

Winter 2008

**Inside this Issue:**

- Summary
- Recent Economic Developments
- Macroeconomic Development
- Structural Reforms and Policies
- Outlook
- Economic and Sector Dialogue
- New and Noteworthy
- World Bank Operations

**The World Bank Group  
Sana'a Office**



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# Yemen Economic Update

Yemen Economic Update is a quarterly report produced by the World Bank Country Office in Sana'a. It consists of several sections covering major political, social and economic developments. It also provides information on ongoing World Bank operations in Yemen, and a list of conferences and donor activities.



## SUMMARY

**Yemen's parliamentary election is set for April 2009.**<sup>1</sup> Last fall, disputes over the electoral process have caused the main opposition party to announce its boycott of the coming elections. Thereafter, opposition protests over the electoral process have increasingly turned violent in some parts of the country. A number of recent reconciliation efforts, most notably by the US and the EU, seem to have been able to ease the tensions and narrow the divide between the ruling General People's Congress (GPC), and the main opposition bloc, the Joint Meeting Parties (JMP). However, the likelihood of holding broad-based elections on time is looking increasingly uncertain, as time needed to recast some of the disputed electoral registration processes is running out. Holding successful elections on time will have significant implications, not only for political stability but also to carry some of the much needed economic reforms.

**The Government is making progress in curbing Al-Qaida-Yemen (AQY) activities.** Following attacks on foreign interests and military installations last summer, the Government initiated a large-scale counteroffensive campaign, leading to the capture and killing of a large number of key operatives of the group. The increased security efforts seem to have succeeded in curbing the activities of Al-Qaida in recent months.

<sup>1</sup> At the time of releasing this report, it was announced that an agreement has been reached with the opposition to postpone the elections for two years, while carrying a comprehensive revision in the electoral system

**The truce with the rebel Houthi group continued to hold, despite occasional flare-ups.** In the wake of the new peace deal, the Government announced measures to expedite the delivery of emergency and humanitarian aid and the reconstruction of the war-torn area. However, such efforts have been progressing slowly, being hampered by the continued instability in the regions.

**Supported by higher oil prices, the economic performance in 2008 witnessed moderate overall improvement.** Preliminary results show some improvements in GDP growth, external and fiscal accounts, but higher inflation. Earlier GDP growth estimates point to an increase to 4.9 percent, underlying the continued good performance in the non-oil sector at about 9 percent and the slower decline in oil production to about 3.3 percent (compared to 12.6 percent in the previous year). Higher oil prices should also reflect positively on the fiscal and external sectors. With the average oil prices expected to be some 34 percent higher than the previous year and with the modest fall in domestic crude output, the external and internal accounts should improve. Higher oil revenue and continued progress in tax collection efforts should reflect positively on fiscal accounts. In the external sector, the current account deficit is expected to shrink to about 1.6 percent of GDP as compared to about 6 percent in 2007. Inflation, however, and despite the slowdown in food prices in the second half, will settle at above the PRSP goal of 10 percent.

**Yemen's macroeconomic indicators are expected to deteriorate in 2009.** Yemen is facing a number of economic and political uncertainties in the year ahead. These are related to external shocks such as the depressed oil prices, the turmoil in the world financial markets, and the instability in the horn of Africa. Domestically, the Government faces a number of political challenges related to the forthcoming parliamentary elections, the peace process in Sa'ada, and the continued threat from Al-Qaeda. The upcoming on-stream of LNG production in mid 2009 will mitigate the impact of falling oil revenue, thus helping to partially offset the impact on growth and other macroeconomic indicators. As a result, the fiscal deficit is expected to widen to about 10 percent of GDP while growth is likely to slow down to about 4 percent. With falling imports bill mitigating the near 30 percent decline in oil exports revenues, the external current account is expected to show modest deterioration, resulting in a deficit of about 2 percent of GDP. Inflation is expected to be among the few positive developments, with the rate expected to drop to around 10 percent as headwinds from the global economic recession will maintain commodity prices depressed.

**The pace of structural reforms is expected to show more speed in 2009.** The Government undertook some reform initiatives in a number of areas in the last two years, including the civil service and public financial management (PFM), the sales and income tax systems, anticorruption, and the social safety. However, the pace of implementation has been slow. With the recent macroeconomic developments and the sharp decline in oil revenue, a new sense of urgency is expected to encourage a faster pace of economic reforms. Major reforms expected to be completed in the months ahead include the passing of new laws on customs, income taxes, investment, and telecommunications, and institution of the by-laws of the land registration authority.

**The poverty situation in Yemen in 2008 was affected by two adverse shocks** *First*, the historic floods in the South in October 2008 resulted in losses and damages of about 8 percent of GDP. The non-oil GDP growth is estimated to have worsened by about one percentage point and the public cost alone of

rebuilding infrastructure could run up to US \$400 million. Poverty in the more seriously affected Hadramout Governorate could sharply rise if insufficient remedial action is taken. *Second*, the global increase in food prices during the first half of the year as continued from the pervious year, has contributed to aggravating the poverty situation nationwide. With an estimated 35% of Yemen population living below poverty line, the increase in global food prices, estimated by 60 percent between 2007 and mid 2008, is likely to have aggravated the poverty situation, particularly for the poor in urban areas, and the landless, small and marginal farmers. Earlier estimates have put the number of Yemeni who have fallen below the poverty level as a result of the price increase by at least 6 percent. Global food prices have moderated in the second half of 2008, but they remain high by historic standards.

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## I. RECENT POLITICAL AND SOCIAL DEVELOPMENTS

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**The Government is making progress in curbing Al-Qaida-Yemen (AQY) activities.** Yemen witnessed rising security threats from AQY in 2008. The fundamentalist group stepped up attacks targeting oil infrastructure, foreign interests, and military installations. The most visible incident was the suicide bombing of the US embassy in March, which claimed 16 lives. In response, the Government initiated a large-scale counteroffensive campaign, leading to the capture and killing of a large number of key operatives of the group. In parallel with the military efforts, the Government launched an ambitious nationwide program to control mosques and close some religious schools. The increased security efforts seem to have succeeded in capping the activities of Al-Qaida in recent months. However, the threat of Islamic fundamentalism in Yemen is not likely to go away soon. One reason is the emerging signs of strengthened links between AQY and other branches of the organization in the region, as evidenced by the recently released video tape showing two ex-Guantanamo Bay Saudi nationals joining the group as commanders. Another reason for concern is the deteriorating economic situation, which could encourage more youth to join the group.

**Reconstruction plans of the war-torn area in Sa'ada Governorate are moving slowly.** In the wake of the peace deal, announced unilaterally by the President in July 2008, the Government announced plans to deliver emergency humanitarian aid and allocate YR10 billion for reconstructing damaged areas in the governorate. The conflict has left wide destruction in civilian infrastructure like schools, clinics and houses in the Sa'ada province. Additionally, during the height of the conflict this summer some 100 thousand people were displaced from their homes. In response, the Government has set up Saada Reconstruction Fund, which already launched subsidies to people affected as part of the first phase of the rebuilding Saada. The total cost of the first phase is about \$4.4 million distributed to 900 people by four payments to be allocated to rebuild damaged houses in the province. Its scheduled second phase would assist 1289 people in a number of areas of the province. Despite these positive developments, reconstruction efforts are moving slowly. This is attributed to the continuing unstable security situation marked by intermittent skirmishes in some regions. Progress is also affected by the shortage of public funds caused by falling oil revenues and the competing demands from the floods incidence in the South.

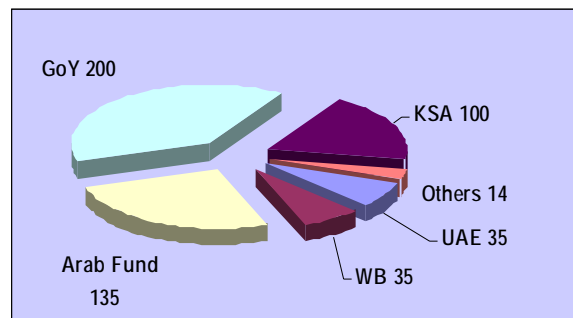
**Tribal in-fighting and kidnapping of foreign nationals continue to undermine the authority of the Government in rural areas.** Yemen witnessed a pick-up in kidnappings of foreign nationals and tourists in rural areas in recent months. In mid-December, three Germans were taken hostage by tribesmen, and in early-January, another three South Africans were kidnapped by another tribal group. Kidnappings by tribes are a common occurrence in Yemen, and are usually motivated by local grievances related to infrastructure and welfare matters, or demands to release tribesmen convicted for regular crimes. Kidnapping incidents, as in the two recent cases, ended up peacefully with hostages unharmed. Overall, the continued kidnapping incidents in Yemen, especially coming in a time of rising fundamentalist terror, is posing significant threats to the tourism industry. It is possible that these incidents will increase, as the Government struggles to implement its current plans for spending cuts.

**The date for Yemen's parliamentary elections at April 2009 remains unchanged, despite the continued deadlock.** In October, the main opposition party announced its boycott of the coming elections, therefore raising concerns over aggravating the already fragile political situation. Among the main contentious issue is the opposition demands to change the 2001 electoral law so as to adopt proportional voting and permit voters to cast ballots in their home districts rather than at work. Opposition protests over the electoral process have increasingly turned violent in recent months. A number of reconciliation efforts, most notably by the US and the EU, seem to have been able to ease the tensions and narrow the division between the ruling General People's Congress (GPC), the main opposition bloc and the Joint Meeting Parties (JMP). However, the likelihood of holding broad-based elections on time is looking increasingly remote, as time needed to recast some of the disputed electoral registration processes is running short. Meanwhile, a number of military, security and government officials including nine ministers have resigned from their posts in late December in their bid to run for the upcoming elections. Among the officials resigned are Deputy Premier for Defense and Security, Legal Affairs Minister, Deputy Premier for Interior Affairs, Civil Services Minister, Sana'a Mayor, Youth and Sport Minister, Education Minister and State Minister of the Parliament. Holding successful elections on time will have significant implications, not only for political stability but also to carry some of the much-needed economic reforms. Currently, the opposition occupies 63 of 301 seats dominated by the ruling General People's Congress Party. The next elections for the president, which were last held in 2006, will not be due until 2013.

**Efforts to control sea piracy are yielding positive results.** Maritime navigation in the southern part of the Red Sea has come under increased threat of sea piracy in 2008, witnessing about 100 attacks on freight and passenger vessels in waters adjacent to Yemen. The Government established a counter-piracy regional center in the southern part of the Red Sea, and received further international support in this regard. A number of countries including the United States, France, Russia, and India have sent naval forces to patrol the waters of the Gulf of Aden. Towards the year-end, these efforts seem to have succeeded in curbing the attacks, which if left unchecked could damage Yemen's efforts to attract foreign investment, particularly in the South that exports hydrocarbons and has ongoing plans for offshore exploration. The likelihood of improved political situation in Somalia, following the recent elections, should help to curb the incidents of sea piracy and also ease the pressures of illegal immigrants to Yemen, which according to UNCHR sources have seen some 70 percent increases in 2008 to about 50 thousand persons.

**Floods and heavy rains hit Yemen in October 2008, causing one of the most serious natural disasters to the country in the last decade.** Wadi Hadramout valley and Al-Mahra were the hardest hit areas by floods which killed some 90 people and displaced an additional 20,000 to 25,000 others. Overall, about 700,000 persons—over 50% of the total population in the affected areas—have had their livelihoods destroyed or significantly affected, of which two-thirds lived in Wadi Hadramout. Prompt and generous assistance from the Government, neighboring countries and the humanitarian community provided has prevented a high number of

Figure 1. Allocations to Yemen's floods recovery



deaths and suffering among the survivors. So far, international donors have committed pledges amounting to \$320 million—with additional \$200 million allocated by the Yemeni government<sup>2</sup>. Estimates by the World Bank suggest damage of about \$1.64 billion, of which 22 percent is tied to public infrastructure. It is worth noting that the disaster in Yemen has affected the economy in a very special manner, concentrating its effects on the following sectors of economic activity, presented in order of decreasing importance: the productive sectors (agriculture, livestock, fishery, industry, commerce and tourism), the social sectors (shelter, education and health), infrastructure (transport, power, water and sanitation, and telecommunications) and several other cross-sectoral activities (the environment, religious facilities and cultural heritage). This fact classifies this event as a productive-social disaster, rather than one in which destruction of infrastructure is the preeminent effect.

**Yemen is taking new steps to narrow the gender gap.** Yemen ended up last on the 2008 World Economic Forum (WEF) list of countries in closing the gender gap. The list indicates the level of economic, health, political and education inequalities between men and women in 128 countries surveyed. In recent years, Yemen has made progress on women health and education fronts, but still lags behind in relation to political and economic inequalities. In an effort to broaden female political participation, the Government announced on several occasions plans to allocate 15 percent quota for women in Parliament. However, this proposal did not materialize as conservative MPs showed strong resistance. In early 2009, a new law was passed establishing maternity leave rights for women employed in the public and private sectors. More recently, the Parliament passed a new legislation setting marriage age at 17 (but allowing court judges the liberty to rule marriages if “in the best interest of a child”), while establishing strict penalties for violators. Parliament also passed amendments that would allow women greater legal protection in relation to marriage and motherhood while providing them with the right to alimony and recognition of the mother as the sole guardian of her children, as well as imposing some restrictions on the right of men to polygamy. On broader human rights issues, Yemen’s maintenance of Juvenile Death Penalty as one of only four countries implementing this penalty reflects the slow progress the country is making in spite of recent efforts by the ministry of Human Rights to improve the Juvenile jurisdiction. The upcoming parliamentary election is expected to bring renewed efforts to improve gender and human rights.

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<sup>2</sup> In late December, the Cabinet approved the establishment of a special fund to reconstruct areas damaged by floods in Hadramout and al-Mahra. The Fund, which officially will start operations in mid February 2009, has already handed over a quarter of the ready sites for rain-affected people.

## II. MACROECONOMIC DEVELOPMENTS

The price of crude oil seems to have bottomed at about \$40 per bbl. During the second half of 2008, oil prices witnessed a sharp and steady decline from their July peak of \$146 per bbl, reaching a four-year low of \$32.4 per bbl in late December. Prices stabilized, thereafter, averaging about \$42 per bbl in the first six weeks of the year. The sharp retreat in the second half of 2008 was due to falling global demand, with an estimated reduction of 1 to 2 percent. Oil prices are likely to show less volatility for the remaining of the year, as the reduction in demand associated with the continuing global recession is likely to be offset by OPEC cuts in production (which by February 2009 has made cuts amounting to 4.2 million bbls). Despite the sharp fall in the second half of the year, international crude oil prices have averaged about \$97 per bbl in 2008, nearly 34 percent higher than a year ago. For Yemen, the average price of crude oil exports in 2008 has averaged about \$95 per bbl as compared to \$73 per bbl in 2007.<sup>3</sup>

Figure 2. Brent– Europe Spot Prices (\$/bbl)

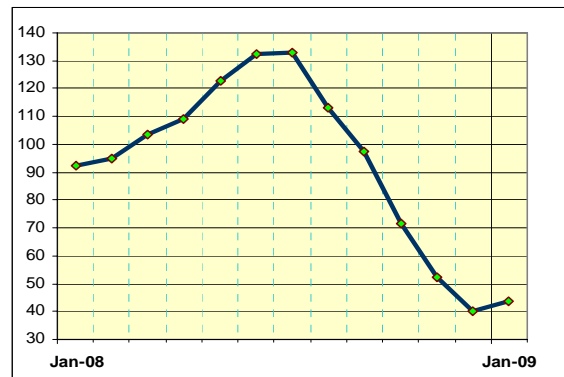


Table 1. Oil Production, Trade, and Consumption (in million bbls unless otherwise indicated)

	2006	2007	2008 *	% change 07	% change 08
Crude oil output (gross)	133.3	116.7	109.4	-12.5	-6.3
Crude oil output (net)	130.4	113.3	107.8	-13.1	-4.9
State's share inc. royalties	85.7	72.7	71.4	-15.2	-1.8
Companies share inc. cost oil	44.7	40.6	36.1	-9.2	-11.1
Exports of crude oil 1/	105.5	83.1	78.1	-21.2	-6.0
of which: Government share	63.7	42.4	44.5	-33.4	5.0
Sales of crude to domestic refineries	35.4	33.5	37.8	-5.4	13
Domestic refinery consumption of crude oil	22.5	27.0	25.0	20.0	-7.4
Consumption of refined products (million tons)	5.3	5.7	6.1	7.5	7.0

Source: Ministry of Oil and Minerals, CBY, and WB estimates.

1/ sum of companies share of production and government share in exports as published by CBY

**Government revenue from oil exports in 2008 went up by 42 percent, mainly reflecting higher prices.** While total Yemeni crude oil production slipped by some 6 percent in 2008 (as compared to earlier projections of 3.3 percent), government share of exports (in bbls) went up about 5 percent increase (total government take that includes crude processed in local refineries remained unchanged) over the previous year. This apparent discrepancy reflects, in part, the buoyant state of oil prices during the year, which have contributed to reduce allocations to oil companies for their cost recovery. In general, the concession agreements in Yemen follow the standard practice which allows the operating companies to recover their exploration and development costs annually as a portion of produced oil defined in terms of costs.

<sup>3</sup> Yemeni exports comprise two major crudes: Marib light crude (API 49) which currently trades at par or with a slight premium to Brent and the heavier Masila Blend (API 32) which sells at a discount of about \$2 per bbl.

**Table 2. Government Share of Crude Oil Exports, and Sales for Domestic Refining**

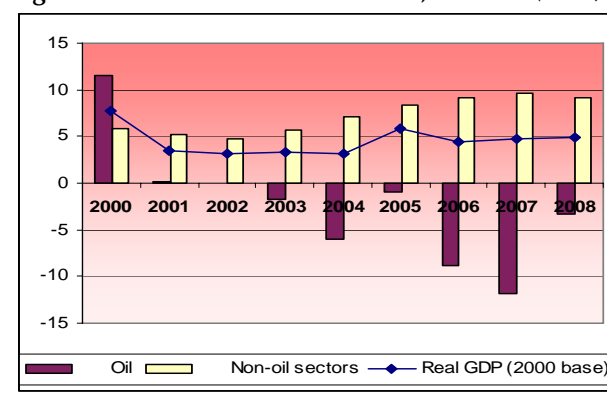
Year	(million barrels)			Value of exports (million \$)	Implicit export price (\$)
	Exports 1/	Domestic	Total		
2000	71.9	31.1	103	1969	27.4
2001	68.9	30.0	98.9	1585	23.0
2002	65.1	26.2	91.3	1600	24.6
2003	65.4	26.9	92.3	1828	27.9
2004	61.7	24.8	86.5	2260	36.6
2005	60.5	26.1	86.6	3115	51.5
2006	63.7	22.5	86.2	4013	63.0
2007	42.4	27.0	69.4	3088	72.9
2008	44.5	25.0	69.4	4396	98.9
% change in 08	4.9	-7.5	0.0	42.4	35.6

Source: The CBY Monthly Review - 1/ including YCOI and Aden refinery. 2/ oil transferred to Aden and Marib refineries.

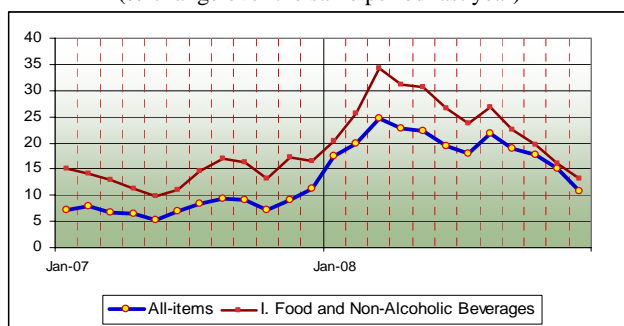
**Nominal GDP in 2008 is estimated at \$27 billion, about 10 percent higher than the previous year.**

In real terms this represents a growth rate of 4.8 percent as compared to 4.7 percent a year ago. The 2008 growth rate underlines a 3.3 percent decline in oil GDP that is offset by some 9 percent growth in non-oil activities<sup>4</sup>. It should be mentioned that the current GDP estimates for Yemen are undergoing major revisions which include rebasing from 1990 to 2000, changing the estimation methodology for the contribution of the informal non-oil, and revising the GDP deflators.

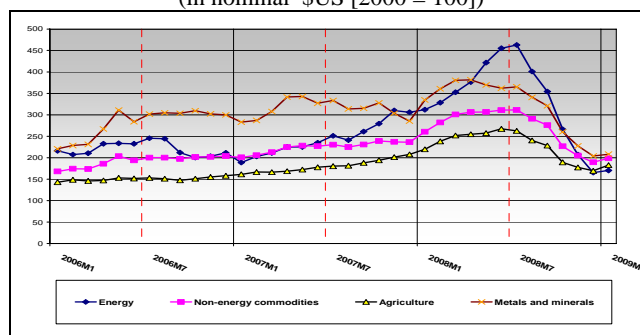
**Fig 3. Real GDP Growth in Yemen, 2002-08 (in %)**



**Figure 4. Yemen: Monthly Price Indices, 2007–08**  
(% change over the same period last year)



**Figure 5. Major Global Price Indices**  
(in nominal \$US [2000 = 100])



**Despite easing in the second half of the year, the overall inflation rate is expected to increase in 2008.<sup>5</sup>** For the period January–June 2008, the all-items price index increased by about 13 percent over the previous six months, and by about 20 percent over the same period last year. Inflation rate peaked in March 2008 and then started to moderate slowly thereafter, reaching to about 11 percent in December 2008 (as compared to the same month a year ago). The decline since the second quarter has

<sup>4</sup> These estimates do not take into account the higher than expected decline in oil production and the possible slowdown in the economy towards the year end in conjunction with the global financial crisis

<sup>5</sup> Recent data released by the CSO indicate an average inflation rate for 2008 reaching about 19 percent as compared to less than 10 percent a year ago. The data remains provisional and likely to undergo revisions that would incorporate more recent weights than the currently used weights that use the year 1999 as a base.

been driven largely by lower international food prices. Overall, the inflation pattern in Yemen seems to reflect the trends in global price indices, which have leveled off during the second half of the year. International commodity prices witnessed a sharp correction during the second half of 2008, ranging from 20 percent for food commodities to about 40 percent for non-energy and metals commodity groups.

**Preliminary data indicate that the overall fiscal balance in 2008 will result in a smaller deficit than earlier projections.** According to latest data released in February, the 2008 deficit is now estimated to run at 4.3 percent of GDP, less than the budgeted deficit of 7 percent (and also less than the 6.3 percent realized in 2007). The narrowing deficit occurred despite the passing of a supplementary budget to cover additional expenditure related to higher fuel subsidies and hikes in wages and salaries. The improved balance reflects savings in some current expenditure items and capital spending.

Table 3. Summary of Fiscal Accounts 2007-08 (in billion YR)

	2007	2008	
		Budg.*	Prel.
<b>Total revenue and grants</b>	1429	2081	2057
Hydrocarbon revenue o/w:	948	1539	1494
Crude oil exports	486	853	853
LNG exports	0	0	0
Non-hydrocarbon revenue	467	477	467
Tax revenue	315	360	367
Income	153	194	204
Goods & services	163	166	163
Non-tax	151	117	99
Grants	15	65	97
<b>Total expenditure &amp; net lend.</b>	1738	2458	2289
Current expenditure	1336	1957	1867
Wages and salaries	495	592	569
Goods and services	167	167	161
O & M	35	28	25
Interest obligations	97	127	129
Subsidies and transfers	517	1014	953
Subsidies	410	818	765
Transfers	107	196	188
Other	25	29	30
Capital expenditure	278	434	375
Net lending	76	67	47
<b>Overall balance</b>	-309	-377	-232

\* including supplementary budget

**Owing to the lower oil prices, the 2009 budget projects a widening deficit to about 8 percent of GDP.** The budget, issued in early November 2008 under the assumptions of oil price of \$55 per bbl and a GDP growth rate of 9 percent, focused the bulk of adjustment efforts on the fuel subsidies, which amounted under the combined original and supplementary budgets of 2008 to 818 billion YR. These savings were anticipated to come from falling benchmark international energy prices, and from new reforms aimed at improving energy efficiency and narrowing the gap between the domestic and international prices. The share of capital spending in total expenditure shows little change from its level in 2008 at about 21 percent (although in GDP terms it shows a slight decline to about 7 percent).

Table 4. 2009 Budget composition n under various oil price scenarios

	2008 budget *		2009 budget (at \$55 bbl)		2009 budget @ (at \$40 bbl)	
	Bil. YR	%	Bil. YR	%	Bil. YR	%
Tax Revenues	331	23.7	395	27.3	396	31.8
Oil Revenues	887	63.6	834	57.7	625	50.2
Other Revenues	110	7.9	138	9.5	145	11.7
Foreign Grants	66	4.7	79	5.5	79	6.4
<b>Total revenue</b>	<b>1394</b>	<b>100.0</b>	<b>1447</b>	<b>100.0</b>	<b>1245</b>	<b>100.0</b>
Wages & salaries	501	27.8	568	29.4	568	30.9
Goods & services	292	16.2	314	16.3	314	17.1
Subsidies & social	468	26.0	524	27.1	431	23.4
Fuel subsidies	314	17.4	367	19.0	244	13.2
Unclassified	28	1.5	29	1.5	29	1.6
Capital spending	507	28.1	498	25.8	498	27.1
<b>Total expenditure</b>	<b>1802</b>	<b>100.0</b>	<b>1932</b>	<b>100.0</b>	<b>1840</b>	<b>100.0</b>
<b>Balance</b>	<b>-408</b>		<b>-485</b>		<b>-595</b>	
<b>Balance (% GDP)</b>	<b>7.5%</b>		<b>-8.6%</b>		<b>-10.7%</b>	

\* does not include supplementary budget passed in October 2008

In view of the falling oil prices, the Cabinet passed a decree in late December aimed at reducing expenses and containing the negative impact on the deficit. Already indicating a high fiscal deficit of about 9 percent of GDP under the \$55 per bbls oil price assumption, the 2009 budget would have resulted in a widening of the deficit to about 11 percent if oil price projections were lowered to \$40 bbl. This is notwithstanding other possible adverse implications of lower hydrocarbon revenue caused by delays in the startup of the LNG plant, shortfalls in tax revenue as a result of the economic slowdown, and possible delays in donors disbursements. Earlier announcements made in the media regarding Decree no. 467/2008, indicated that the aim was to bring a 50 percent across-the-board cuts in expenditure (with the exception of wages and salaries). However, as further details emerged, it was revealed that the Decree will reduce expenditure by some YR73 billion only (i.e. 3.7 percent of total expenditure or about 1.28 percent of GDP). Combined with the impact of lower oil prices to \$40 per bbl, these new cuts will result in lowering the budget deficit from 10.7 to 9.4 of GDP (assuming an average oil price in 2009 of \$40 per bbl.).

**Table 5. Estimated savings in expenditure under Decree 467/2008**

	In Billion YR	of budget allocation (%)	of total cuts (%)
Wages & Salaries	3.9	%0.7	%5.3
Costs of goods and services	40.3	%12.8	%55.2
Subsidies and social benefits	10.0	%1.9	%13.8
Unclassified expenditures	5.8	%20.0	%8.0
Capital expenditure	12.9	%3.2	%17.7
<b>Total</b>	<b>73.0</b>	<b>%3.7</b>	<b>%100.0</b>

Source: MOF

#### Decree 467/2008: A Brief Outline

In mid December 2008, the Cabinet issued Decree 467/2008, amid concerns over falling oil prices and widening the fiscal deficit in the upcoming fiscal year. The Decree is designed primarily to bring reductions in non-priority expenditures. Among the main expenditure items affected by Decree are the following:

- Wages and salaries: To remain unchanged except for bonuses
- Goods and services: to be cut by 50% unless for utility services, rents and food and clothing for the military
- Operations and maintenance: To be cut by 50%
- Subsidies and transfers: Cuts of 50% made to Grants to SOEs and others Social benefits government employees
- Capital projects: to freeze all new projects not co-financed by donors.

The decree also contains some directives aimed at enhancing revenue collection and cutting some other expenditure items without setting up specific quantitative targets. Among these measures are the following:

- Accelerate the application of Biometric System and the reporting of the violating cases to the Ministry of Finance.
- Accelerate arrangements to retire employees who reached one of two limits for different job levels.
- Halt implementing the Salaries and Wages Strategy steps that could create new financial burdens.

The implantation of the Decree is to be reviewed every quarter and amended in accordance with developments in the oil market. It should be mentioned that the Decree in its current format is fragmented and lacks many specifics, which would make the task of estimating its final impact problematic and subject to some guess work. In this sense, it would have been more conducive to start with a specification of the desired level of change in expenditure and revenue, and then have worked out the details.

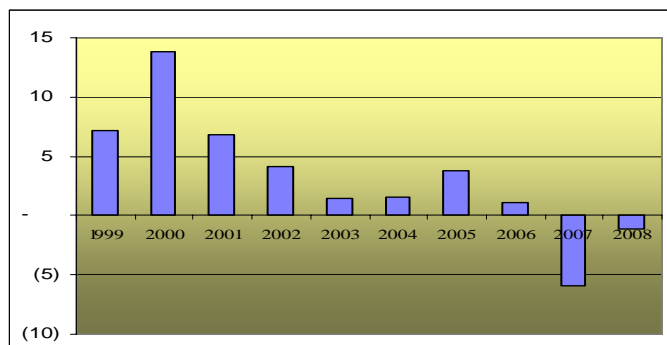
**The current account balance is expected to show some improvement in 2008, following the notable deterioration in 2007.** The deficit in 2007, estimated at 6 percent, came after a long trend of positive current account balances and steady growth in the country's foreign reserves. The deterioration was largely influenced by falling oil exports by about 9 percent (oil has more than a 90 percent share in commodity exports) and the surge in imports bill. The latter reflects rising global inflation and increased imports of equipment for the ongoing liquefied natural gas project. The deficit is expected to narrow in 2008 to about 1.6 percent of GDP on the strength of hydrocarbon export revenues and the moderation in imports growth.

Table 6. Components of CAB 2007-09 (in US\$ million) .

	2007 1/	2008 2/	2009 2/
Trade balance	-440	1153	596
Exports of Goods	7050	8626	6312
Hydrocarbons	6264	7771	5395
Imports of Goods, f.o.b.	7490	7473	5716
Services Balance	-1144	-1030	-1092
Net Income receipts	-1350	-2138	-1492
Net current transfers	1426	1482	1298
<b>Current Account Balance</b>	<b>-1508</b>	<b>-533</b>	<b>-690</b>
Current Account (% GDP)	-6.1	-1.6	-1.7

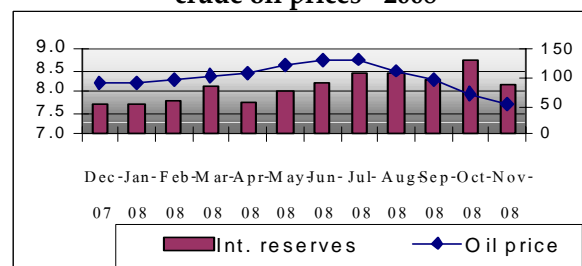
1/ preliminary 2/ Projected

Fig 6. Current account balance 1999-2008 (% of GDP)



Foreign reserves continued to rise, albeit at a slowing pace, reaching \$8.17 billion at the end of November 2008. This represent some 6 percent increase over the beginning of the year and equivalent to a comfortable 11 months of imports. The rise in reserves is almost solely accounted for by high oil prices over the period. As oil prices began to cool off in the second half, the growth rate of reserves showed moderation, particularly as the CBY continued to draw down to maintain a stable exchange rate.

Figure 7. Monthly CBY foreign reserves and crude oil prices - 2008



Reflecting the smaller fiscal deficit, Yemen's net public debt showed modest nominal increase of about 4 percent in 2008. Public debt originates from both domestic and foreign financing, with the former consisting mostly of T bills held by domestic banks and non-bank investors. There is a small non-securitized debt, which has been declining steadily in recent years to less than 13 percent of the total stock of domestic debt in 2007. Treasury bills are issued at 3, 6 and 12 months maturities; with current average yield close to 16 percent. About 60 percent of the T bills are acquired by Non-banks such as the Pension Fund, while the remaining 40 percent are held by local banks. Net public debt (domestic and external) decreased from 30 percent of GDP in 2007 to about 29 percent in 2008. The fiscal deficits in 2007 and 2008 were financed mainly by drawing down government deposits at the central bank, and by borrowing from the domestic bank and non-bank sectors.

Table 8. Public Debt at end of Period (million of US\$)

	2007	2008	Change %
<b>1. Net Domestic Debt</b>	<b>1,612.7</b>	<b>1,852.8</b>	14.9
Banks (incl. CBY)	1,139.5	963.5	-15.0
Non- Banks (Securitized)	1,590.2	2,233.0	40.0
Government Deposits at Banks	1,117.0	1,343.7	20.3
<b>2. External Debt</b>	<b>5,820.2</b>	<b>5,886.2</b>	1.1
Multilateral Creditors	3,046.7	3,071.0	0.8
Bilateral Creditors	2,773.5	2,815.2	1.5
<b>Total Public Debt</b>	<b>7,432.9</b>	<b>7,739.0</b>	<b>4.1</b>

Table 7. Yemen outstanding external public debt (in million US\$)

	end 08	% chg.
<b>Bilateral</b>	<b>2,815</b>	<b>1.5</b>
Paris Club Countries	1,758	1.2
Non-Paris Club Countries o/w:	862	1.9
Saudi Arabia	356	4.6
China	181	4.1
Others	196	2.6
<b>Multilateral o/w:</b>	<b>3,071</b>	<b>0.8</b>
IDA	2,095	1.1
AFSED	646	14.0
<b>Grand TOTAL</b>	<b>5,886</b>	<b>0.4</b>
<b>Total as % of GDP</b>	<b>21.9</b>	

Yemen's external public debt amounted to about \$5.9 Billion at the end of 2008. Relative to GDP, Yemen's overall external debt has been showing steady decline in

recent years, reaching about 22 percent at the end of 2008. All external public debt is owed to official creditors, and is mostly on concessional terms. Just over half of this debt was owed to multilateral creditors and the rest to bilateral creditors (of which \$0.37 billion to Saudi Arabia and \$.28 billion to Japan). Among the largest new sources of external financing in 2008 are Arab donors (such as AFSED and Saudi Arabia) and China. Notwithstanding the moderate financial needs in the short term, Yemen faces fiscal sustainability challenges in the longer run, as its oil output continues to fall and as alternative non-oil revenue remain underdeveloped. This would call for expediting structural reforms to diversify the sources of revenues and reduce unproductive expenditure.

**The exchange rate of the Yemeni Rials against the US dollar has been held steady in 2008, averaging about 199.8.** In an effort to minimize the inflationary impact of weakening dollar, the CBY slowed down the depreciation of the domestic currency and maintained a relatively stable exchange levels over the last two years. To implement this policy, foreign currency sales by the CBY had to be stepped up during the year. With the current strengthening of the US dollar, falling global inflation, and receding foreign currency earnings, the CBY is expected to resume in 2009 its past policy of 3-5 percent annual depreciation of the Yemeni Rial versus the dollar.

**Table 9. Pledge Allocations & Effectiveness By donor as of February 2009**

		Pledged (in million \$)	Allocated	Signed	Disburse
			In percent of pledges (%)		
<b>I. GCC Bilaterals</b>		<b>2677</b>	<b>79.5</b>	<b>26.0</b>	<b>0.4</b>
1	Saudi Arabia	1227	85.3	47.0	0.8
2	Oman	100	100.0	56.0	2.0
3	Untied Arab Emirates	650	76.9	12.0	
4	Qatar	500	56.4		
5	Kuwait	200	100.0		
<b>II. Multilaterals (Regional and International)</b>		<b>1932</b>	<b>86.5</b>	<b>46.0</b>	<b>3.2</b>
6	Islamic Development Bank	200	100.0	16.0	0.3
7	Arab Fund	786	100.0	42.0	0.1
8	World Bank (IDA)	514	100.0	89.0	11.7
9	IFAD	70	41.4	23.0	
10	OPEC Fund	20	100.0	100.0	
11	Arab Monetary Fund	220			
12	UN System	90	100.0		
13	Global Fund	32	100.0	100.0	
<b>III. Bilaterals (OECD-DAC and Others)</b>		<b>1106</b>	<b>60.7</b>	<b>40.0</b>	<b>22.6</b>
14	European Commission	100	100.0		11.0
15	Germany	190	90.0	53.0	42.1
16	Netherlands	166	55.0	55.0	52.2
17	United Kingdom	230	100.0	66.0	24.8
18	France	160	46.0	26.0	5.6
19	Italy	12	100.0	100.0	
20	Denmark	9	86.0	86.0	78.9
21	USA	21	48.0	48.0	
22	Japan	38	31.6	18.0	
23	South Korea	140	17.0	17.0	
24	China	40			
<b>Total</b>		<b>5715</b>	<b>76.6</b>	<b>36.0</b>	<b>5.7</b>

Source :MOPIC

Despite the good progress made on their allocation, the pledges made under the Consultative Group meeting in London in 2006 have so far been slow to disburse. These pledges stood at about

\$5.7 billion (including an additional pledges made after the CG meeting) with about 55% in the form of grants and the rest in concessional loans. The share of GCC bilateral in these pledges amounts to about 47 percent (or \$2.7 billion). Good progress has been made allocating these pledges with about 78 percent already appropriated to specific projects. Disbursement, however, has been slow so far, amounting to less than 6 percent by end of February 2009. This partly reflects the normal lag in the implementation of projects, but the authorities also indicated some delays in coming to terms with individual donors procedures. It is expected that disbursements will pick up significantly in 2009.

**The growth rate of money supply witnessed some moderation in 2008, averaging about 12 percent as compared to 14.4 percent in the previous year.**

This has largely been influenced by the slowdown in net domestic assets, with the growth rate of credit to the private sector falling almost by half to 18 percent as compared to 35 percent a year ago. In a uncommon move, the CBY eased in April the reserves requirement on domestic currency deposits from 10 to 7 percent, while eliminating the 13 percent remuneration on reserves. Meanwhile, the reserves requirements for foreign currency deposits remained unchanged at 20 percent. It also exempted some bank liabilities from being subjected to reserves requirements, therefore helping to ease liquidity. Towards the year end, the CBY lowered the benchmark minimum interest rate on bank deposits from 13 to 12 percent. The realignment of interest rates on the Yemeni Rial came as another step to reduce the cost of financing for imports and the cost of lending in general. The CBY used its full allowance of Treasury bills to absorb domestic liquidity in the first nine months of the year, and has since relied on its certificates of deposit (CDs) and additional foreign exchange auctions.

**Table10. Monetary Survey (in billion YR)**

	2006	2007	2008
<b>Money Supply</b>	<b>1,414</b>	<b>1,651</b>	<b>1,878</b>
<b>Money</b>	<b>558</b>	<b>614</b>	<b>681</b>
Currency outside Banks	413	426	473
Demand Deposits	146	188	208
<b>Quasi Money</b>	<b>855</b>	<b>1,038</b>	<b>1,197</b>
Time Deposits	191	283	389
Saving Deposits	93	104	114
F. Currency Deposits	454	516	535
Earmarked Deposits	55	69	93
Pension Fund Deposits	62	65	67
<b>Factors affecting Money Supply</b>			
<b>Net Foreign Assets</b>	<b>1,675</b>	<b>1,734</b>	<b>1,857</b>
Central Bank	1,419	1,483	1,580
o/w Assets	1,498	1,549	1,632
Comm. & Islamic Banks	256	251	277
o/w Assets	275	278	309
<b>Net Domestic Assets</b>	<b>-261</b>	<b>-83</b>	<b>21</b>
Net Claims on Government.	-89	67	94
Central Bank	-291	-222	-163
o/w Claims	3	0	106
Comm. & Islamic Bank	203	289	257
o/w Claims	203	289	257
Claims on Non-government	269	375	511
Private Sector	266	359	424
Public Enterprises	3	15	87
Other (net)	-442	-524	-584
<b>Change in %</b>			
Broad Money	21.7	14.4	12.1
Net Domestic Assets	59.2	-68.4	-125.4
Credit to private sector	17.9	35.1	17.9

**Yemen is likely to weather the immediate impact of the current financial crisis, while the longer run impact remains uncertain.** A number of independent and official reports have analyzed the implications of the current global financial crisis on Yemen. The reports concur that the implications in the short-term are limited, while in the longer-term they are inconclusive owing to the paucity of data and uncertainty about possible length and severity of the crisis. The findings could be summarized as follows:

- a) Yemen has a relatively a small exposure to foreign banks and its domestic financial market remains underdeveloped. The short-term impact through the banking sector is expected to be limited.
- b) Risks to the Government's foreign assets appear to be small as they are largely held in low yielding deposits and secure bonds.

c) One of the main risks is seen through oil price shock and its impact on government revenue. Currently, oil accounts for about a third of total public revenue. Yemen could weather the impact of lower prices in the short run by liquidating foreign reserves (currently standing at about \$8 billion or 11 months of import), and tapping into the domestic debt market. External financing, which relies exclusively on concessional sources, is not likely to witness a large reversal in the short run despite uncertainties regarding some of the bilateral donors.

d) In addition to its impact through public spending, the current global financial crisis could affect growth (and balance of payments) through direct investment (FDI) and foreign remittances channels.

e) The current crisis is expected to reduce the flow of FDI, both in the oil and non-oil sectors. The former will be affected by the lower return in the sector, although moderating international costs for drilling and exploration could be an offsetting factor. In the non-oil sector, the crisis

**Table 11. FDI flows to Yemen 2002-2007** (million US\$)

	2002	2003	2004	2005	2006	2007
FDI– non-oil	797	855	898	932	2438	2536
<i>growth (%)</i>	<i>21.6</i>	<i>7.3</i>	<i>5.1</i>	<i>3.8</i>	<i>161.5</i>	<i>4.0</i>
FDI–oil	114	181	144	-302	1121	877
<i>growth (%)</i>	<i>-15.6</i>	<i>59.1</i>	<i>-21.0</i>	<i>-310.4</i>	<i>-471.1</i>	<i>-21.8</i>

*Source: CBY reports*

is likely to lower FDI flows, which comes mostly from the Gulf and tend to concentrate in tourism, real estate, and some manufacturing industries. It has to be mentioned that in the case of Yemen, political stability plays a paramount role in shaping the level of FDI flows.

f) Yemen has a large expatriate population abroad, with many with established residency status in the Gulf and elsewhere. The current crisis could have negative implications on the level of remittances, though the magnitude is not certain. Currently, these remittances are estimated to amount to about 5-6 percent of GDP.

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### III. STRUCTURAL REFORMS AND POLICIES

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**Reforming the education system remains one of the key development challenges.** Over the last 10 years, some improvements were noticed in areas such as schooling access, particularly in rural areas, and narrowed gender gap. However, there are also signs that the Yemeni education sector continues to suffer from a number of structural weaknesses underscored by low literacy rates and poor quality indicators. The latter has been recently confirmed with the results of the 2007 Trends in International Mathematics and Science Study (TIMSS), where Yemen came at the bottom of a list of 36 surveyed countries for respective scholastic abilities at the fourth grade level. Recognizing the current shortcomings, the Yemeni Government with the help from international donors, is awarding increased attention to the general education system. The National Basic Education Development Strategy is well under implementation. In 2007, the Ministry of Education (MOE) has introduced, for the first time in the country, program budgeting to basic and secondary education. The Medium-Term Expenditure Framework (MTEF), covering 2007 – 2010, has been approved to enable the MOE to better plan education development. To date, Yemen has achieved some improvements in basic education, by introducing various innovative approaches. These measures includes: (i) Conditional Cash Transfer to grades 4-9 girls. (ii) Whole School Improvement scheme. (iii) Female teacher contracting. (iv) Establishing a Center of Measurement and Evaluation. (v) Participation of more than 5,000 students in Trends in International Mathematics and Science Studies (TIMSS) 2007 at grade four. (vi) MOE's leadership in designing coordinated policy for school health and nutrition. In addition, (vii) tying teacher posts to school. While a supply-driven model of sub-sector development was the main instrument during the past 5 years, MOE is now paying attention to the demand-side factors of enrollment and retention and to education quality and learning outcomes. Despite a quality constraint in educational data, the enrollment is in an increasing trend over the past decade. Efforts are also underway to develop an integrated education vision. The initiative is led by the Ministry of Planning and in coordination with three education ministries, as well as the Ministries of Finance and Civil Service. The task team is formed to investigate the current education situation and sub-sector strategies through Country Status Report, which will later feed into development of an integrated education vision. In the area of secondary education, the Government approved the National General Secondary Education Strategy in 2007, which focuses on improvement of quality and relevance, reducing gender disparity and regional disparity in terms of access and completion, and institutional capacity building. The strategy also addresses the role of the private sector as a provider of education at the post basic education level. Recently, the Government has launched the Secondary Education Development and Girls Access Project, financed by 5 donors, including the World Bank. In addition to general education, increasing attention has been given to vocational and post-secondary education. Yemen's Technical Education and Vocational Training Sectors are still very small, and thus far, the Government has been investing substantially in expanding enrolment capacity. The new IDA operation will address the needed reforms to strengthen the role of employers and the private sector and increase the relevance, quality and efficiency of training programs. The Government also has a sound strategy for development of higher education and is coordinating donor assistance to renew and update the university system.

**The Tax Authority announced intentions to enforce the full implementation of the GST system as of the beginning of 2009.** The current GST rate is set at 5 percent on all products except for some 40

items where the rate varies from 10 to 25 percent. Additionally, essential products such as wheat and sugar, are exempted from taxes. The GST system had been approved in 2004, but it has been facing stiff opposition from the private sector, who argued that its implementation would bring unreasonable administrative and financial burdens, especially in the presence of a variety of other forms of taxes and duties. After a number of compromises and rollbacks, the Government set early 2009 as the deadline for full implementation. According to the decision, the sales of all businesses with annual volume exceeding YR50 million should be subjected from the beginning of the year to a 5 percent sales tax. However, the extent of compliance and implementation would not be known for another few more months. The Tax Authority is currently reporting that about 500 new businesses have registered in first two months of 2009, thus representing an increase of about 30 percent in the number of large taxpayers that are required to register. Work is currently focused on simplifying the administration of the GST and completing the identification and registration of the new taxpayers. The tax will be collected in three phases. Phase one will be collected from customs or factories, phase two will be collected from wholesalers, and phase three will be collected from retailers. Currently, the implementation is in Phase two.

**Efforts to reform the income tax system are progressing satisfactorily.** Last year, the authorities embarked on a revision of the income tax law in response to problems with the existing legislation in terms of low efficiency of revenue generation, high rate of evasion, and significant disincentives for investment. A new law has been prepared and awaiting parliamentary approval. It brings reductions in income tax rates, while drastically eliminating exemptions. For commercial, industrial, and services businesses, the tax rate is expected to be slashed from 35 percent to 20 percent (and to 15 percent for businesses that meet the set criteria for employing Yemeni workers). It is also expected to bring reductions in taxes on personal income from 16 to 10 percent. The Law will be presented to Parliament during the second quarter of 2009, simultaneously with the new laws on investment and customs. Ahead of its submission to Parliament, the Government has already prepared a set of executive bylaws compliant with international norms that are ready for implementation. The authorities have also embarked on a three-year plan to strengthen the capacity of tax administration. In this area, the FIAS team has been working actively with Government.

**Yemen continues to lag in the area of customs processing and trade facilitation.** According to the Logistics Performance Index (LPI) of 2007, Yemen ranked 113 globally (out of 178 countries), and 8 in MENA (out of 11 countries surveyed). In addition, according to the Doing Business Survey 2009, the cost of "trading across borders" for Yemen remains very high ranking the country at 126, which is worse than the regional average. In 2007, ASYCUDA PLUS, an automated information system for customs data, has been implemented in all major sea and airports. Currently, the system covers 97 percent of Yemeni imports. Plans to implement an advanced web version of the system, ASYCUDA WORLD, in 2008 have not materialized, owing to the delays in donors financing. Current ASYCUDA system is accessible for other agencies like the tax authority, CSO, and the central bank and some three hundred commercial companies. In addition, electronic manifest system has been approved for 35 major shipping and freight companies. The improvement in custom valuation and clearance processes aided by ASYCUDA should eventually help in reducing the cost of doing business. The inspection system for containers by using x-ray has been implemented in seven main customs checkpoints. Customs business process re-engineering project, started in 2005 with the aim of improving efficiency,

is moving ahead satisfactorily. In the past, tardy processing of customs refunds is reported as an issue.

**In recent months, the Government initiated steps to reduce fuel subsidies.** Soaring oil and fuel prices in 2008, has helped to push the subsidy bill to an unprecedented \$3.5 billion, equivalent to about 12 percent of GDP, thus exceeding individual development spending, wage payments and social expenditures. It also led to the appearance of shortages in the domestic market especially for diesel, LPG and electricity. To deal with this situation, the Government intimated a comprehensive plan to phase out fuel subsidies to households, while implementing a number of interim measures that have primarily targeted the non-poor. In the first instance, and given the current high levels of poverty, the Government is pursuing a plan to enhance the social safety nets as a prelude to the phasing-out of fuel subsidies. The plan also includes steps to improve energy efficiency in the areas of power generation and distribution (savings can be achieved by switching from oil to gas-based generation, and by improving distribution efficiency and revenue collection) and in petroleum refining sectors. Meanwhile, seeking to narrow the price gap, the Government has already undertaken some partial measures since early 2008 related to LPG, electricity for commercial use, diesel for industrial use, and unleaded gasoline (see table 12).

**Table 12. Domestic Prices of Fuel and Electricity in Early 2008 and Recent Reform Measures**

Item	Price in early 2008 (in YR/l, unless indicated otherwise)	Action taken since early 2008
Diesel for transport and other uses	35	In August 2008, liberalized diesel prices for large industrial users, (with consumption exceeding 20,000 liters per day), who account for about 4% of diesel consumption. In February 2009, the Cabinet announced a decision to lower the threshold to 5000 liters/day.
Gasoline	60	Introduced unleaded 90-octane gasoline (imported) in February 2009 with a new price of 80 YR/l. Consumption of this grade of gasoline remains very small.
LPG	400 (YR/cylinder)	Increased price of LPG cylinder by 25% to YR500 in the beginning of 2008.
Kerosene	35	No change
Jet fuel	36	No change
Diesel to PEC	17	No change
HFO to PEC	25	No change
Electricity	17 (YR/Kwh)	Price charged to business users was increased from 17 to 30 YR/Kwh in Dec 2008. Households and small businesses (unregistered) continue to pay a maximum of 17YR/ Kwh.

**Yemen continued to experience power shortages.** In the aftermath of the summer 2007 riots, the Government made pledges to deal decisively with power cuts and expedite plans to expand power capacity and coverage to rural areas. Yemen is one of the least electrified countries in the region with only 42 percent of the population (87 percent in urban areas and 23 in rural areas) having access from the national power grid which is subject to frequent power cuts. In an attempt to meet the demand in the short-run, the Government sought purchases from independent power producers (IPP). The measure proved to be too costly as the volatile diesel prices led to an escalation in the total bill. Also with delays in payments from the Public Electricity Corporation (PEC) side and uncertain fuel supplies, some IPPs were forced to suspend their sales. Another part of the strategy was to expedite the expansion plans that use natural gas for power generation. Yemen has currently two such projects in the pipeline, which once completed, could add an additional capacity of 730 million MW to the existing 700 MW of diesel fueled capacity by 2011. The two projects are Marib I and II in Marib province where natural gas is produced. Marib I, with a capacity of 340 MW, is nearly complete with delays of more than one year. Marib II is expected to be complete in 2011. Yemen has also two other projects in the design stage, Maabar and Belhaf,

which remain uncertain regarding the sources of financing and the availability of natural gas. It is worth mentioning that despite the current power expansion plans, no allocation (certification) of natural gas has been made to any of the projects. In related news, the Parliament ratified the Electricity Law of 2009, which sets a new regulatory framework for the sector, particularly with issues related to the role of private and foreign producers and government procurement guidelines.

**Table 13. Planned Expansion in Gas-powered Electricity Generation in Yemen**

Plant	Capacity MW	Gas consumption (Tcf for 25 years)	expected date of completion	Status of implementation
Marib I	341	0.68	Second quarter of 2009	Power plant complete, but inoperative due to delays in substations
Marib II	400	0.80	2011	Bidding and procurement procedure revised and completed and is now under evaluation
Maabar	400	0.80	unknown	Completed feasibility study only. Financing from the private sector is uncertain and might be covered by public funds/borrowings.
Belhaf	400	0.8	unknown	Same as Maabar.

**Yemen is facing an alarming water crisis.** Yemen has already one of the world’s lowest rates of per capita water availability (125 m<sup>3</sup>/person/year as compared to MENA average of 1250 m<sup>3</sup>/person/year). It has no perennial surface water and depends entirely on rainfall, groundwater, and flash flooding. The scarcity of water resources is aggravated by the rapid depletion of ground water, which has recently been exceeding the recharge rate in the country’s major basins and causing the water levels to witness rapid decline (e.g. the rates of annual groundwater (GW) decline in Sana’a and Saada basins are about 4-7 and 5-6 m, respectively). The bulk of GW is consumed by agriculture (90 percent), while domestic usage accounts for only 8 percent. The rapid increases in water consumption are expected to cause per capita water availability to dip below 100 meters per year in the near future. Moreover, the uncontrolled mining of GW is creating problems of equity, an unsustainable “bubble” of agricultural prosperity, and competition between urban and rural for the resource. The main causes of the rapid GW depletion in Yemen could be summarized as: a) the rising demand as population grows and market-led agriculture develops; b) the weak institutional framework that has promoted expansion rather than efficient use and sustainable management; and c) the weak capacity of governance. To arrest the GW decline, the Government must remove various subsidies to agriculture production (such as those for diesel fuel, agricultural interest rates subsidies, import restrictions on some fruits and vegetables, and qat, and apply proper charges to water resources to reflect their scarcity. In addition to removing price distortions on water resources and other inputs to agriculture, the Government needs to take other regulatory measures to encourage farmers to adopt conservation agriculture and efficient modern irrigation (e.g. piped conveyance system, and sprinkler, bubbler, and drip irrigation). Most of these measures have been outlined in National Water Sector Strategy and Investment Program (NWSSIP 2005 -2009). However, the outcome of the Strategy has been mixed due to inadequate resources and implementation. It is worth noting that the World Bank is currently preparing a Water Sector Support Project (\$90 million) to co-finance the Water Sector Support Program (\$341 million) under the NWSSIP.

**In the financial sector, the authorities initiated a number of reforms in 2008.** These reforms include (i) Passage of a deposit insurance law and establishment of a deposit insurance corporation; (ii) Amendments to the 1994 Islamic Banking Law to eliminate restrictions on foreign ownership and

allow commercial banks to open an Islamic branch (under discussion in Parliament); and (iii) A microfinance law to allow the establishment of non-banking financial institutions (in Parliament). The Government intends to further the reform in the financial sector in the next two years. Plans call for establishing a credit registry bureau, a corporate governance code, and a stock exchange and a securities and exchange commission. The CBY also intends to boost its internal capacity in enforcing existing prudential standards and regulations on the banking sector.

**The mining sector is expected to undergo significant reforms.** Given the diminishing oil resources and the need to attract foreign capital and technology, reforms in the mining sector, which represent one of the country's most promising industries, are needed urgently. A pending legislation will replace the existing mining law, and in so doing will significantly modernize and standardize sector regulation in accordance with international best practice. This, despite the need to complement the Law with provisions to limit the environmental damage and the use of water and timber by investors. Following the ratification of the Law, the authorities are expected to focus on redesigning the administrative procedures, licensing and mining regulations. In a related story, progress in the Jabali Project, the biggest ongoing private mining venture with an estimated cost is \$214 million, was announced to be on track and ready for completion by early 2010. The project is expected to produce some 800 thousands tons per year of lead and zinc, and have sizable employment generating impact. It is also expected to result in secondary regional benefits such as improved infrastructure and services. The implementation of the new sector's reforms as well as the success of Jabali mine project, which is likely to promote investment in Yemen and should encourage international exploration and mining companies to develop the country's untapped resources.

**Faced with dwindling oil revenue and growing financing needs, the Government is planning to boost the role of private sector in the provision of infrastructure.** A Public-Private Partnership (PPP) Unit has already been established in the Ministry of Planning to guide the process. The Government is currently preparing a strategy and a law on PPP with support received from the IFC. The new law, which will complement existing laws on procurement and privatization, will establish the legal framework to address the procedures for preparing, tendering and implementing PPPs including the allocation of responsibilities and decision rights concerning PPP within the public domain. As such, it will provide guidance to all stakeholders involved and to ensure transparency in the establishment and implementation of PPPs. In general, successful development and implementation of PPP is driven by three main factors: a) A clear policy and legal framework stating the objectives of PPP, the methods for their achievement and the implementation mechanism. b) A well-established institutional framework that defines in a transparent manner the responsibilities and decision rights among various public agencies. c) An effective financial framework that incorporates clear financing schemes including the role of risk mitigating insurances and the cost recovery mechanisms. While in theory, implementing these measures sound straightforward, successful implementation of PPP in Yemen could face a number of challenges, particularly given to the past experience with the privatization program, the weak administrative capacity in the public sector and the underdeveloped nature of the domestic financial sector. A recent study prepared by IFC suggests that the Government should approach PPP by adopting a medium term program that includes priority sectors and projects and reform actions in areas such as subsidies, capital markets and capacity building at various agency levels. Among the specific proposals put forward by the study is the establishment of two separate entities, one that focuses on promotion, knowledge building and training, coordination, program and

policy development, and project preparation; and another, as an Infrastructure Development Company (IDC) for PPP that focuses on procurement and investment activities.

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#### IV. OUTLOOK

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**The economic performance in 2009 is expected to weaken.** Yemen is facing a number of economic and political uncertainties in the year ahead. These are related to global and regional issues such as the level of international oil prices, the current turmoil in the world financial markets, and the instability in the horn of Africa. Domestically, the Government is facing political challenges related to the forthcoming parliamentary elections, the peace process in Saada, and the rising threat from Al-Qaeda. The coming on-stream of LNG production in June 2009 will help to mitigate – but not completely offset - the impact of falling oil production and prices. As a result, GDP growth rate is expected to remain relatively unchanged at about 4.3 percent, underlying growth rates in the oil and non-oil sectors of about the same magnitude (i.e. 4.4 and 4.2 percent, respectively). The weakening economic performance will also be reflected on the fiscal and external account deficits, which will widen to about 9 percent and 2 percent of GDP, respectively. Inflation is expected to be among the few positive developments, with the rate expected to drop to less than 10 percent in many years as headwinds from the global economic recession will maintain commodity prices depressed. This outlook does not take into account the possibility of lifting fuel subsidies during the year. The Central Bank of Yemen is expected to resume its policy of slow depreciation of the Yemeni riyal versus the dollar, but this will not have significant inflationary impact as the dollar is expected to maintain strength against other major currencies in 2009.

**Reforms are expected to continue in 2009.** A midterm review of the DPPR is already underway. The revision will cover the first two years and set the planning targets for the remaining period (that is, until 2010). The revised plan will consider the changing circumstances that have emerged since the inception of the Development Plan for Poverty Reduction (such as the persistence of poverty, the outlook of oil production, and the continued rise of global inflation) and revise its scope accordingly. Special emphasis is expected to be placed on strengthening economic diversification, improving energy efficiency, and strengthening social safety nets. Reform efforts will particularly focus on the areas of financial sector development, governance and anticorruption, decentralization, and the general investment climate. Major reforms expected to be completed in the months ahead include new laws on customs, income taxes, investment, and telecommunications, and the by laws of the land registration authority.

**Longer term outlook for Yemen offers more worrying prospect, particularly in view of the challenges facing its main revenue earners, oil and agriculture, and the fast pace of population growth.** Oil production - which currently accounts for about 60 percent of government revenue - is diminishing at a fast pace, while agriculture - which employs more than half the workforce - faces widespread water scarcity and soil depletion due to extensive cultivation of qat and poor water resources management. Yemen is seeking to empower the private sector, improve the investment climate and encourage diversification and liberalization of the economy to attract capital, especially from the Gulf. So far little success has been achieved in this regard as corruption and lack of transparency and competition has limited the achievement of these objectives.

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## IV. ECONOMIC AND SECTOR DIALOGUE

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### I. Private Sector Development

***Mining Policy Reform Project.*** In September 2006, IFC, PEP-MENA signed an agreement jointly with the Ministry of Oil and Minerals to support the Government efforts to develop the country's mining industry. The Project is divided into three key phases: Diagnostic Assessment, Change / Re-designing, and Implementation. The first phase has been completed successfully. A Working groups (WGs) and sub-working groups has successfully been formed and identified from all relevant stakeholders for the second phase of the project to identify Legal and Fiscal texts, regulations, decrees, directives that need re-drafting. In early 2007, international and local consulting firms were contracted to carry out a variety of assignments. A year later (2008), the project had produced its first solid results, including an internationally competitive fiscal regime in the form of a mining tax section for the new Income Tax Act. In addition, a Mining Law is being drafted, and licensing procedures are being rationalized. Next steps will involve redesigning of Administrative Procedures, Mining Law/Regulation, designing of National Mining Strategy and Review of GSMRB in parallel association with awareness raising activities and lobbying discussions with parliamentarians to push new laws and fiscal changes through legislative process. The mining code and executive regulation are on their way to cabinet for approval and to be submitted to the parliament for final approval, as for the project's main objectives was a mining package which has been delivered since November 2008.

### II. Education and Health and Social Policy

#### A. Education

***Towards the Development of an Integrated Education Vision*** A mission was conducted between January 24 – February 3, 2009 by a technical team of the Education Country Status Report (CSR) to discuss preliminary findings of the technical analyses. A workshop was held among government, private sectors, and development partners to discuss issues on access and quality of education, education financing, labor market relevance of education, and governance issues.

***Basic Education Development Project*** A joint IDA, Netherlands, DFID, and KfW supervision mission of the Basic Education Development Project (BEDP) took place during February 10-18, 2009. The mission discussed with the Government on the progress of the BEDP since the Mid-term review in April 2008 and the way forward.

***Secondary Education Development and Girls Access Project*** The Secondary Education Development and Girls Access Project (SEDGAP) has been launched by a launch workshop during February 7-9, 2009. The Memorandum of Understanding among development partners has been signed on February 7<sup>th</sup>. A field visit to target governorates will be conducted by the MOE and DPs between February 21-26, 2009 in order to induce governorate ownership of the program.

***Education For All Fast Track Initiative*** A pre-appraisal mission of Education for All Fast Track Initiative (EFA-FTI) Phase III Grant took place from December 13-23, 2008. The mission agreed with the Government and development partners in the main activities and implementation arrangement of the FTI Phase III grant. The Government is currently preparing detailed monitoring framework and action plans.

## **B. Health**

*In Health, the World Bank is providing finances to two new projects.* As the current Health reform Support Project ends on August 2009, the World Bank will finance two new health projects, to be implemented by MOPHP: 1) The Schistosomiasis Project: The proposed project would support the GoY's efforts towards the elimination of urinary and intestinal Schistosomiasis as a public health problem in Yemen. The project objective is to decrease the prevalence and intensity of infection of both urinary and intestinal Schistosomiasis among school-aged children by 2015, in endemic regions in Yemen. 2) The Health and Population Project: The project would support the GoY's efforts to achieve the 4th and the 5th Millennium Development Goals in reducing child and maternal mortality, respectively. The project objective is to improve the quality and utilization of an integrated package of preventive, clinical, and public health services by 2015 in selected regions in Yemen.

*The Bank Continues to support the Health Sector review process.* The Bank has submitted two draft reports: 1) Yemen Health Sector Review: Conceptual framework and strategy option; 2) Modalities for Financing Health in Yemen. These reports are providing input guidance to the review process.

## **C. Social Protection**

- *Third Social Fund for Development.*

- The project builds on the successful first two phases of the SFD. It enhances poor and vulnerable communities' access to social and economic services; continues to build capacity for civil society institutions, selected local governments, selected central government agencies and local consultants and contractors; and continues to support income generating activities to a number of economically active poor and vulnerable communities. The Bank is playing a leading role in coordinating among donors financing the SFD (currently there are 12 donors). The project is progressing very well in achieving its development objectives and agreed results. The Bank's Board approved US\$15 million of additional financing to fill the financing gap.
- In response to the food crises, the Bank has recently approved an emergency additional financing grant (financed by the Global Food Price Crisis Response TF) in an amount of US\$10 million to the Yemen Third Social Fund for Development Project. The support would consist of two components: (i) cash payments to the needy through community-based labor-intensive works; and (ii) implementation support and capacity building for the Social Welfare Fund to expand and improve targeting and effectiveness, most significantly supporting the implementation of a national survey to identify the poor and introducing proxy means test to the targeting process.

- *Social Protection Strategy.* The Government is keen on having a good understanding of poverty and vulnerability issues in Yemen and the best possible use of existing resources and institutions. Based on the Government request, the Bank is leading the development of a new and comprehensive Social Protection Strategy in Yemen. A WBI facilitated workshop was delivered in May 2006 to identify the key areas of focus of such a strategy to engage main stakeholders in the discussion. Subsequently, the preparation of a Social Protection Strategy was initiated and a stocktaking report (phase I) was completed and delivered to Government in June 2007 and a

Strategy Framework and Options report (phase II) was delivered in June 2008. The Bank is providing technical assistance during 2009 for the development of a strategy action plan derived from the 2008 work, as well as the institutional arrangement for multi-sectoral coordination, and monitoring of the strategy implementation. Ministry of Planning and International Cooperation is leading this work with the participation of relevant sectors.

- ***Support to the Reform of Social Welfare Fund (SWF)***
  - The Bank is providing technical assistance as well as guidance to ongoing efforts for the reform of the cash-transfer program towards more effectiveness and efficiency. The Bank support is focusing on improving SWF targeting, by introducing proxy means testing; and supporting the development of effective monitoring and evaluation system. These activities are well coordinated with ongoing EC support to the SWF.
  - The Bank is involved in a dialogue and project preparation for an additional finance to the workfare program implemented by the SFD, and a temporary cash transfer (through the SWF) to the poor hardy hit by the food price crises. The project will be financed through an EC Food Facility Grant, and channeled to the World Bank through a Bank-managed trust fund. The grant amount expected is EURO 18.3.
- ***Implementation of Children and Youth National Action Plan to Advance Achievement of MDGs:*** Following the approval of the National Children and Youth Strategy, the Children and Youth Action Plan was prepared in collaboration with the relevant line ministries and based on the recommendations of the strategy. The Bank is providing technical support to the implementation and monitoring of the action plan. Bank's technical assistance is focusing on the development of M&E for progress towards MDGs.
- ***Youth Employment Pilot:*** This is a grant received from Japanese Fund for Social Development to help initiate a pilot with specific focus on offering second chances in terms of job readiness services and promoting job creation opportunities through introducing business incubation services. More importantly, the development of business incubation services through this pilot will help maximize the impact of the existing training and employment funds by utilizing the loans / credits extended through these funds more effectively for job creation and sustainability while contributing steadily to the reduction of overall unemployment rates.
- ***National Disability Strategy and Action Plan.*** A report "*Transition Towards an Inclusive Future*" was delivered to the GOY in 2007. The TA provided a situation analysis of disability in Yemen and a strategic framework to support the government in its transition from a social assistance to an inclusive approach to disability. Significant outcomes were achieved during the course of this TA, including: 1) defining the strategy framework which emphasizes inclusionary policies and practices and integrating disability issues into mainstream institutions;(2) the identification of the sectors of Yemeni society that need to be addressed by a national strategy;(3) consensus on a inter-agency technical committee on disability that will assume principle responsibility for the development of the National Disability Strategy; and (4) a plan of action for the development of the Strategy. Bank follow up support to the strategy development continued in 2008 within the TA support to the Social Protection Strategy and continues in 2009 within Social Protection Strategy implementation support.

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## VII. NEW & NOTEWORTHY LAWS, DECREES, AND AGREEMENTS

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### The Cabinet

- Approved a law for restructuring the Police Academy.
- Approved a decree to open a higher medicine institute in Al-Raima Governorate.
- Formed an economic task force to monitor the impact of world financial crisis on Yemen's economy.
- Approved a law for additional allocations for the general state budget for FY 2008 amounting to YR660 Billion.
- Approved the communications and information technology law and the real estate possession by non-Yemenis law had been.
- Emphasized that all government bodies should refer to the Ministry of Legal Affairs in cases, which requires court ruling.
- Approved the National Local Governance Strategy.
- Approved a decree of land allocation for erecting new port in Socotra in Karma district
- Reviewed the MOU of Yemen joining the cooperation protocol regarding fighting the environmental pollution with hazardous and poisonous material.
- Reviewed the set up of the official Yemeni Government website.
- Reviewed the report of the current situation and prospects of land, sea and air transportation sector in Yemen.
- Approved an agreement for coastal fishing in Yemeni regional waters
- Approved an Environment Management Plan for Al-Shori forest area in Kamaran Island, - Al-Hodeidah Governorate.
- Approved a cooperation agreement between Yemen and China in the field of culture.
- Approved a decree for the formation of a preparation committee for the first national workshop on the rights to benefit from ground water.
- Issued Law No. 51/2008 for FY 2009 State Budget
- Approved a decree for setting up General Authority for Regulations of Land Transportation.
- Approved executive by-laws for Law 17/1994, for General Provisions of Violations.
- Approved the 50% cut in 2009 General State Budget due to the fall in oil prices; salaries were exempted from the cuts.
- Approved referring amendments to Law 2/1991, regarding the diplomatic and consular services
- Approved a decree on judicial fees.
- Approved a report of the mechanism for the collection of taxes and fees imposed on tourism facilities.
- Issued Decree No. 293/2008, regarding establishment of Reconstruction Fund for Floods-Affected Area was issued.
- Approved a one-day pay donation from all government, public and mixed sectors and private funds employees in favor of Palestinians in Sector Gaza.
- Approved a decree for national framework for biological safety.
- Approved the Yemen's accession to the Beijing 1999 amendment to Montreal Protocol, regarding Ozone-Depleting Substances.

- Directed the Ministry of Transport, to prepare TOR and required documentation for selecting another specialized company for studying economic and marketing situation of Sana'a International Airport, for its upgrade; and selecting a company for its operation.
- Issued a republican Decree No. 291/2008, regarding setting up General Authority for Regulating Land Transportation Affairs.
- Discussed proposed amendments to the Law No. 26/1996 for General Environment Protection Authority.
- Referred to special ministerial committee draft decrees regarding the amendment of some laws pertinent to work of private companies in Yemen.
- Referred to Economic Council draft decree regarding establishing the national committee for food constitution or National Codes Committee.
- Approved the action plan for 2009, which includes 367 subjects to be discussed during 50 ordinary cabinet sessions during the year.
- Approved statute for national educational evaluation and standards center.
- Discussed the private education institution situation, and formed a committee to establish their compliance with Law No. 11/1999.
- Approved by-laws for Tender Law No. 23/2007.
- Approved a law for Yemeni Navigation Chamber.
- Approved a credit agreement signed between Yemen and Kuwait Fund for Arab Economic Development for 14 mln Kuwaiti Dinars towards operations of Social Fund for Development - Phase III.
- Approved a loan agreement between Yemen and Korean Bank of Export and Import for financing Yemeni-Korean High Technical Institute in the amount of \$15.3 Million;
- Approved a loan agreement signed between Yemen and Saudi Fund for Development towards the funding of Amran-Sana'a-Dhamar-Taiz-Aden highway project for \$125 Million out of its total cost of \$950 Million;
- Approved a law on the Skills Development Fund presented by the Deputy Prime Minister, Minister of Planning and International Cooperation; aim of the fund is to develop technical and vocational capacities and enhancing work productivity in public and private sectors;
- Approved a strategy for upgrading and improving civil status registry during 2008-2015 in regulatory and institutional fields;
- Endorsed terms of reference and necessary documentation for selection of a specialized international company to manage Aden International Airport and operate its land services.
- Approved a law for Protection of National Production.
- Reviewed a National Strategy for Solid Waste Management 2009-2013.
- Discussed the report of the security situation in the country.
- Approved executive by-laws for the Local Trade Law No. 5/2007.
- Discussed preparations of the National Human Rights Strategy.
- Reviewed the report of the outcomes of the 66th conference of GCC.

#### **Other Governments**

- Saada Reconstruction Fund approved its action plan for rebuilding damaged houses and government facilities in several districts of Saada Governorate until August of next year. Per assessment, around 8,697 facilities, houses and farms were damaged in Saada, and 749 in Harf Sofian.

- The Higher Tenders Committee approved 26 tenders at a total cost of YR14.5 Billion, for the projects in the fields of road construction, media, electricity, technical education, health and water.
- High Tender Committee approved tenders for building 3,458 housing units at the total cost of YR15.4 Billion in the framework of Al-Saleh Housing Project for Youth with Limited Income.
- Agreement was signed between National Water and Sanitation Authority in Aden and Hook Company, for establishing Aden-Abyan sewerage for \$2.1 Billion, with 80% funded by KFW and 20% by the Yemeni Government.
- The Ministry of Oil and Minerals formed a technical committee for formulation of oil, gas and mineral sector national strategy.
- The Ministry of Industry and Trade granted licenses to 238 trade companies with the capital of YR52.9 Billion in 2008 compared to 232 companies with the capital of YR6 Billion in 2007.

### **The Private Sector**

- The Capital Secretariat announced a black list of names of the private companies and contractors who do not adhere to stipulated provisions, these companies should be banned from entering competition for new tenders.
- Interax Petroleum Services Company granted Yemen YR15 Million for mitigating damages in flood-affected areas.
- Handover of Aden Container Terminal and Mualla Port has been completed between Yemen Gulf for Aden Ports Corporation and Dubai Ports International.
- An agreement was signed between Aden Fardous Company for Real Estate and Industrial Investment and Italian Dimoon Company for construction of a four-star hotel and tourist suites complex at a cost of \$20 million in preparation for Gulf Cup 20 Games.
- An MOU was signed between Aden Free Zone and Saudi Al-Wad Corporation for setting up a commercial complex on the area of 146 ha at the cost of \$600 Million.
- MOU was signed between Aden Free Zone and Bathwab Investment Company regarding establishing a salt-producing project at a cost of \$5 million with 50,000 tons capacity per annum.
- A MOU was signed between Aden Free Zone and Bin Mahfouz Real Estate Development Group regarding establishing a medical complex in AFZ.
- A MOU was signed between Aden Free Zone and Venice Company for Real Estate and Tourism Development regarding setting up a tourism complex at the amount of \$10 Million.
- An agreement for rehabilitation of Aden Salt Corporation was signed between Yemen Economic Corporation and Kenyan Kimo-Salt Company.
- An MOU was signed between Aden Free Zone and Italian SMI Company for building a sun energy production plant at a cost of \$300 Million with annual capacity of 200 Mega.
- Agreement signed between Aden and Dubai Company for Ports Development for an extension of storage yards project in Aden Container Terminal for Aden Free Zone at a cost of YR 1 Billion to be implemented by Real Estate Shefa Company.
- An MOU was signed between the Ministry of Fisheries and Asdaf Al-Yaman Company for farming shrimps in the Red Sea coast at the amount \$12 Million.
- Small Industries Fund offered loans for 1,094 projects for YR939 Million in total from January to September 2008.
- The European Union has granted machinery and equipment worth \$197,000 to the Tehama Development Authority.

- The Small Enterprise Development Fund in Ibb financed 131 industry, trade and services projects at the total cost of YR 85 Million during 2008.

### **Seminars and Workshops**

- A regional symposium on The Role of Tribes was organized by the Yemeni Observatory of Human Rights in cooperation with Canadian International Development Research Center during October 6-8;
- A workshop on Girls Education for mosque preachers was organized in Al-Hodeidah by the Ministry of Endowment and Islamic Affairs in cooperation with UNICEF during October 8-9;
- Training on Opposing Violence against Women for mosque preachers was organized in Aden by the Ministry of Endowment and Islamic Affairs in cooperation with UNFPA during Oct. 13-14;
- A workshop on Health Education for NGOs was organized in Aden by the Reproductive Health Program supported by UNFPA during October 12-13;
- Women National Committee in cooperation with UNFPA has organized a session on gender dimensions and human rights methods in programming during October 18-20.
- Women National Committee has organized a training course on Fighting Gender Basis Violence for journalists and media workers during October 24-28.
- Human Rights and Rural Women Economic Empowerment Program was launched by MADA Foundation in cooperation with French Social Development Fund on October 20;
- Al-Fardous Women Development Foundation has organized a training course on AIDS/HIV prevention in Aden during October 18-20.
- Celebration of International Day of Anti Child Violence was organized in Aden by Safe Childhood Center in cooperation with Swedish Save the Children on October 18;
- An awareness campaign under the motto "Stand Up and Take Action" was launched by Yemeni Coalition for Global Campaign Against Poverty during October 17-19;
- A workshop on Life Skills was organized by the Ministry of Education in cooperation with Arab Education Bureau during October 25-27;
- A workshop on Importance of Public Funds Declaration was organized by the Supreme National Authority for Combating Corruption on October 26.
- The Supreme Elections Committee for Elections and Referendum launched Women Empowerment Program for 2008-2010 with an objective of improving women's participation in elections.
- A workshop on Women Workers Protection was organized by the Development Center for Culture and Combating Violence in cooperation with German Friedrich Ebert Stiftung Foundation during November 4-5;
- A workshop on Girls Education was organized by the National Women's Committee in cooperation with Oxfam during November 7-8;
- Two workshops on Raising Awareness among Youth on Civil and Political Rights were organized by the Democracy Schools in cooperation with International Foundation for Electoral Systems and UN Democracy Fund during November 9-12;
- A workshop on Statistics and Information on Family Planning and Reproductive Health was organized in Ibb by the Office of Public Health and Population in cooperation with UNFPA during November 12-13;
- A workshop on Raising Youth Awareness on Civil and Political Rights was organized by the Democracy School during November 24-25;

- A training course on integrating population issues into the annual plans, was organized by the National Population Council in cooperation with UNFPA during December 2-5;
- A training course on Disseminating Knowledge About the Risks of Child Trafficking, was organized by the Democratic School in cooperation with UNICEF during December 2-4;
- A workshop on Food Security Information System, was organized by the Central Statistical Organization in cooperation with European Commission during December 3-5;
- A workshop on Occupational Safety for Cement Industry Workers, was organized by Yemeni Cement Corporation in cooperation with American Center for International Labor Solidarity during December 14-15;
- Yemeni women delegation participated in the third regional conference of GCC Women Parliamentarians and Decision-Maker in Oman during December 21-23.
- The Social and Democratic Forum has launched a project "Women and Political Participation" in cooperation with People's General Congress and Joint Meeting Parties.
- Yemeni Network for Combating Violence against Women, conducted awareness raising meetings for male and female participants in Ibb Governorate;
- A workshop on Fighting HIV/AIDS, was organized by the National Anti-AIDS Program in Cooperation with UNICEF during December 17-19;
- A workshop on Leadership Skills for Youth, was organized by the Democracy School in cooperation with Middle East Partnership Initiative during December 21-23;
- General Assembly of NGOs working for children took place during December 21-22, for discussing 2009-2012 working plan and shadow report on child situation in Yemen.
- A workshop on Hazardous Work and Girls Labor, was organized by the Center for Child Laborers Rehabilitation in cooperation with Sana'a Local Council, during December 21-23;
- An international conference on Drug Addiction Prevention, was organized by the Ministry of Interior in cooperation with Middle East Research Center for Human Rights and Development on December 28-29;
- National Women's Committee branch in Aden convened a workshop on Recommendations of UN CEDAW Committee during January 14-15.
- A TOT workshop on Educating AIDS-Affected People was organized in Aden by Comprehensive Social Service Center in Cooperation with UNICEF during January 1-10.
- A workshop on Protecting Women and Children during Natural Disasters was organized in Hadramout by the Ministry of Social Affairs and in cooperation with UNICEF, UNHCR and UNFPA during January 14-15.
- A training course on Microfinance for the CBY employees was organized by GTZ- sponsored Yemeni-German Private Sector Development Project during January 24-31.
- Training course was organized by Women's Shadow Parliament for lobbying and advocacy aimed at increasing women's political participation during February 1-3.
- The Women National Committee appealed to all political parties and organizations in Yemen to support women's issues on all levels especially in terms of women's political empowerment in the light of upcoming parliamentary elections.
- The Parliament passed a law setting a minimum marriage age at 17 and granting women greater legal protection in issues related to marriage and motherhood, including right to alimony and child custody in case of divorce.
- A training course on Using Media to Serve Women's Issues was organized by the Yemeni Women's Union on February 2-5.

- A workshop on Upgrading Training Needs and Planning Human Development was organized in Aden by the Investor Service Center during February 3-5.
- 66th Conference of GCC Health Ministers took place during February 3-4.
- A conference titled "Contemporary Media: Between Freedom of Expression and Abuse of Religion" was organized by the Ministry of Endowments and Guidance in cooperation with World Islamic League during February 7-9.
- A symposium on Invigorating Women's Political Participation was organized in Aden by the Social Democratic Forum on February 7.
- A workshop on Employment Skills in Middle East was organized by the Ministry of Technical Education and Vocational Training in cooperation with the British Council during February 10-11.
- A workshop on Causes of Failure of Investment Projects and Means to overcome them was organized in Aden by the General Investment Authority in cooperation with German Private Sector Development Project during February 12-14.
- A workshop to discuss New Draft Investment Law was organized by the Ministry of Planning and International Cooperation in collaboration with the International Finance Corporation (IFC) during February 11-12.
- A third training course for Youth Leaders was organized by Future Leaders' Project run by the Democracy School in collaboration with Middle East Partnership Initiative during mid February
- A training course on Methods and Techniques of Implementing Social Welfare Survey was organized in Sa'ada by the Social Welfare Fund during February 13-16.
- A training course on Management Skills Development was organized by the Ministry of Human Right in cooperation with the European Union during February 13-16.

### **Development Cooperation**

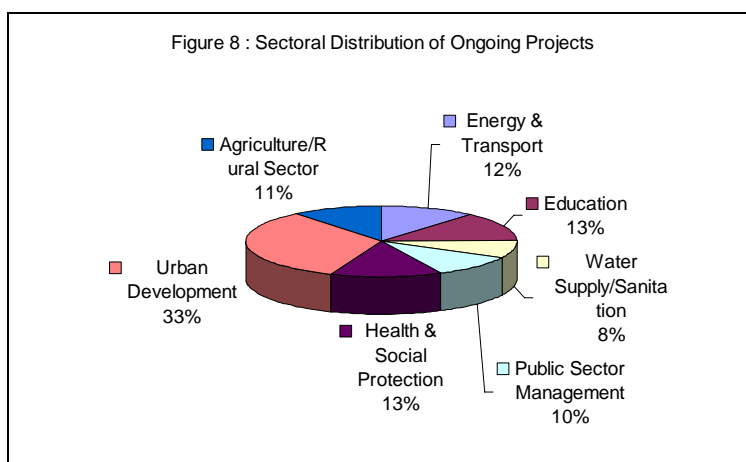
- Arab Gulf Program of UNDP (AGFUND) donated 562,000 Saudi Rials to support victims of heavy rains in Hadramout and Al-Mahra Governorates.
- Global Fund to Fight Aids, Tuberculosis and Malaria offered \$27 Million to support Yemeni National Malaria Fighting Program.
- Kuwait Embassy in Yemen granted \$30,000 to Al-Tahadi Society for Disabled People.
- Republic of China granted \$300,000 to support Yemen's relief efforts in flood-affected areas.
- The Arab Contractors Company provided \$20,000 to the people affected by flood in Hadramout and Al-Mahra.
- The Arab Fund for Economic and Social Development (AFSED) extended \$3 Million aid to rain-affected areas in eastern governorates.
- AFSED pledged US\$100 Million towards rebuilding flood-affected areas in Hadramout and Al-Mahra.
- The Organization of Islamic Conference offered Yemen a grant of \$250,000 to support flood-affected areas.
- The Islamic Development Bank (IsDB) as donated YR150 Million to support the people affected by the heavy rains in eastern governorates.
- IsDB signed a loan agreement for US\$42 Million to improve agricultural development in Abyan, establishment of silos mill in Salif, and vocational literacy projects.
- IFAD approved shifting development assistance to agricultural projects in Yemen for 2009 from loans to grants.

- Three contracts were signed between the Ministry of Public Works and all of General Department of Construction, Abdul-Aziz Al-Tam Corporation and Al-Aram Corporation for Construction and Commerce for carrying out construction of 800 housing units in Aden at the cost of YR3.9 Billion.
- Arab Bank granted YR50 million to support Yemeni government reconstruction efforts in the rain-affected areas in Hadramout and Al-Mahra.
- Germany offered \$100,000 for alleviation of rain floods in the eastern governorates, in response to the appeal by the President of the Republic.
- Germany offered Euro36 Million grant, as extra assistance to help Yemen tackle soaring of global food prices and finance water and sanitation projects;
- Germany offered six grants for the total amount of US\$56.2 Million to support programs in water and education sectors. Germany allocated US\$200,000 as urgent humanitarian aid to Yemeni flood-affected areas.
- Germany's GTZ signed a three-year financing agreement with the Ministry of Education for implementation of educational Projects for Euro 7.6 Million (and Yemeni Government will provide YR 150 Million).
- The United States pledged humanitarian aid to the floods affected areas, of \$50,000 channeled via World Food Program.
- Japan provided in-kind help worth \$200,000 to people affected by rain floods in Hadramout and Al-Mahra.
- Japan granted Yemen \$100,000 for improving educational environment in schools targeted by the Bridge project for Girls' Education;
- Japan extended grants to two grassroots projects under the "Grant Assistance for Grassroots Human Security Projects"; including YR16 Million to improving environmental and public health project in Al-Dhale'a, and YR16 Million to improving water supply in Khamar in Shabwa.
- Japan granted \$800,000 to assist people affected by floods in the eastern governorates of Yemen.
- Japan signed financing for \$6.5 Million, for building five primary education schools in Yemen.
- Japan provided relief materials worth \$200,000 to the people affected by the floods.
- Japan granted YR34 Million, for two projects under the Japanese scheme "Grant Assistance for Grassroots Human Security Projects", including YR17 Million for drinking water supply to Al-Sabrah area, and YR17 Million to construct a boy's school in Mawza area.
- South Korea provided Yemen with in-kind emergency aid of \$50,000 to contribute to the government's flood relief efforts.
- South Korea for a soft loan of US\$15.3 Million for establishing vocational training institute
- The French Agency for Development signed an agreement for US\$2.4 Million to support Animal Wealth.
- Netherlands allocated \$1 million in aid to rain-affected eastern Governorates in Yemen, with \$500,000 to be channeled via World Health Organization as an urgent medical assistance, and \$400,000 in addition to \$100,000 provided earlier will be channeled via Red Cross Committee.
- Netherlands signed an agreement for an additional support for \$36 Million for mother and child health programs.
- Netherlands Government signed an agreement with the Social Fund for Development for US\$15 Million for supporting education sector.
- The World Bank, Netherlands, UK and Germany signed a funding agreement for Secondary and Girls Education Project for USD 103 Million.

- Cyprus donated \$50,000 to Yemen to support government reconstruction efforts in flood-affected areas.
- The Donor Joint Progress Review Mission, concluded evaluation of projects and activities under the third period of the Social Fund for Development, which confirmed that SFD continues to make excellent progress in achieving its goals.
- Donors pledged to grant US\$248 Million to Yemen to support the National Water Program, which costs US\$400 Million.
- UNHCR reported that donor countries have raised their contribution to refugees in Yemen from US\$4 Million to US\$17 Million.
- European Finance Bank is planning to invest around US\$1 Billion in energy, mineral exploration, cement and extractive industries in Yemen.
- The EC allocated Euro 500,000 as humanitarian assistance to Somalian and Ethiopian refugees in Yemen
- The EC allocated US \$19 Million to support reproductive health (US \$9.5 Million) and (US \$9.5) to support juvenile justice, rule of law and administrative reforms.
- OPEC Fund for International Development (OFID) signed a credit agreement for \$ 18 Million for Public Works Project.
- Malaysian Company and Taiz Water Supply and Sanitation Authority a signed grant agreement for US\$ 267,700 to carry out a study for northwestern area sewerage project.
- The Republican Hospital in Aden received medical equipment from the Chinese Health mission at the total cost of YR 1 Million.

### III. WORLD BANK GROUP OPERATIONS IN YEMEN

The World Bank is currently financing 18 projects in Yemen, including supplemental financings, with a total commitment of USD 855 million. An additional USD 76 million in grants were committed by the Bank through 29 separate Trust Funds, 15 of which are Bank-administered. Most of the 21 lending operations are investment projects, covering a broad range of economic and social sectors, including urban development, health and social protection, education, infrastructure (energy, transport, water, and irrigation), agriculture and fisheries, environment, and public sector.



#### Ongoing World Bank Operations in Yemen (as of December 31, 2008)

Table 14.

Project Name	Close Date*	Loan \$	Disb. \$	Disb. %
Groundwater & Soil Conservation	31-Oct-09	56.7	28.46	50.2
Rural Water Supply and Sanitation	31-Dec-09	42.44	25.23	59
Irrigation Improvement Project	30-Jun-08	21.3	20.13	95
Sana'a Basin Water Management	3-Nov-09	27	13.41	50
Fisheries Resources Management & Conservation	4-Nov-09	26.5	1.41	5.3
Port Cities Development	30-Jun-10	27.1	18.14	67
Taiz Muni. Dev. and Flood Protection	3-Jul-10	20.5	3.93	19.2
Rained Agriculture and Livestock	5-Nov-09	21.5	4.51	21
Third Public Works	1-Jul-10	77.8	44.63	57.4
II Rural Access Project	1-Jan-12	40.8	19.17	47
Rainfed Agriculture and Livestock project	30-Jun-12	20.0	4.33	22
Power Sector Project	31-Dec-11	53.6	1.00	2
Civil Services Modernization	30-Jun-10	34.3	25.82	75.3
Institutional Reform Credit (DPL)	30-Jun-10	50.9	26.9	53
Health Reform Support	31-Aug-09	34	29.15	86
Third Social Fund for Dev.	31-Dec-09	80	71.62	90
Safe Motherhood Voucher Program	1-Sep-09	6.2	0.0	0.0
Social Fund for Development III (supplemental)	2-Jan-10	10	2.00	20
Vocational Training II	31-May-13	15	0.0	0.0
Sec. Educ. Dev. And Girls Access Program	1-Jun-13	20	0.0	0.0
Basic Education Development	2-Jun-13	115	58.74	51.1
<b>TOTAL</b>		<b>800.65</b>	<b>398.58</b>	<b>50</b>

\* corresponds to original data