financial sectors.

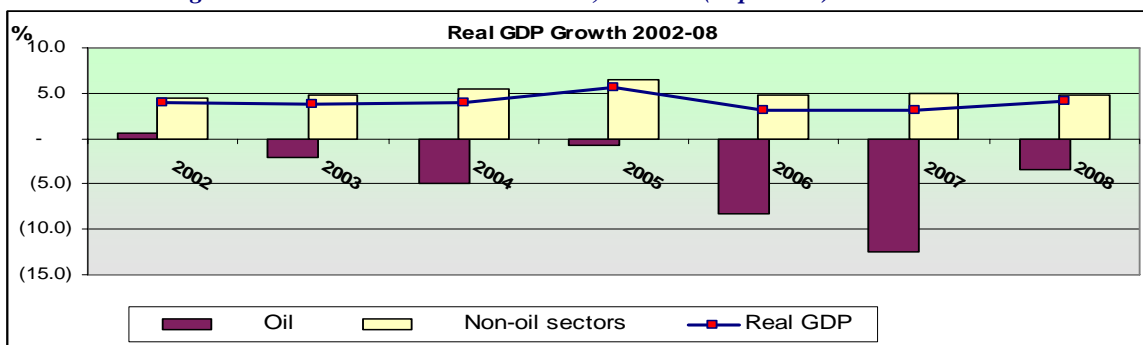
Table 4. GDP in 2005 and 2006: old and revised data

	Growth rate at constant prices Old		Growth rate at constant prices Revised	
	2005**	2006**	2005*	2006**
Agriculture, Forestry and Fishing	4.0	4.4	2.4	3.7
Financial Institutions & Real Estate	4.1	4.3	15.9	2.2
Import Duties	-18.1	-37.0	-16.0	-38.1
Less: Imputed Bank Services Charge	4.2	4.2	4.2	4.2
G D P At Market Prices	4.6	3.3	5.6	3.2
Non -Oil GDP	5.3	4.9	6.5	4.7

* *Provisional actual* ** *Provisional*

Based on revised oil production data, the 2007 outlook suggests that GDP growth will show a further—albeit small—decline to 3.1 percent. An increase in non-oil GDP growth of about from 4.7 to 5 percent will partially offset the contraction in the oil output estimated at more than 12 percent. Growth in the non-oil sector will be sustained by new public investment projects, and ongoing projects (including Yemen Liquid Natural Gas (YLNG), Marib Power, and the first private-sector refinery). Private investment is also expected to start picking up in response to recent legislative and administrative reforms aimed at improving the investment climate.

Figure 3. Real GDP Growth in Yemen, 2002-08 (in percent)



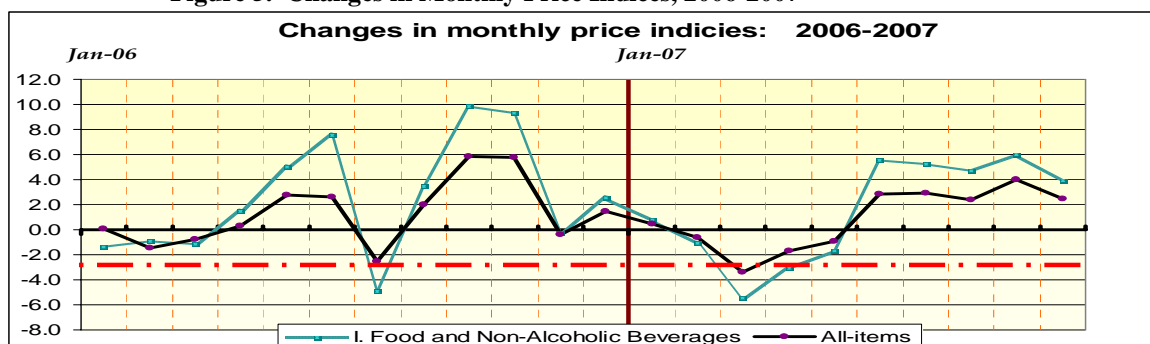
With the passing of the supplementary budget in November and the release of the actual data for the first 10 months, the fiscal deficit in 2007 is expected to show a slight widening from 5.3 to 5.8 percent of GDP. The additional expenditure ratified under the supplementary budget (which mostly covers military wages and spending, subsidies and security related matters) has brought some additional 17 percent to the expenditure approved under the original budget. However, realized expenditure for 2007 is likely to remain broadly unchanged due to restraints imposed on spending during the first half of the year. As suggested by the authorities, at least some 10 percent of the original budget will go unspent in 2007, mainly in categories such as civilian wages and capital projects. Therefore, the slight widening of the deficit in 2007 underlies the continued loss of oil revenue instead of increasing expenditure. Current revenue is projected to decline by some 6 percent, mainly owing to the cut in oil revenue projections by 4 percent. The overall deficit in 2007 is expected to reach YR251 billion, equivalent to 5.8 percent of GDP, and slightly above the deficit limit set out under the DPPR.

The 2008 budget, approved in November, projects a widening of the fiscal deficit to 7.6 percent of GDP. The expected outcome under the 2008 budget reflects the conservative oil price assumption of US\$ 55 per barrel. Taking a more realistic oil price view at US\$85 per barrel, and subsequently revaluing oil revenues and petroleum subsidies (and some other minor components), the IMF has recently estimated the 2008 fiscal deficit at about 5.5 percent of GDP, broadly similar to its level in 2007. The bulk of expenditure under the new budget is earmarked for current items (71 percent) such as salaries (28 percent) and subsidies (18 percent). With regard to salaries, the new budget stipulates an increase of about 8 percent over the previous budget (and by about 10 percent over the 2007 actual) as a result of the application of the second stage of the wage strategy. The new budget, also, stipulates that spending on subsidies will decline by about 6 percent, but this reflects the use of a conservative oil price assumption instead of an actual decline. According to IMF calculations, subsidies will rise in 2008 by some 50 percent if the more realistic price of oil was used. One notable feature in the new budget is the large allocation to capital expenditure, which is set to increase by 47 percent over the previous budget, therefore boosting its share in total spending from 19 to 26 percent.

Table 5. Government Finances 2006-08 (In billion Yemeni rials)

Item	Prelim. 2006	budget 2007	Est. ¹ 2007	budget 2008	Proj ¹ 2008
Tax Revenues	266	265	290	330	266
Grants	15	20	6	64	15
Property Income, <i>of which: oil revenue</i>	1166	1087	1046	999	1166
sales of Non-Financial Assets (Capital Rev)	3	0	0	0	3
Total Revenues and Grants	1450	1372	1342	1394	1450
I : Current Expenditures	1064	1220	1279	1286	1064
1. Compensation of employees	386	463	453	500	386
2. Goods and services	128	152	142	167	128
3. Maintenance	20	21	19	28	20
4. Current Transfers and Loan Interests	508	561	640	564	508
a) Loan Interests:	89	96	108	99	89
b) Subsidies:	309	335	406	315	309
c) Current Transfers	110	130	126	150	110
5. Other Current Expenditures	22	23	24	28	22
II : Capital Expenditures	289	301	280	444	289
III :Net Lending	51	78	34	69	51
Total Expenditures and Net lending	1404	1600	1594	1799	1404
Deficit /Surplus (Overall)	45	-228	-251	-405	45
Deficit /Surplus as % of GDP	1.2	-5.3	-5.8	-7.6	1.2
GDP at Market Prices	3760	4300	4300	5337	3760

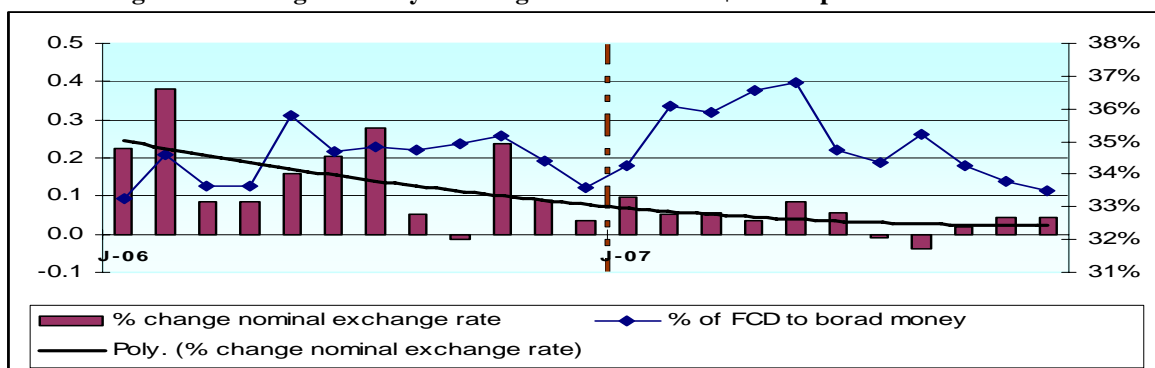
1. Estimates and projections based on IMF calculations

Figure 5. Changes in Monthly Price Indices, 2006-2007

After easing in the first half of 2007, inflationary pressures began to build up in the second half, with the CPI index registering an average monthly increase of about 2.2 percent for July-November period (as compared to monthly average of -0.5 percent for the first half). The resurfacing of inflation in recent months underlines the sharp upturn in international food prices and the granting of a one-month salary increase in mid-September to coincide with the month of Ramadan (September inflation rate was the highest in 2007 with a monthly rate at 4 percent or 60 percent on annualized basis). Despite the recent upturn, however, overall inflation rate for 2007 is expected to show significant moderation from last year's record level of 18.5 percent, to about 10 percent.

The exchange rate of the Yemeni rial versus the U.S. dollar has remained broadly stable in 2007. In 2006, the rial depreciated by 2.9 percent, below the 3.6 percent recorded in 2005, and the near 4 percent average rate during the period 2000-2004. The rate of depreciation slowed down further in 2007, with the rial stabilizing at around 199 per dollar during the last 5 months. The recent stabilization in the nominal exchange rate of the Yemeni Rial versus the dollar is viewed as a temporary policy measure aimed to lessen the inflationary impact of the weakening dollar value against other major currencies. Over the longer run, the Yemeni monetary authorities are expected to continue to manage the rial exchange rate with the aim of striking a balance between controlling inflation and maintaining competitiveness of non-oil exports. One factor that plays in favor of a more stable exchange rate is its impact on minimizing dollarization. The recent stabilization of the exchange rate, however, has so far had little effect on reducing the level of dollarization in the economy. The ratio of foreign currency denominated deposits in the banking system to broad money, which is shown in the figure 6, has so far reacted with little sensitivity towards the stabilization of the exchange rate. ²

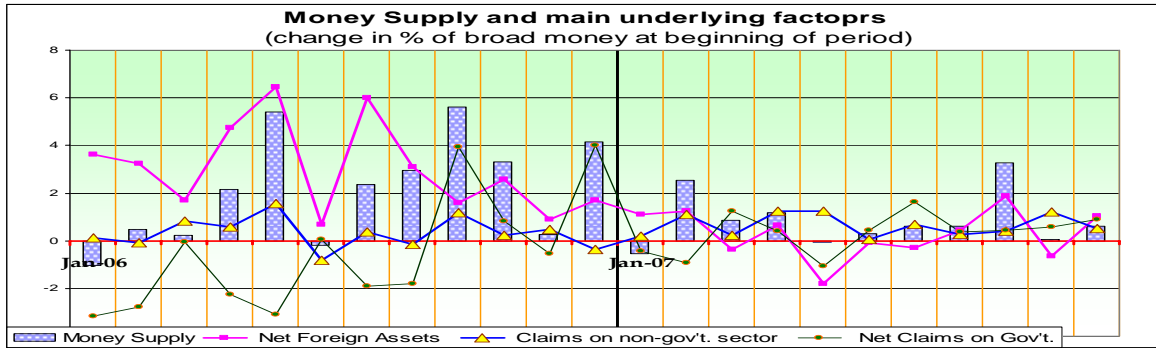
Figure 6. Average Monthly Exchange Rate vs. the US\$ and impact on dollarization



In the monetary sector, broad money growth has witnessed noticeable slowdown from a year ago. After sharply increasing by some 29 percent in 2006, growth of money supply began to moderate, starting from early this year. By the end of November 2007, the money supply increased by about 10 percent (year-to-date), or about 10.8 percent on an annualized basis. This represents significant decrease from the 29 percent expansion in 2006. The moderation comes on background of considerable deceleration in the growth of net foreign assets, which have increased by less than 3 percent since the beginning of the year (as compared to 32 percent for 2006) owing to the decline in oil export revenues. Growth in money supply during the first eleven months of 2007 was primarily sustained by the expansion in credit to the private and government sectors, which witnessed growth of 42 and 37 percent respectively.

² This phenomenon is commonly described as the hysteresis effects, i.e. the persistence of a previous state. The explanation is typically that once people have adjusted to macroeconomic instability by switching to foreign currency and reducing the demand for real domestic money balances, they will continue to lack confidence for a long time even if fundamentals change sharply.

Figure 7. Factors Affecting Money Supply



Owing to continued firming of oil prices and a slower decline in oil production, the outlook for 2008 calls for a moderate improvement. Yemen’s overall growth rate in 2008 is expected to improve by one percentage point to 4.1 percent on the account of stabilizing oil production at around 300 bbls per day, and continued expansion in the non-oil sector, estimated at about 5 percent. Growth in the non-oil sector is to be supported by higher investment in the public sector, sustained by contributions from the GCC countries, and increased inflow of FDIs. The latter were reported to have risen by some 30 percent in 2007, corresponding to 360 projects newly licensed projects with total capital of US\$1.4 billion. The improvement in the oil sector in Yemen is also expected to reflect positively on the fiscal and external sectors. Government fiscal balance is expected to witness a slight improvement owing to higher oil revenue and improved tax collection. In the external sector,

III. STRUCTURAL REFORMS AND POLICIES

The rapid population increase in Yemen is posing serious economic and demographic challenges. A recent population conference held in Yemen has shed more light on the magnitude of the problem and its implications for future growth and fiscal burden. Yemen's population growth, at 3.01 percent per year, is one of the highest in the world. This is a major factor holding back social and economic development, and reducing the impact of economic growth. Assuming that fertility rate continues at its current level of 6.1 children per woman, Yemen's population is set to exceed 50 million by 2033 (and 60 million by 2050). This would put enormous pressures on the social and physical infrastructure, requiring some 500,000 more teachers, 16,000 extra doctors, and an extra 8392 million cubic meters of water by the end of the projection period. The recent conference has raised alarm about the situation and urged to allocate more resources and efforts to deal with this issue. Yemen has a comprehensive and sound population policy with an integrated approach of reproductive health care and human development under the Population Action Program 2001–10. Furthermore, the government has established a specialized sector within the Ministry of Health to deal with the population issue, in addition to the National Population Council, responsible for policy formulation and monitoring. Plans to deal with the population issues in Yemen, however, has suffered from weak implementation, under-funding particularly with regard to family planning and quality health services, and lack of monitoring mechanism.

As part of measures to strengthen public financial management in Yemen, a comprehensive report on the status and performance has been recently completed. The assessment was carried using an internationally recognized framework – the Public Expenditure and Financial Accountability (PEFA) Performance Measurement Framework. This framework identifies a set of critical objectives of a PFM system, and some 30 high-level PFM indicators covering five key areas: i) comprehensiveness and transparency, ii) credibility of the budget, iii) predictability and control in budget execution, iv) accounting, recording and reporting, v) external scrutiny and audit and vi) donor practices. The purpose is to produce a Baseline PFM Performance Measurement, against which the direction and extent of future progress can be measured overtime. This Performance Measurement would identify areas of low and high performances and, therefore, assist in the determination of those priority areas that need corrective and curative actions. Examining budgetary practices and outcomes for the period 2004-2006, the report pinpointed weaknesses in Yemen's PFM in a number of key areas, particularly with regard to the issue of predictability and control of budget execution. Among the specific indicators that were identified with notable weaknesses are the following:

1. Adherence of aggregate expenditure outturns to original approved budget
2. Public access to fiscal information
3. Collection of tax payments

4. Competition, value for money and controls in procurement
5. Controls for salary and non-salary expenditure
6. Internal audit
7. Quality and timeliness of in-year budget reports
8. Legislative scrutiny of external audit reports

The newly formed Supreme National Anti-Corruption Committee (SNACC) moved ahead with measures to implement its mandate. Among the first actions taken by SNACC was to activate the Financial Disclosure Law by piloting the legislation to its own members first and then applying it to other high ranking officials in the government. Under the initiative, 260 officials (including 25 ministers and the prime minister) have already submitted statements on their financial position. SNACC is currently undertaking investigation of 25 major public corruption files, which if found to be credible, will be referred to the Attorney General Office for further action. In this regard, investigation efforts by SNACC have already led to the suspension of two major deals in the energy sector for nuclear and wind-power generation. In its first public meeting held in December, SNACC revealed plans for establishing a national alliance for integrity and combating corruption, which will cooperate with the civil society organizations in designing and implementing the national anticorruption strategy. Other SNACC activities planned to be completed in the first quarter of 2008 include the establishing of the executive by-laws and the undertaking of a baseline survey on public perception of corruption in Yemen. The SNACC board, with its 11-members, is responsible for establishing a national anticorruption strategy (which is expected to be finalized during the first half of 2008), monitoring all government agencies for corruption, and sending suspected officials to court when necessary. SNACC has its primary role to combat corruption under three major categories – Preventive Measures to minimize chances of corruption; Investigation and Pursuance in reported cases of corruption; and, Education and Mass Awareness of citizens about their rights and legal framework against corruption. The Authority has a body corporate and legal framework and a financial and administrative autonomy.

Efforts to enhance controls and auditing have continued. With the help of an international firm, PwC, Yemen is moving towards the implementation of earlier recommendations of a steering committee for establishing effective internal and external controls. Arrangements for strengthening internal controls are reported to be nearing completion and implementation is expected to begin in early 2008. The pending issue of technical oversight of the internal audit units within government agencies is now expected to be assigned to an independent professional body, which will also be in charge of setting general accounting standards in the country. Concerning plans to strengthen external auditing, efforts to restructure and enhance capacity at the Central Auditing and Control Agency (COCA) are also progressing smoothly, though not as nearly complete as in the case of internal audits. COCA plans call, among others, for the restructuring of the organizational chart (which currently falls into four sectors: administrative, economic,

local governments and technical), building better infrastructure and improving the technical skills of its staff.

Reforms are progressing in the Civil Service Modernization Project. Following the implementation of the first phase in 2006, which led to across-the-board wage increase, the second phase was approved in October 2007 at an estimated cost of about YR80 billion. In principle, implementation requires a number of prior reforms that include the completion of the biometric ID system, and reforms at individual agency levels, such as re-engineering studies and job descriptions. Implementing the second stage in 2007 has been approved to the military (which account for about half of government employees) and a few public organizations that were able to meet the criteria. According to the Ministry of Civil Services, the remaining bulk of public sector agencies will be qualified in 2008. The implementation of the biometric identification system has been progressing at a satisfactory rate, with about 340 thousand civilian employees have already been covered (representing a completion rate of 69 percent). The Ministry now expects this task to be completed by March 2008 for the civilian sector and by September for the military personnel. The measure, once completed, is expected to eliminate wages totaling about US\$97 million for more than 60,000 double-ghost-workers (some 32 thousand have already been identified). Other reforms that were concluded recently include the establishment of a budgetary program for CSF for 2007–2010. Under the CSF, the government has retrenched and benefited about 4,000 employees. Other efforts pioneered by the Ministry of Civil Services include the compilation and publishing of a procedural manual for government agencies (some 2000 processes for acquiring services in various public sector agencies have already been documented and published), the establishment of the executive by-laws of the internal audit units, and the authoring of a manual for performance appraisal and indicators for various public sector organizations.

As a part of efforts to improve the enabling business environment, Cabinet approved in September 2007 a new land registration law. The new law is based on earlier recommendations of the public-private Land Policy Task Force, which was detailed in the World Bank's urban land policy and administration policy note (2006). Key provisions in the new law are the shift from the existing person-based deed registration (sejel shakhsee) to a title (sejel ainee) system and the independence of the registrar's decision-making through appointment of judges to chair the title registration committees. The bill is expected to be referred to the Parliament soon for final approval. The Bank plans to follow up with technical assistance to the Government in the formulation of executive regulations to the land registration law and a manual of procedures, the establishment of an organizational structure for the General Authority for Land, Survey and Urban Planning that sets up its mandate and functions vis-à-vis other agencies, and the preparation of public land management and urban planning policies and revised legislation.

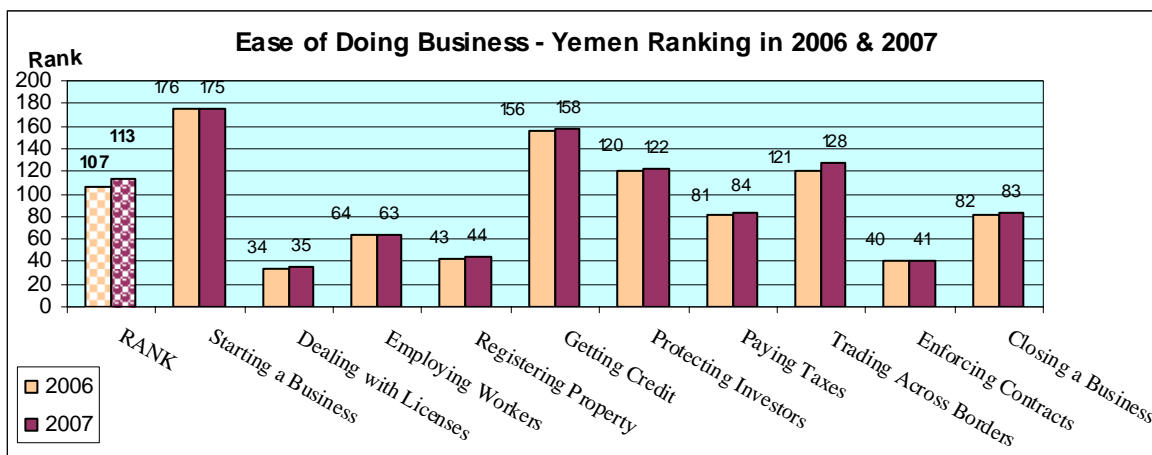
According the latest Doing Business Report (2008) from the World Bank, Yemen has witnessed little improvement in the Business environment in 2007. Although the Yemeni business environment has seen improvements in some aspects over the pervious year, globally its overall ranking has deteriorated slightly from 107 to 113, mainly owing to the fast pace of reforms in other parts of the world, particularly in Eastern Europe. The report which covers the results of surveys for 178 countries, bases the overall ranking on progress in reforms in ten main business related areas that includes licensing, financing, hiring of labor, and legal protection, among others. According the survey, among the most prominent factors that continue to affect the ease of doing business in Yemen are those related to starting business procedures and capital requirements, financing, trading across borders, and legal protection of investors rights. Regionally, Yemen occupies the ninth rank ahead of Egypt, Iran, and Syria. Among the countries in the region, Saudi Arabia ranks the highest, having the 23rd rank globally in terms of ease of doing business, better than other countries such as Malaysia, and South Korea.

A new management for the Aden Port Container Terminal (APCT) is announced. The Government of Yemen and Dubai Ports World (DPW) have reached a preliminary accord in December allowing the UAE Company to run the Aden container terminal in Yemen. Under the signed memorandum of understanding, DPW and Aden's port will set up a joint-venture company to develop and operate the container terminal. In 2005, Yemen awarded Dubai Ports International (DPI), DP World's predecessor, a contract to develop and manage the Aden container terminal. Yemen later suspended the contract after Parliament criticized the deal as unfair and subject to conflicts of interest, partially because the Aden facility is in competition with Dubai's Jebel Ali port, also run by DP World. Under the new arrangement, Yemen will be receiving 49 percent of the terminal's net profits instead of the previous terms of US\$6 per container. The agreement, which is expected to come into effect in February 2008, has been approved by the Cabinet and currently awaiting the report on the valuation of the assets of APCT. The agreement came on the background high-level official meetings between the two sides in November to discuss official aid flows from the UAE to Yemen.

The government is taking new initiatives to encourage investment in the mining sector. Yemen has substantial potential in the mining sector but its current operations have been limited and restricted to some small-scale quarries. Among the minerals that could be exploited with commercial potential in Yemen are marble, zinc, iron, silver, and lead. To address this shortfall, the GOY has recently requested technical assistance from the IFC to revise the current mineral policy framework, with the objective of attracting more private investment into the industry as a whole and supporting existing smaller firms. The project focuses on introducing the best practice for a world class mining code and streamlined administrative procedure to obtain exploration and exploitation licensees. In addition, it will assist the GOY in attracting new private investments in high value minerals, while at the same time strengthening the growth potential of the existing domestic operations in the marble and granite industry. The project has already

concluded its first phase, which involved the mapping of existing legislations, institutions and other organizational aspects of the sector. Currently, the project team is preparing the draft fiscal and legal reform agenda based extensive discussions and workshops with all involved parties. The study comes in a very critical time where many potential investors from neighboring Gulf countries are showing increasing interest in this sector.

Figure 8. Yemen Doing Business indicators



The Government is also laying significant expansion plans in the power sector. Following the summer riots, the boosting of the national generating capacity, and minimizing power interruptions have come under focus, with the President emphasizing this issue in his 15 points priority action list. Negotiations between Yemen and Saudi Arabia in November, led the latter to convert an earlier loan of US\$101 million for financing the gas-fuelled power plant at Marib into a grant (the first phase of the Plant is expected to be inaugurated in 2008). The grant came on the back of a US\$37 million concessional loan, offered by Agence Française de Développement (AFD), to help enhance the distribution and control system of Yemen’s power sector. AFD has also pledged, in collaboration with the World Bank and the Islamic Development Bank, to furnish Yemen with an additional loan of about US\$50 million to enhance rural electrification. Meanwhile, a number of other ideas for developing non-hydrocarbon power sources were considered, but, nonetheless, were rejected on various grounds. A project proposed by Dutch scientists to build a mega-dam in the strait of Bab al-Mandab for the generation of power for Yemen, Eritrea, and Djibouti has been shelved due to its environmental consequences. Other plans to expand generating capacity through nuclear and wind energies were also blocked due to questionable technical feasibility findings. Yemen is now considering new approaches to expand the role of private sector in power generation through purchasing deals with independent power producers (IPP). An international consulting firm is being commissioned to prepare guidelines for contracting such services.

IV. OUTLOOK

With expectations of continued firming of oil, prices and a slower decline in oil production, the outlook for 2008 calls for some improvement. Yemen's overall growth rate in 2008 is likely to improve by one percentage point to 4.1 percent on the account of slower decline in oil production (about 3.3 percent as compared to 12.6 percent in the previous year), and continued strong performance in the non-oil sector of about 5 percent. Growth in the non-oil sector is expected to benefit from reforms taken in the previous two years and the subsequent inflow of foreign investment, particularly from the Gulf. The improvement in the oil sector in Yemen is also expected to reflect positively on the fiscal and external sectors. Government fiscal balance should witness a slight improvement owing to higher oil revenue and improved tax collection. In the external sector, current account deficit is expected to shrink to less than 2 percent of GDP as compared to 4 percent in 2007. Owing to the continued firming in oil prices, and the high influx of foreign capital, the inflation rate in Yemen is expected to remain high at about 17 percent.

The government reform efforts are expected to continue in 2008. MOPIC is already preparing a midterm plan to evaluate the performance of DPPR during the first two years, and also to function as an interim or revised planning document for the remaining period (i.e. until 2010). The midterm plan will consider the changing circumstances that have emerged since the inception of the DPPR and revise its scope to accommodate some of the more recent initiatives such as the NRA of 2006, the MCC Agenda, and the July 2007 Presidential Speech. The revised Plan is expected to place special emphasis on the new challenges associated with the faster than expected depletion of oil reserves, and the need to intensify efforts to diversify the economy and encourage private sector growth. Efforts, in particular, will focus on strengthening the financial sector development, including increasing the number of microfinance banks, modernizing the local commercial courts, reducing red tape, and updating foreign investment regulation. Currently, donors are actively supporting the government reform program in various areas. For instance, the bank is supporting the government with an Institutional Reform Development Policy Credit (IRDPC) —a quick disbursing operation—and the U.S. doing the same, with Yemen's access to the Millennium Challenge Account.

V. ECONOMIC AND SECTOR DIALOGUE

I. Private Sector Development

Investment Policy and Promotion- (Pipeline) Assist the GOY to position itself to attract investment projects. This program is to establish a clear strategic vision for GOY for attracting and retaining investment, including the identification of target sectors of comparative advantage, and with a comprehensive action plan for promoting and facilitating investors' needs as well as improving investment climate

Industry Competitiveness- Special Economic Zones (SEZs)- (Pipeline) In close collaboration with the World Bank, this component is to assist the GOY to develop a sound legal and institutional framework for the SEZ. In addition, building on the wider strategy development work and complementing the sector targeted investment promotion work in component A., this component will also assist the GOY to implement the industry-specific reforms.

Taxation Reform- (Pipeline) Assist the GOY in simplifying tax system and introducing SME tax system. Yemen's Investment Code's practice of offering incentives through the Investment Code is outdated – fiscal incentives need to be removed from the Investment Code and folded into the Tax Code. Any review and reconfiguration of the SEZ regime would also need to be conducted with an understanding of and in coordination with overall tax reform efforts.

Business Start-Up Simplification, Yemen. The IFC PEP-MENA's Business Start-Up Simplification Project in Yemen seeks to help the Government at the national and sub-national level to establish simplified business start-up procedures to minimize bureaucratic obstacles for private investors. The aim will be a comprehensive restructuring of the relevant business start-up procedures, resulting in reduced cost and time of business registration for start-ups, thus encouraging more local and foreign investment. This project is working in Sana'a to ensure that all simplifications are in line with national policy and applicable across the country as well as, at the sub-national level in Aden where it will serve as the pilot case where these simplifications would be implemented first as part of the Administrative Modernization and Simplification project financed by the World Bank's PCDP. The project consists of four phases, the mapping and Survey phase with the help of private sector, Re-engineering phase, the Implementation phase, and lastly, The Automation phase in Aden. So far, the business start-up simplification project team (along with a consulting team) has concluded the first phase of the project (The Mapping phase) in both Sana'a and Aden. The project team is currently planning to conduct many workgroup discussions and workshops to demonstrate and draft a reform agenda based on the results of the mapping phase in both Sana'a and Aden.

Mining Policy Reform Project in Yemen. In September 2006, IFC, PEP-MENA signed an agreement jointly with the Ministry of Oil and Minerals, represented by the Geological Survey and Mineral Resources, to support the government further in its efforts to develop the country's mining industry through targeted support in the area of policy reform. The Project is divided into three key phases: Diagnostic Assessment, Change / Re-designing, and Implementation. The project has progressed well as the first phase has been completed successfully. In order to present the findings and recommendations of the assessment of Phase I to high-level decision makers as well as to a broader audience, workshops and a series of high-level client and stakeholders meetings were held in early September 2007. The objective of these events is to finalize with stakeholders the reform agenda of the mining legal policy and fiscal regime and create momentum for the planned reforms. It will also help develop a national policy and reengineer administrative procedures. With these events, it is intended to transit into Phase II of the project. The advisory project will collaborate with international experts with the government to reform the mining codes according to international best practices. The government is sustaining the project, as it will help in reforming a new mining policy, which will facilitate in attracting the private sector including major mining companies to invest in Yemen's mineral resources as well as diverse Yemen's economy currently dependent on Oil & Gas.

Yemen Leasing Project: The Parliament of Yemen and the President of the Republic enacted the Law # 11 on April 27, 2007. The law was sponsored by the Central Bank of Yemen; it was drafted in coordination with the International Finance Corporation, member of the World Bank Group. The Law is based on international best practices including the Model Law on Leasing developed by the International Institute for the Unification of Private Law (UNIDROIT). (UNIDROIT is an independent inter-governmental organization based in Rome. Its purpose is to study needs and methods for modernizing, harmonizing and coordinating private and in particular commercial law as between States and groups of States). Importantly, the Law was specifically developed to incorporate the legal principles and traditions existing in Yemen. The IFC is now assisting in the development of associated tax legislation, as well as the establishment of a leased asset registry and related secondary legislation.

The Leasing Program works in Yemen with both governmental agencies and the private sector, with the following aims:

- Advises policy makers seeking to create legal and regulatory environments favorable to the development of leasing. This involves comprehensive diagnostics to identify legislative and other constraints, drafting legislation and raising awareness of legal and regulatory best practice.
- Builds capacity of local financial institutions (e.g., banks, leasing companies, MFIs, etc.), equipment suppliers, investors, etc. to create and expand leasing markets on a sustainable and profitable basis.
- Raises awareness of the benefits of leasing to MSMEs as a means to finance business assets; and,

- Promotes and facilitates leasing investments, both for its own account and for other investors.

Small & Medium Enterprise management Training program (Business Edge): In order to address the gap in the supply of management training in Yemen, IFC's management training program, Business Edge contributed to catalyzing structural change in the Yemeni market for management training. With its comprehensive training package, the program has built the capacity of six training providers and trained 70 of their trainers, helping them to generate demand, and to make a profitable line of business out of SME-management training. Whereas the notion of SMEs paying for training did not exist, owners/managers of SMEs are now willing to invest in management training as is evident from the high numbers of trainees that enroll in Business Edge workshops. In the span of a year, 2616 owners/managers of SMEs have been trained and certified by Business Edge. Significant repeat rates are also an indication of the popularity of the workshops. To help stimulate the market, a declining subsidy scheme was set up in cooperation with the Royal Netherlands Embassy and the Social Fund for Development in January 2006. Encouragingly, demand has increased despite the gradual reduction in subsidy levels. In fact, the number of trainees reached 1030 owners/managers in April with the subsidy at only 50%, in comparison to the 159 owners/managers who enrolled in February at subsidy rates as high as 80%. Currently Business Edge is provided without any subsidies since April of 2007.

II. Education and Health and Social Policy

Secondary Education Development and Girls Access Program A joint World Bank, Netherlands, DFID, KfW and GTZ mission was undertaken in Yemen in October 2007 to appraise the project. The project was appraised at the Bank's review meeting in December 2007, and the negotiation of the program will take place in January 22-23, 2008.

Regional Impact Evaluation Workshop The World Bank hosted an Impact Evaluation workshop for the first time in the MENA region between January 13 – 17, 2008. The workshop was held in Cairo, and delegates from more than 10 countries participated. From Yemen, representatives were sent from Ministries of Planning, Health, Education, TEVT, and Electricity, as well as from projects and independent organizations.

Education Country Status Report and Integrated Education Vision The Government of Yemen is currently developing an integrated vision for the education system in the country, seeking to ensure the alignment of available resources with the key objectives of access, enrollment, quality and relevance. The first phase of the exercise, preparation of an Education Country Status Report (CSR) has been started. It includes diagnosis of the current situation with technical analysis and development of a solid platform on which the national vision can be based. The report will synthesize and summarize the results of a series of studies.

Social Protection Mission The World Bank is leading a social protection mission in mid-January 2008. The mission aims to discuss with the government on the Phase I report which the joint working team of the government and development partners have drafted. It also aims to develop an action plan for completing the Phase II report, the Social Protection Strategy.

Girls Secondary Education Project A joint World Bank, Netherlands, DFID, KfW and GTZ mission was undertaken in Yemen in July 2007 to review preparation of the project and to agree on detailed project components. The mission highlighted that, in close to forty years of World Bank/IDA support to the education sector in Yemen, this is the first time that a fully owned project preparation process has taken place by the GoY through the MOE from the early stages of project design. The appraisal mission is planned from late October 2007.

Conditional Cash Transfer for Girls in Grades 4-9 Under the Conditional Cash Transfer (CCT) scheme of the Basic Education Development Project (BEDP), the first cash transfer was made to girls in eight operational pilot schools in Lahej Governorate. Preliminary findings of the operational pilot have shown parents' strong preference of CCT to any other schemes since they feel this is the first time that their needs are addressed most adequately by a government scheme. After this successful completion of the operational pilot, the MOE launched the CCT in 210 schools in Lahej in September 2007.

Basic Education Development Project, Mid-Term Review Supervision mission in July has found that considerable progress has been made in the implementation of the BEDP during this year which has helped to overcome the shortfalls that resulted from delays in implementation during the first two years of the Project. Mid-Term Review mission is planned in January 2008.

School Health and Nutrition Mission A School Health and Nutrition (SHN) mission visited Yemen in early September to organize a workshop jointly with the Ministry of Education, the Ministry of Health, and World Health Organization. Recognizing that effective SHN programs require strong and effective collaboration, both the ministries of Education and Health agreed to establish an Inter-sectoral Steering Committee and an Inter-sectoral Technical Committee. The MOE is considering using the third phase of the EFA-FTI Catalytic Fund grant to support these activities in 2007-2008.

Immunization Resource Tracking: The Bank is leading a dialogue with the MOPHP on the impact of financial resources planning, budgeting, and the flows of funds on program outcomes. In partnership with the USAID-financed Health Systems project (managed by Abt Associates, Inc), the Bank carried out in 2006 preliminary analysis on immunization resource tracking. As a follow up from the recommendations of the preliminary analysis, the MOPHP with Bank support is preparing for the implementation of an in-depth resource tracking study of the National Immunization Program.

Health Sector review (HSR) The World Bank is involved in extensive discussions with MOPHP and its development partners (donors) on the health sector review/donor harmonization initiative. The development partners, including the Bank are supporting the initiative that was launched in 2006. The HRS is expected to be finalized mid 2008 with a Health Sector Reform Strategy, which will set sector policies and strategic priorities, as well as provide the framework for aid harmonization in the sector..

Rapid Result Approach (RRA) Given the success of the Rapid Result Approach methodology in supporting project implementation of the HRSP, GOY requested Bank support to institutionalize the use of RRA and scale up its use. The Bank is discussing with the Ministries of Health and Planning the scope and potential of this process. A national team is in place and the dialogue on applying the RRA for the Health Sector Reform Strategy is in progress.

III. Agriculture and Rural Development

Rain-fed Agriculture and Livestock Project. The main objective of this project, signed in July 6, 2006, is to support the Ministry of Agriculture and Irrigation to improve the services to farmers in five governorates. The project will also provide support to the General Directorate for Animal Resources' to fulfill its core functions and to improve livestock owners' access to quality services and goods to enhance the health and productivity of their animals.

IV. Public Administration

Establishment of the Internal Audit Function in Yemen, A dialogue with COCA,CSMP and the MOF regarding the establishment of the Internal Audit Function in Yemen and also the re-engineering of COCA to be in line with the international standards, is being carried out.

VII. New & Noteworthy Laws, Decrees, and Agreements

The Cabinet

- approved the outcomes of the 18th session of the Yemeni-Saudi Coordination Council;
- approved financing agreements signed between Yemen and Saudi Arabia for the total amount of 1 bln Saudi Rials for health, education, vocational training, and electricity sectors, and executive cooperation programs in the field of justice, environment, fisheries and other fields;
- approved the Cooperation Protocol signed between the Ministry of Culture and Italian Institute for Africa and Middle East regarding cooperation in the field of cultural heritage;
- approved the draft law for determining maritime base line;
- approved the recommendations of the Ministerial Committee concerning improving the situation of meat markets;
- discussed the draft law regarding the intellectual property rights;
- approved establishing a joint holding company between Aden Gulf Ports Authority and Dubai Ports International Company at 50% - 50% for development and operation of Aden Container Terminal in accordance with the MoU signed in November;
- approved the nominations for the Supreme Tender Committee and referred to the President for finalizing constitutional procedures;
- agreed to the proposal by the Minister of Planning and International Cooperation regarding merging ministerial committees for perusal of investment and trade laws into one;
- approved draft republican decree presented by the General Investment Authority regarding setting up general authority for investment and development in accordance with the Law 35/1991;
- approved the report by the special ministerial committee regarding opening airport airspace;
- agreed to the request by the Minister of Industry and Trade to delete article 73 from the Executive By-Lass of Trade Companies Law 22/1997 regarding 49% capital limit for foreign partners;
- approved Organizational By-Laws for Higher Council for Community Colleges presented by the Ministry of Vocational Training;
- approved establishing a university and a community college in Abyan and attending to other development needs of the governorate upon reviewing the

report presented by the Minister of Local Administration and the Governor of Abyan;

- endorsed the agreement signed between the Government of Yemen and the Arab Fund for Economic and Social Development regarding its contribution to funding water and sanitation project in Aden governorate in the amount equaling US\$ 34 mln.

Miscellaneous

- The Ministry of Agriculture has allocated YR 100 mln for production of genetically modified wheat to improve food security in Yemen.
- Yemen's foreign currency reserves increased to US\$ 7.7 bln at the end of October 2007 compared to US\$ 7.4 bln for the same period last year.
- The Fisheries Office in Al-Hodeidah is establishing quality control labs and distributing 183 fishing boats at the cost of YR 159 mln for the benefit of 600 fishermen.
- The number of students enrolled in vocational training institutes increased to 24,126 compared to 22,166 last year distributed over 65 institutions.
- Yemen ranked the last (128th) in the Global Gender Gap Report 2007 produced by the World Economic Forum.

The Private Sector

- MTN-Yemen and French Alcatel signed a US\$ 20-mln agreement to modernize technology and accommodate 3 mln subscribers.
- General Investment Authority and Al-Qudra International of Abu-Dhabi signed an agreement of establishing a joint company (at 35% and 65% respectively) for construction and tourism projects
- Other government
- Revenues of Yemeni fish exports declined of the period of January to September 2007 to US\$ 151 million compared to US\$ 191 during the same period of last year due to export bans on certain kinds of fish.
- Yemen external debt reached US\$ 5.62 billion by the end of July 2007 compared to US\$ 5.46 billion on end of December 2006, representing 34% of GDP.
- The President pledged a YR 7 bln (US\$ 35 mln) project to resolve housing crisis for low-income citizens in Aden.

Development Cooperation

- Four cooperation agreements were signed between Yemen and China under which China will supply 20 mln Yuan in grants and 40 mln Yuan in soft loans mainly for cement industry.

- The Government of Yemen and Dubai Ports World have signed a MoU on partnership in operation and development of Aden Container Terminal.
- Cooperative Agricultural Credit Bank is to open a branch in Jeddah, the first time a Yemeni bank to have a branch outside the country.
- Italian NGO Cubi has implemented seven development and health projects in Yemen in the past seven years at the amount of € 3.2 mln benefiting 267,000 people.
- WHO has granted Yemen US\$ 25 mln for supporting health and population activities in 2008-2009.
- Four development agreements were signed between Yemen and Germany for € 73 mln for 2007-2008 mainly for support of water, health, education and economic development.
- UNICEF has allocated US\$ 52 mln for its development program in Yemen during 2006-2011.
- EU has granted US\$ 489,000 to the Yemeni Society for Fisheries Export to develop fishery exploration and production.
- Japan International Cooperation Agency has donated the equipment to the General Authority for Rural Water Supply Projects for US\$ 75,000.

Seminars and workshops

- The Fifth Regional Forum on Exploring International Humanitarian Law was organized by National Humanitarian Law Committee in cooperation with the International Committee for Red Cross on November 18-22.
- A conference on Reforming Business Environment and launching Doing Business 2008 report was organized by International Finance Corporation during November 19-20.
- A national workshop on WTO Sanitary and Phytosanitary Measures was organized by the Ministry of Industry and Trade on November 21-22.
- The Fourth Arab Conference on Small and Medium Industries was organized by the Ministry of Industry and Trade in cooperation with the Arab Industrial Development and Mining Organization on November 25-26.
- A workshop on Decentralization of Urban Water Supply and Sanitation was organized by the Ministry of Water and Environment in cooperation with GTZ on November 26.
- A training course for commercial judges for resolving business conflicts was organized by the Ministry of Justice on November 26-28.
- A workshop on Enhancing Alliances in Middle East Partnership Initiative was organized by the Human Rights Information and Training Center on November 29.

- A workshop on monitoring and social welfare activities for juveniles was organized in Al-Hodeidah by the Ministry of Social Affairs and Labor in cooperation with the International Organization for Reforming Juveniles on December 7.
- Celebration of International Day of People with Disabilities was organized by the Ministry of Social Affairs and Labor in cooperation with Disability Fund on December 7.
- Celebration of the International Human Rights Day was organized by the Ministry of Human Rights in cooperation with UNDP on December 13.

Dissemination of Poverty Assessment Report in different governorates was organized by the World Bank during early December.

VIII. WORLD BANK GROUP OPERATIONS IN YEMEN

Knowledge Services. Bank’s key non-lending support included of the following studies: public expenditure management, civil service modernization, 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. Coordination among donors has become more regular and, with the establishment of subgroups dealing with key sectors and activities such public financial management, and water and education. A number of partnership agreements are already in place, including, education, health, PFM and aid harmonization. Collaboration with, and support for, civil society organizations has also deepened, both directly (e.g., NGO capacity building grants) and indirectly (e.g., through projects using NGOs for implementation).

Lending Services: As of end of December 31 2007, there were 19 projects under implementation, and three projects in the pipeline with total commitments of US\$814.25 million of which US\$356.19 million disbursed. About 20% of the portfolio, by value, was dedicated to the water sector, 20% to education, almost 21% to health and other social sectors, 15% urban development, 14% to agricultural/rural sector, 6% transportation, and 4% to public sector governance. Overall portfolio performance and management remain satisfactory. To improve further the implementation of Bank-supported project, a Country Portfolio Performance Review (CPPR) follow-up committee was established consisting of senior government officials from the Ministry of Planning and the Ministry of Finance as well as officials from the Bank. The committee meets regularly.

Ongoing World Bank Operations in Yemen (As of December 31, 2007)

Cumulative Disbursement information							
Project Name	Close Date	Loan \$	Disb. \$	Disb. %	SOE Disb. \$	SOE Smple \$	% Revd
Groundwater & Soil Conservation	31-Oct-09	41.2	20.34	49%	4.71	0.25	5%
Rural Water Supply and Sanitation	31-Dec-07	23.9	23.17	97%	16.86	0.92	5%
Irrigation Improvement	30-Jun-07	24.6	20.18	82%	3.69	0.13	3%
Sana'a Basin Water Management	30-Jun-09	26.8	10.60	40%	3.12	0.21	7%
*Fisheries Res. Mngmt & Conserv.	30-Sep-11	26.3	1.08	4%	0.03	0.00	0%
Urban Water Supply and Sanitation	31-Dec-07	158.5	84.39	53%	31.51	1.29	4%
Port Cities Development	30-Jun-07	26.9	15.44	57%	2.65	0.42	16%
Taiz Muni. Dev. and Flood Protection	31-Oct-07	54.1	55.61	103%	22.74	0.69	3%
Third Public Works	30-Jun-09	47.6	36.22	76%	NA	0.00	0%
II Rural Access Project	30-Nov-10	40.5	7.16	18%	0.00	0.00	NA
Rainfed Agriculture and Livestock project	30-Jun-12	21.3	0.81	4%	0.00	NA	NA
Power Sector Project	31-Dec-11	53.2	1.01	2%	0.00	NA	NA
Civil Services Modernization	31-Dec-07	34.1	24.40	72%	3.94	0.52	13%
Health Reform Support	31-Dec-08	33.8	20.88	62%	7.16	0.00	0%
Higher Education	30-Jun-08	6.2	2.89	46%	0.45	0.04	10%
Third Social Fund for Dev.	31-Dec-08	63.4	65.71	104%	NA	0.00	0%
Social Fund for Dev. III (supplemental)	1-Jan-09	15.0	0.00	0%	0.00	0.00	0%
Vocational Training II	31-May-13	15.0	0.00	0%	0.00	0.00	0%
Basic Education Dev.	30-Jun-10	67.4	9.11	14%	3.42	0.00	0%
		779.77	399.00	51%	100.28	4.48	4%